

DELTA AIR LINES INC /DE/
Form 10-Q
April 25, 2012

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 March 31, 2012

Or

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

Commission File Number 001-5424

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

State of Incorporation: Delaware

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

Post Office Box 20706, Atlanta, Georgia 30320-6001

Telephone: (404) 715-2600

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

| | | | | | | | |
|----------------------------|----------------------------------|----------------------|-----------------------|-----------------------|-----------------------|------------------------------|-----------------------|
| Large accelerated filer | <input checked="" type="radio"/> | Accelerated filer | <input type="radio"/> | Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input type="radio"/> |
|----------------------------|----------------------------------|----------------------|-----------------------|-----------------------|-----------------------|------------------------------|-----------------------|

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☒ No ☐

Number of shares outstanding by each class of common stock, as of March 31, 2012:

Common Stock, \$0.0001 par value - 849,608,192 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, 2011 (“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) | March 31, 2012 | December 31, 2011 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$2,911 | \$2,657 |
| Short-term investments | 959 | 958 |
| Restricted cash, cash equivalents and short-term investments | 375 | 305 |
| Accounts receivable, net of an allowance for uncollectible accounts of \$43 and \$33 at March 31, 2012 and December 31, 2011, respectively | 1,807 | 1,563 |
| Expendable parts and supplies inventories, net of an allowance for obsolescence of \$106 and \$101 at March 31, 2012 and December 31, 2011, respectively | 364 | 367 |
| Deferred income taxes, net | 408 | 461 |
| Prepaid expenses and other | 1,475 | 1,418 |
| Total current assets | 8,299 | 7,729 |
| Property and Equipment, Net: | | |
| Property and equipment, net of accumulated depreciation and amortization of \$5,797 and \$5,472 at March 31, 2012 and December 31, 2011, respectively | 20,332 | 20,223 |
| Other Assets: | | |
| Goodwill | 9,794 | 9,794 |
| Identifiable intangibles, net of accumulated amortization of \$617 and \$600 at March 31, 2012 and December 31, 2011, respectively | 4,733 | 4,751 |
| Other noncurrent assets | 1,031 | 1,002 |
| Total other assets | 15,558 | 15,547 |
| Total assets | \$44,189 | \$43,499 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Current maturities of long-term debt and capital leases | \$1,855 | \$1,944 |
| Air traffic liability | 4,729 | 3,480 |
| Accounts payable | 1,998 | 1,600 |
| Frequent flyer deferred revenue | 1,759 | 1,849 |
| Accrued salaries and related benefits | 1,071 | 1,367 |
| Taxes payable | 704 | 594 |
| Fuel card obligation | 489 | 318 |
| Other accrued liabilities | 1,041 | 1,549 |
| Total current liabilities | 13,646 | 12,701 |
| Noncurrent Liabilities: | | |
| Long-term debt and capital leases | 11,521 | 11,847 |
| Pension, postretirement and related benefits | 13,905 | 14,200 |
| Frequent flyer deferred revenue | 2,680 | 2,700 |
| Deferred income taxes, net | 1,959 | 2,028 |
| Other noncurrent liabilities | 1,489 | 1,419 |
| Total noncurrent liabilities | 31,554 | 32,194 |
| Commitments and Contingencies | | |

Stockholders' Deficit:

Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 865,986,926 and 861,499,734

shares issued at March 31, 2012 and December 31, 2011, respectively

| | | | |
|---|----------|----------|---|
| | — | — | |
| Additional paid-in capital | 14,015 | 13,999 | |
| Accumulated deficit | (8,274 |) (8,398 |) |
| Accumulated other comprehensive loss | (6,518 |) (6,766 |) |
| Treasury stock, at cost, 16,378,734 and 16,253,791 shares at March 31, 2012 and December 31, 2011, respectively | (234 |) (231 |) |
| Total stockholders' deficit | (1,011 |) (1,396 |) |
| Total liabilities and stockholders' deficit | \$44,189 | \$43,499 | |

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 (Loss)
(Unaudited)

| | Three Months Ended March 31, | | |
|--|------------------------------|----------|---|
| (in millions, except per share data) | 2012 | 2011 | |
| Operating Revenue: | | | |
| Passenger: | | | |
| Mainline | \$5,675 | \$5,134 | |
| Regional carriers | 1,551 | 1,441 | |
| Total passenger revenue | 7,226 | 6,575 | |
| Cargo | 244 | 250 | |
| Other | 943 | 922 | |
| Total operating revenue | 8,413 | 7,747 | |
| Operating Expense: | | | |
| Aircraft fuel and related taxes | 2,233 | 2,166 | |
| Salaries and related costs | 1,763 | 1,727 | |
| Contract carrier arrangements | 1,375 | 1,300 | |
| Aircraft maintenance materials and outside repairs | 561 | 485 | |
| Depreciation and amortization | 386 | 376 | |
| Passenger commissions and other selling expenses | 380 | 369 | |
| Contracted services | 378 | 425 | |
| Landing fees and other rents | 305 | 313 | |
| Passenger service | 171 | 164 | |
| Aircraft rent | 75 | 78 | |
| Restructuring and other items | (12) | 7 |) |
| Other | 416 | 429 | |
| Total operating expense | 8,031 | 7,839 | |
| Operating Income (Loss) | 382 | (92) |) |
| Other (Expense) Income: | | | |
| Interest expense, net | (221) | (221) |) |
| Amortization of debt discount, net | (51) | (47) |) |
| Miscellaneous, net | 17 | (29) |) |
| Total other expense, net | (255) | (297) |) |
| Income (Loss) Before Income Taxes | 127 | (389) |) |
| Income Tax (Provision) Benefit | (3) | 71 |) |
| Net Income (Loss) | \$124 | \$(318) |) |
| Basic Earnings (Loss) per Share | \$0.15 | \$(0.38) |) |
| Diluted Earnings (Loss) per Share | \$0.15 | \$(0.38) |) |
| Comprehensive Income (Loss) | \$372 | \$(143) |) |

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

DELTA AIR LINES, INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended March 31, | | |
|--|---------------------------------|---------|---|
| (in millions) | 2012 | 2011 | |
| Net cash provided by operating activities | \$831 | \$788 | |
| Cash Flows From Investing Activities: | | | |
| Property and equipment additions: | | | |
| Flight equipment, including advance payments | (308) | (274) |) |
| Ground property and equipment, including technology | (99) | (66) |) |
| Purchase of investments | (240) | (240) |) |
| Redemption of investments | 266 | — | |
| Other, net | 32 | 4 | |
| Net cash used in investing activities | (349) | (576) |) |
| Cash Flows From Financing Activities: | | | |
| Payments on long-term debt and capital lease obligations | (367) | (460) |) |
| Proceeds from long-term obligations | — | 245 | |
| Fuel card obligation, net | 171 | — | |
| Other, net | (32) | (8) |) |
| Net cash used in financing activities | (228) | (223) |) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 254 | (11) |) |
| Cash and cash equivalents at beginning of period | 2,657 | 2,892 | |
| Cash and cash equivalents at end of period | \$2,911 | \$2,881 | |
| Non-cash transactions: | | | |
| SkyMiles used pursuant to advance purchase under American Express Agreements | \$83 | \$— | |

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

DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements

March 31, 2012

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

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.

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 months ended March 31, 2012 are not necessarily indicative of operating results for the entire year.

Recent Accounting Standards

In June 2011, the Financial Accounting Standards Board issued "Presentation of Comprehensive Income." The standard revises the presentation and prominence of the items reported in other comprehensive income and is effective retrospectively for fiscal years beginning after December 15, 2011. We adopted this standard in the March 2012 quarter and have presented comprehensive income (loss) on our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

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 (Liabilities) Measured at Fair Value on a Recurring Basis

(in millions)

March 31,
2012

Level 1

Level 2

Level 3

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| | | | | |
|--|---------|---------|------|-----|
| Cash equivalents | \$2,721 | \$2,721 | \$— | \$— |
| Short-term investments | 959 | 959 | — | — |
| Restricted cash equivalents and short-term investments | 409 | 409 | — | — |
| Long-term investments | 176 | 56 | 26 | 94 |
| Hedge derivatives, net | | | | |
| Fuel hedge contracts | 190 | — | 190 | — |
| Interest rate contracts | (91) |)— | (91) |)— |
| Foreign currency exchange contracts | 34 | — | 34 | — |

| (in millions) | December 31, 2011 | Level 1 | Level 2 | Level 3 |
|--|----------------------|----------|---------|---------|
| Cash equivalents | \$ 2,357 | \$ 2,357 | \$— | \$— |
| Short-term investments | 958 | 958 | — | — |
| Restricted cash equivalents and short-term investments | 341 | 341 | — | — |
| Long-term investments | 188 | 55 | 24 | 109 |
| Hedge derivatives, net | | | | |
| Fuel hedge contracts | 70 | — | 70 | — |
| Interest rate contracts | (91) |) — | (91) |) — |
| Foreign currency exchange contracts | (89) |) — | (89) |) — |

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

Long-term Investments. Our long-term investments are comprised of commercial investments, auction rate securities and other long-term investments. Any change in the fair value of these securities is recorded in accumulated other comprehensive income (loss) ("AOCI") or earnings, as appropriate. These investments are classified in other noncurrent assets.

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

Fuel Derivatives. Our fuel hedge portfolio generally consists of call options; put options, combinations of two or more call options and put options; swap contracts; and futures contracts. The products underlying the hedge contracts include heating oil, crude oil, jet fuel and diesel, as these commodities are highly correlated with the price of jet fuel. Option contracts are valued under the income approach using option pricing models based on data either readily observable in public markets, derived from public markets or provided by counterparties who regularly trade in public markets. Volatilities used in these valuations ranged from 13% to 37% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap contracts are valued under the income approach using a discounted cash flow model based on data either readily observable or derived from public markets. Discount rates used in these valuations vary with the maturity dates of the respective contracts and are based on LIBOR. Futures contracts are traded on a public exchange and are valued based on quoted market prices.

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

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

For additional information regarding the composition and classification of our derivative contracts, see Note 3.

NOTE 3. DERIVATIVES

Our results of operations are impacted by changes in aircraft fuel prices, interest rates and foreign currency exchange rates. In an effort to manage our exposure to these risks, we enter into derivative contracts and adjust our derivative portfolio as market conditions change.

Aircraft Fuel Price Risk

Our results of operations are materially impacted by changes in aircraft fuel prices. We actively manage our fuel price risk through a hedging program intended to generate a positive cash position to defray the cost of jet fuel purchases, while preserving participation in downward price movements of jet fuel to the extent possible. This fuel hedging program utilizes several different contract and commodity types, which are used together to create a risk mitigating hedge portfolio. The economic effectiveness of this hedge portfolio is frequently tested against our financial targets. The hedge portfolio is rebalanced from time to time according to market conditions, which results in locking in gains or losses on hedge contracts prior to their settlement dates.

Effective June 2011, we stopped designating new fuel derivative contracts as accounting hedges and discontinued hedge accounting for our then existing fuel derivative contracts that previously had been designated as accounting hedges. As a result, we record market adjustments for changes in fair value to earnings in aircraft fuel and related taxes. Prior to this change in accounting designation, gains or losses on these contracts were deferred in AOCI until contract settlement. We anticipate that all amounts relating to our fuel derivative contracts in AOCI will be recognized by the end of 2012.

The following table shows the impact of fuel hedge gains (losses) for both designated and undesignated contracts on aircraft fuel and related taxes:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2012 | 2011 |
| Market adjustments for changes in fair value | \$183 | \$47 |
| Effective portion reclassified from AOCI to earnings | 13 | 60 |
| Gain recorded in aircraft fuel and related taxes | \$196 | \$107 |

Hedge Position

The following tables reflect the estimated fair value asset (liability) positions, notional balances and maturity dates of our hedge contracts:

As of March 31, 2012:

| (in millions) | Notional Balance | | Final Maturity Date | Prepaid Expenses and Other Assets | Other Noncurrent Assets | Other Accrued Liabilities | Other Noncurrent Liabilities | Hedge Derivatives, net |
|---|------------------|------------------|---------------------|-----------------------------------|-------------------------|---------------------------|------------------------------|------------------------|
| Designated as hedges | | | | | | | | |
| Interest rate contracts (cash flow hedges) | \$952 | U.S. dollars | May 2019 | \$— | \$ — | \$(27) | \$(51) | \$(78) |
| Interest rate contracts (fair value hedges) | \$485 | U.S. dollars | August 2022 | 5 | — | — | (18) | (13) |
| Foreign currency exchange contracts | 110,802 | Japanese yen | November 2014 | 18 | 23 | (6) | (1) | 34 |
| | 322 | Canadian dollars | | | | | | |

Not designated as
hedges

| | | | | | | | | |
|----------------------------|-------|---|-------------------|-------|-------|--------|---------|----------|
| Fuel hedge contracts | 2,430 | gallons - heating oil, crude oil, jet fuel and diesel | September 2013 | 426 | — | (221 |)(15 |) 190 |
| Total derivative contracts | | | | \$449 | \$ 23 | \$(254 |)\$ (85 |) \$ 133 |

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As of December 31, 2011:

| (in millions) | Notional Balance | | Final Maturity Date | Prepaid Expenses and Other Assets | Other Noncurrent Assets | Other Accrued Liabilities | Other Noncurrent Liabilities | Hedge Derivatives, net |
|--|------------------|---|---------------------------|--|-------------------------------|---------------------------------|------------------------------------|------------------------------|
| Designated as hedges | | | | | | | | |
| Interest rate contracts (cash flow hedges) | \$989 | U.S. dollars | May 2019 | \$— | \$ — | \$(27) | \$(57) | \$ (84) |
| Interest rate contracts (fair value hedges) | \$500 | U.S. dollars | August 2022 | — | — | — | (7) | (7) |
| Foreign currency exchange contracts | 126,993 | Japanese yen | April | 7 | 5 | (58) | (43) | (89) |
| | 313 | Canadian dollars | 2014 | | | | | |
| Not designated as hedges | | | | | | | | |
| Fuel hedge contracts | 1,225 | gallons - heating oil, crude oil, jet fuel and diesel | December 2012 | 570 | — | (500) | — | 70 |
| Total derivative contracts | | | | \$577 | \$ 5 | \$(585) | \$(107) | \$ (110) |

Hedge Gains (Losses)

Gains (losses) related to our designated hedge contracts, including those previously designated as accounting hedges, are as follows:

| (in millions) | Effective Portion Reclassified from AOCI to Earnings | | Effective Portion Recognized in Other Comprehensive Income (Loss) | |
|-------------------------------------|--|-------|--|-------|
| | Three Months Ended March 31, | | 2012 | 2011 |
| Fuel hedge contracts | 2012 | 2011 | 2012 | 2011 |
| | \$13 | \$60 | \$(13) | \$88 |
| Interest rate contracts | — | — | 6 | 18 |
| Foreign currency exchange contracts | (13) | (11) | 123 | 59 |
| Total designated | \$— | \$49 | \$116 | \$165 |

As of March 31, 2012, we recorded in AOCI \$13 million of net gains on 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.

Our hedge contracts contain margin funding requirements. The margin funding requirements may cause us to post margin to counterparties or may cause counterparties to post margin to us as market prices in the underlying hedged items change. Due to the fair value position of our hedge contracts, we paid \$100 million of margin to counterparties and received \$34 million from counterparties as of March 31, 2012. As of December 31, 2011, we paid \$30 million of margin to counterparties.

NOTE 4. LONG-TERM DEBT

Fair Value of Debt

Market risk associated with our fixed and variable rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates. In the table below, the aggregate fair value of debt was based primarily on reported market values, recently completed market transactions and estimates based on interest rates, maturities, credit risk and underlying collateral and is classified as Level 2 or Level 3 within the fair value hierarchy.

| (in millions) | March 31, 2012 | December 31, 2011 |
|---------------------------|-------------------|----------------------|
| Total debt at par value | \$13,367 | \$13,797 |
| Unamortized discount, net | (692) | (737) |
| Net carrying amount | \$12,675 | \$13,060 |
| Fair value | \$13,500 | \$13,600 |

Covenants

We were in compliance with all covenants in our financing agreements at March 31, 2012.

NOTE 5. PURCHASE COMMITMENTS AND CONTINGENCIES

Aircraft Purchase Commitments

Future aircraft purchase commitments at March 31, 2012 total approximately \$6.8 billion and include 100 B-737-900ER aircraft, 18 B-787-8 aircraft and 13 previously owned MD-90 aircraft. We have obtained committed long-term financing for a substantial portion of the purchase price of these aircraft.

Legal Contingencies

We are involved in various legal proceedings related to employment practices, environmental issues, antitrust matters and other matters concerning our business. We record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount of loss can be reasonably estimated. 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. Although the outcome of the legal proceedings in which we are involved cannot be predicted with certainty, management believes that the resolution of these matters will not have a material adverse effect on our Condensed Consolidated Financial Statements.

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 or their willful misconduct.

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

We believe that our insurance would cover most of our exposure to liabilities and related indemnities associated with the commercial real estate leases and aircraft and other equipment lease and financing agreements described above.

While our insurance does not typically cover environmental liabilities, we have certain insurance policies in place as required by applicable environmental laws.

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

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

War-Risk Insurance Contingency

As a result of the terrorist attacks on September 11, 2001, aviation insurers significantly (1) reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons (other than employees or passengers) for claims from acts of terrorism, war or similar events and (2) increased the premiums for such coverage and for aviation insurance in general. Since September 24, 2001, the U.S. government has been providing U.S. airlines with war-risk insurance to cover losses, including those resulting from terrorism, to passengers, third parties (ground damage) and the aircraft hull. The U.S. Secretary of Transportation has extended coverage through September 30, 2013, 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 equipment specific to a contract, if we terminate this type of contract without cause prior to its expiration date. Because these obligations are contingent on our termination of a contract without cause prior to its expiration date, no obligation would exist unless such a termination occurs.

NOTE 6. EMPLOYEE BENEFIT PLANS

The following table shows the components of net periodic cost:

| (in millions) | Pension Benefits | | Other Postretirement and Postemployment Benefits | |
|---------------------------------------|------------------------------|-------|--|------|
| | Three Months Ended March 31, | | 2012 | 2011 |
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$— | \$— | \$15 | \$13 |
| Interest cost | 232 | 242 | 41 | 45 |
| Expected return on plan assets | (176) | (181) | (19) | (23) |
| Amortization of prior service benefit | — | — | (3) | — |
| Recognized net actuarial loss (gain) | 36 | 14 | 6 | (3) |
| Net periodic cost | \$92 | \$75 | \$40 | \$32 |

In the March 2012 quarter, we remeasured our postretirement healthcare obligation to account for changes to retiree medical benefits resulting from the final integration of wages and benefits following our merger with Northwest Airlines. As a result, we recorded other comprehensive income of \$88 million and a corresponding reduction of the

liability.

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NOTE 7. RESTRUCTURING AND OTHER ITEMS

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

| (in millions) | Three Months Ended March 31, | |
|-------------------------------------|------------------------------|-------|
| | 2012 | 2011 |
| Facilities, fleet and other | \$27 | \$7 |
| Gain on slot exchange | (39) |)— |
| Total restructuring and other items | \$(12 |) \$7 |

Gain on Slot Exchange. During December 2011, we closed transactions involving the exchange of takeoff and landing rights (each a "slot pair") at LaGuardia and Reagan National airports with US Airways. In approving these transactions, the Department of Transportation restricted our use of the exchanged slots. We recorded a \$78 million deferred gain in December 2011. We recognized \$39 million of this deferred gain in the March 2012 quarter as half of the restrictions lapsed and expect to recognize the remainder of the deferred gain in the September 2012 quarter when the remaining restrictions lapse.

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

| (in millions) | Severance and Related Costs | Lease Restructuring |
|---------------------------------|--------------------------------|------------------------|
| Balance as of December 31, 2011 | \$46 | \$64 |
| Additional costs and expenses | — | 2 |
| Payments | (19 |)(3 |
| Balance as of March 31, 2012 | \$27 | \$63 |

Severance and Related Costs. During the March 2012 quarter, we announced voluntary workforce reduction programs primarily for eligible U.S. non-pilot employees. The enrollment period for these programs will end in the June 2012 quarter. Employees electing to participate in these programs will be eligible for retiree healthcare benefits that they would otherwise have been ineligible to receive. We did not record any charges in restructuring and other items related to these programs in the March 2012 quarter. However, we anticipate we will record a charge for severance and the related retiree healthcare costs during the June 2012 quarter when the enrollment period has ended.

NOTE 8. INCOME TAXES

Valuation Allowance

We periodically assess whether it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets. We establish valuation allowances if it is not likely we will realize our deferred income tax assets. In making this determination, we consider all available positive and negative evidence and make certain assumptions. We consider, among other things, our deferred tax liabilities, the overall business environment, our historical financial results, our industry's historically cyclical financial results and potential current and future tax planning strategies.

We recorded a full valuation allowance in 2004 due to our cumulative three year loss position at that time, compounded by the negative industry-wide business trends and outlook. At March 31, 2012, we had a \$10.5 billion valuation allowance established against our deferred income tax assets, which represents a full valuation allowance against our net deferred income tax asset.

During the March 2012 quarter, we moved from a cumulative loss position over the previous three years to a cumulative income position for the first time since we established the full valuation allowance. We concluded that the valuation allowance was still needed on our net deferred tax assets based upon the weight of the factors described above. If we continue to produce significant income and our future projections indicate sustained profitability, we will evaluate whether this profitability trend constitutes sufficient positive evidence to support a reversal of our valuation allowance (in full or in part).

Income Tax Allocation

We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations (the "Income Tax Allocation"). During 2009, as a result of the Income Tax Allocation, we recorded a non-cash income tax benefit of \$321 million on the loss from continuing operations, with an offsetting non-cash income tax expense of \$321 million on other comprehensive income. This deferred income tax expense will remain in AOCI until all amounts in AOCI that relate to fuel derivatives which are designated as accounting hedges are recognized in the Consolidated Statement of Operations. We anticipate that all amounts relating to our fuel derivative contracts in AOCI will be recognized by the end of 2012. As a result, a non-cash income tax expense of \$321 million will be recognized in the December 2012 quarter unless we enter into and designate additional fuel derivative contracts as accounting hedges prior to the settlement date of the outstanding contracts.

NOTE 9. EARNINGS (LOSS) PER SHARE

We calculate basic earnings (loss) per share by dividing net income (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 earnings (loss) per share. The following table shows the computation of basic and diluted earnings (loss) per share:

| (in millions, except per share data) | Three Months Ended March 31, | |
|---|------------------------------|----------|
| | 2012 | 2011 |
| Net income (loss) | \$124 | \$(318) |
| Basic weighted average shares outstanding | 843 | 837 |
| Dilutive effect of share based awards | 4 | — |
| Diluted weighted average shares outstanding | 847 | 837 |
| Basic earnings (loss) per share | \$0.15 | \$(0.38) |
| Diluted earnings (loss) per share | \$0.15 | \$(0.38) |
| Antidilutive common stock equivalents excluded from diluted earnings (loss) per share | 21 | 32 |

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

March 2012 Quarter Financial Highlights

Our net income for the March 2012 quarter was \$124 million, or \$0.15 per diluted share. These results reflect a \$442 million improvement over the March 2011 quarter despite higher fuel costs.

Total operating revenue increased \$666 million, or 9%, over the March 2011 quarter, primarily due to higher passenger revenue. Passenger revenue increased due to a 9% year over year improvement in passenger mile yield on 1% higher traffic, while capacity declined 3%. Passenger revenue per available seat mile ("PRASM") increased 14% over the March 2011 quarter.

Total operating expense increased \$192 million over the March 2011 quarter, driven primarily by an increase in fuel expense (including our contract carriers under capacity purchase agreements). Including fuel hedging activity, our average fuel price for the March 2012 quarter was \$3.11 per gallon, compared to \$2.86 per gallon for the March 2011 quarter, driving a \$227 million increase in fuel expense, which was partially offset by a \$97 million decrease due to lower fuel consumption as a result of our decline in capacity. Operating expense excluding fuel increased \$62 million over the March 2011 quarter, driven by higher employee and maintenance costs, partially offset by lower weather related costs due to the impact of severe winter storms on our operations in the March 2011 quarter.

Our consolidated operating cost per available seat mile ("CASM") for the March 2012 quarter increased 6% to 14.76 cents from 13.94 cents in the March 2011 quarter, primarily reflecting higher fuel prices and a 3% decline in capacity. For the March 2012 quarter, CASM-Ex (a non-GAAP financial measure as defined in "Supplemental Information" below) was 9.28 cents, or 3.6% higher than the March 2011 quarter.

During the March 2012 quarter, we reduced our total debt and capital leases by \$415 million and ended the quarter with \$5.7 billion in unrestricted liquidity, consisting of cash and cash equivalents, short-term investments and availability under credit facilities.

New York Strategy

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

LaGuardia. During December 2011, we closed transactions involving the exchange of takeoff and landing rights (each a "slot pair") at LaGuardia and Reagan National airports with US Airways. This exchange will allow us to operate a new domestic hub at LaGuardia.

During March 2012, we began service to 12 new business markets utilizing the new slot pairs. By the summer of 2012, we expect to have increased service at LaGuardia by 60% from the prior year's summer schedule, with 100 new flights and a total of 26 new destinations. Our expanded schedule adds nonstop service to top U.S. business markets and additional frequencies to business markets currently served. Once our full schedule is implemented, we expect to operate more than 260 daily flights between LaGuardia and more than 60 cities.

In addition, we are investing \$160 million in a renovation and expansion project at LaGuardia to enhance the customer experience. In April 2012, we broke ground on the project, which includes a connector linking Terminals C and D, a new SkyClub in Terminal C and expanded security lanes in both terminals.

JFK. While our expanded LaGuardia schedule is focused on providing industry-leading domestic service, we are optimizing our schedule at JFK in 2012 for international and trans-continental flights and are improving coordination with our SkyTeam alliance partners.

At JFK, we currently operate domestic flights primarily at Terminal 2 and international flights at Terminal 3 and, to a lesser extent, Terminal 4. Our five-year \$1.2 billion renovation project at JFK, which began in 2010, is on schedule. The expansion and enhancement of Terminal 4, which includes the construction of nine new international gates, commenced in 2011 and is scheduled to be completed in the summer of 2013. Upon completion of the Terminal 4 expansion, we will relocate our operations from Terminal 3 to Terminal 4, proceed with the demolition of Terminal 3, and thereafter conduct coordinated flight

operations from Terminals 2 and 4. Once our project is complete, we expect that passengers will benefit from an enhanced customer experience and improved operational performance, including reduced taxi times and better on-time performance.

Results of Operations - March 2012 and 2011 Quarters

Operating Revenue

| (in millions) | Three Months Ended March 31, | | | | % Increase |
|-------------------------|------------------------------|---------|----------|-----|------------|
| | 2012 | 2011 | Increase | | |
| Passenger: | | | | | |
| Mainline | \$5,675 | \$5,134 | \$541 | 11 | % |
| Regional carriers | 1,551 | 1,441 | 110 | 8 | % |
| Total passenger revenue | 7,226 | 6,575 | 651 | 10 | % |
| Cargo | 244 | 250 | (6) | (2) |)% |
| Other | 943 | 922 | 21 | 2 | % |
| Total operating revenue | \$8,413 | \$7,747 | \$666 | 9 | % |

| (in millions) | Three Months Ended March 31, 2012 | Increase (Decrease) vs. Three Months Ended March 31, 2011 | | | | | | |
|-------------------------|-----------------------------------|--|----------------------------------|-----------------------------------|----------------------|----------------------|-------------|-----|
| | | Passenger Revenue | RPMs ⁽¹⁾ (Traffic) | ASMs ⁽²⁾ (Capacity) | Passenger Mile Yield | PRASM ⁽³⁾ | Load Factor | |
| Domestic | \$3,172 | 9 | % 1 | % (3) |)% 9 | % 12 | % 2.8 | pts |
| Atlantic | 1,111 | 11 | % (1) |)% (9) |)% 12 | % 22 | % 6.1 | pts |
| Pacific | 871 | 16 | % 4 | % 1 | % 11 | % 15 | % 2.6 | pts |
| Latin America | 521 | 8 | % 2 | % — | % 6 | % 9 | % 1.8 | pts |
| Total Mainline | 5,675 | 11 | % 1 | % (3) |)% 10 | % 15 | % 3.5 | pts |
| Regional carriers | 1,551 | 8 | % 1 | % (2) |)% 6 | % 9 | % 2.2 | pts |
| Total passenger revenue | \$7,226 | 10 | % 1 | % (3) |)% 9 | % 14 | % 3.3 | pts |

⁽¹⁾ Revenue passenger miles (“RPMs”)

⁽²⁾ Available seat miles (“ASMs”)

⁽³⁾ Passenger revenue per ASM (“PRASM”)

Passenger Revenue. Passenger revenue increased \$651 million, or 10%, due to an improvement in the passenger mile yield of 9% on 1% higher traffic, despite a 3% decline in capacity. Passenger mile yield and unit revenue increased due to fare increases implemented in response to higher fuel prices and higher revenue under corporate travel contracts.

International mainline passenger revenue increased due to increased fares, including fuel surcharges, and improved business and leisure travel. Atlantic PRASM was up 22%, driven by a 12% increase in yield and a 9% reduction in capacity. In early 2011, we faced industry overcapacity in the transatlantic market and in connection with our joint venture partners, AirFrance-KLM and Alitalia, we have reduced capacity in underperforming markets. Pacific passenger revenue increased 16%, reflecting higher yield and traffic, as demand returned to levels seen prior to the March 2011 earthquake and tsunami in Japan.

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

Operating Expense

| | Three Months Ended March 31, | | Increase | % Increase | |
|--|------------------------------|---------|------------|------------|---|
| (in millions) | 2012 | 2011 | (Decrease) | (Decrease) | |
| Aircraft fuel and related taxes | \$2,233 | \$2,166 | \$67 | 3 | % |
| Salaries and related costs | 1,763 | 1,727 | 36 | 2 | % |
| Contract carrier arrangements | 1,375 | 1,300 | 75 | 6 | % |
| Aircraft maintenance materials and outside repairs | 561 | 485 | 76 | 16 | % |
| Depreciation and amortization | 386 | 376 | 10 | 3 | % |
| Passenger commissions and other selling expenses | 380 | 369 | 11 | 3 | % |
| Contracted services | 378 | 425 | (47) | (11) | % |
| Landing fees and other rents | 305 | 313 | (8) | (3) | % |
| Passenger service | 171 | 164 | 7 | 4 | % |
| Aircraft rent | 75 | 78 | (3) | (4) | % |
| Restructuring and other items | (12) |)7 | (19) |)NM | |
| Other | 416 | 429 | (13) | (3) | % |
| Total operating expense | \$8,031 | \$7,839 | \$192 | 2 | % |

Fuel Expense. Including contract carriers under capacity purchase agreements, fuel expense increased \$130 million despite a 4% decline in consumption. The table below presents fuel expense, gallons consumed, and our average price per fuel gallon, including the impact of fuel hedge activity:

| | Three Months Ended March 31, | | Increase | % Increase | |
|---|------------------------------|---------|------------|------------|---|
| (in millions, except per gallon data) | 2012 | 2011 | (Decrease) | (Decrease) | |
| Aircraft fuel and related taxes ⁽¹⁾ | \$2,233 | \$2,166 | \$67 | | |
| Aircraft fuel and related taxes included within contract carrier arrangements | 526 | 463 | 63 | | |
| Total fuel expense | \$2,759 | \$2,629 | \$130 | 5 | % |
| Total fuel consumption (gallons) | 886 | 919 | (33) | (4) | % |
| Average price per fuel gallon | \$3.11 | \$2.86 | \$0.25 | 9 | % |

⁽¹⁾ Includes the impact of fuel hedge activity described further in the table below.

Fuel expense increased primarily due to higher unhedged fuel prices, partially offset by an improvement in net fuel hedge results. The table below shows the impact of hedging on fuel expense and average price per fuel gallon:

| | Three Months Ended March 31, | | | Average Price Per Gallon Three Months Ended March 31, | | |
|---|------------------------------|---------|--------|---|--------|---------|
| (in millions, except per gallon data) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Fuel purchase cost | \$2,955 | \$2,736 | \$219 | \$3.33 | \$2.98 | \$0.35 |
| Fuel hedge losses (gains) | (196) |)(107 |)(89) | (0.22) |)(0.12 |)(0.10) |
| Total fuel expense | \$2,759 | \$2,629 | \$130 | \$3.11 | \$2.86 | \$0.25 |
| Mark-to-market adjustments for fuel hedges recorded in periods other than the settlement period | 151 | 29 | 122 | 0.17 | 0.03 | 0.14 |
| Total fuel expense, adjusted | \$2,910 | \$2,658 | \$252 | \$3.28 | \$2.89 | \$0.39 |

Our average price per fuel gallon, adjusted for mark-to-market adjustments for fuel hedges recorded in periods other than the settlement period (a non-GAAP financial measure as defined in "Supplemental Information" below), was

\$3.28 for the March 2012 quarter. During the three months ended March 31, 2012, our net fuel hedge gains of \$196 million included \$151 million in gains for mark-to-market adjustments recorded in periods other than the settlement period. These mark-to-market adjustments are based on market prices as of the end of the reporting period. Such market prices are not necessarily indicative of the actual future cash value of the underlying hedge in the contract settlement period. Therefore, Delta adjusts fuel expense

for these items to arrive at a more meaningful measure of fuel cost.

Salaries and related costs. The increase in salaries and related costs is primarily due to employee pay increases, increases in pension expense and other benefits, offset by a 3% decrease in staffing.

Aircraft maintenance materials and outside repairs. Aircraft maintenance materials and outside repairs consists of costs associated with (1) maintenance of aircraft used in our operations and (2) maintenance sales to third parties by our MRO services business. Costs associated with the maintenance of our fleet increased during the March 2012 quarter due primarily to the cyclical timing of maintenance events on our fleet. Additionally, costs associated with our MRO services business increased year-over-year due primarily to increased sales, reflected in other revenue above.

Contracted Services. Contracted services expense improved year-over-year due primarily to the impact of severe winter storms on our operations in the March 2011 quarter.

Restructuring and other items. Due to the nature of amounts recorded within restructuring and other items, a year over year comparison is not meaningful. For a discussion of charges recorded in restructuring and other items, see Note 7 to the Notes of the Condensed Consolidated Financial Statements.

During the March 2012 quarter, we announced voluntary workforce reduction programs primarily for eligible U.S. non-pilot employees. The enrollment period for these programs will end in the June 2012 quarter. Employees electing to participate in these programs will be eligible for retiree healthcare benefits that they would otherwise have been ineligible to receive. We did not record any charges in restructuring and other items related to these programs in the March 2012 quarter. However, we anticipate we will record a charge for severance and the related retiree healthcare costs during the June 2012 quarter when the enrollment period has ended.

Non-Operating Results

The following table shows the components of other expense, net:

| (in millions) | Three Months Ended March 31, | | (Unfavorable) |
|------------------------------------|------------------------------|----------|----------------------------|
| | 2012 | 2011 | Favorable 2012 vs. 2011 |
| Interest expense, net | \$(221 |) \$(221 |) \$— |
| Amortization of debt discount, net | (51 |) (47 |) (4 |
| Loss on extinguishment of debt | — | (20 |) 20 |
| Foreign currency exchange | 22 | 4 | 18 |
| Miscellaneous, net | (5 |) (13 |) 8 |
| Total other expense, net | \$(255 |) \$(297 |) \$42 |

Income Taxes

The following table shows the components of our income tax (provision) benefit:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|--------|
| | 2012 | 2011 |
| International and state income tax provision | \$(3 |) \$— |
| Alternative minimum tax refunds and other | — | 71 |
| Income tax (provision) benefit | \$(3 |) \$71 |

We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations. During the March 2012 quarter, we did not record an income tax provision for U.S. federal income tax purposes since our deferred tax assets are fully reserved by a valuation allowance. For a discussion of our valuation allowance, see Note 8 to the Notes of the Condensed Consolidated Financial Statements.

Operating Statistics

The following table sets forth our operating statistics:

| Consolidated ⁽¹⁾ | Three Months Ended March | | | |
|--|--------------------------|---|--------|---|
| | 31, 2012 | | 2011 | |
| Revenue passenger miles (millions) | 43,351 | | 42,929 | |
| Available seat miles (millions) | 54,408 | | 56,219 | |
| Passenger mile yield | 16.67 | ¢ | 15.32 | ¢ |
| Passenger revenue per available seat mile | 13.28 | ¢ | 11.69 | ¢ |
| Operating cost per available seat mile | 14.76 | ¢ | 13.94 | ¢ |
| Passenger load factor | 79.7 | % | 76.4 | % |
| Fuel gallons consumed (millions) | 886 | | 919 | |
| Average price per fuel gallon ⁽²⁾ | \$3.11 | | \$2.86 | |
| Average price per fuel gallon, adjusted ⁽³⁾ | \$3.28 | | \$2.89 | |
| Full-time equivalent employees, end of period | 78,761 | | 81,563 | |

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

(2) Includes the impact of fuel hedge activity.

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

Fleet Information

Our operating aircraft fleet, commitments, and options at March 31, 2012 are summarized in the following table:

| Aircraft Type | Current Fleet ⁽¹⁾ | | | Total | Average Age | Commitments ⁽²⁾ | Options |
|---------------|------------------------------|---------------|-----------------|-------|-------------|----------------------------|---------|
| | Owned | Capital Lease | Operating Lease | | | | |
| B-737-700 | 10 | — | — | 10 | 3.2 | — | — |
| B-737-800 | 73 | — | — | 73 | 11.2 | — | — |
| B-737-900ER | — | — | — | — | — | 100 | 30 |
| B-747-400 | 4 | 8 | 3 | 15 | 18.8 | — | — |
| B-757-200 | 86 | 34 | 34 | 154 | 18.9 | — | — |
| B-757-300 | 16 | — | — | 16 | 9.1 | — | — |
| B-767-300 | 10 | 2 | 4 | 16 | 21.2 | — | — |
| B-767-300ER | 50 | 4 | 4 | 58 | 16.0 | — | 4 |
| B-767-400ER | 21 | — | — | 21 | 11.1 | — | 7 |
| B-777-200ER | 8 | — | — | 8 | 12.2 | — | — |
| B-777-200LR | 10 | — | — | 10 | 3.0 | — | 13 |
| B-787-8 | — | — | — | — | — | 18 | — |
| A319-100 | 55 | — | 2 | 57 | 10.2 | — | — |
| A320-200 | 41 | — | 28 | 69 | 17.1 | — | — |
| A330-200 | 11 | — | — | 11 | 7.0 | — | — |
| A330-300 | 21 | — | — | 21 | 6.6 | — | — |
| MD-88 | 67 | 50 | — | 117 | 21.7 | — | — |
| MD-90 | 29 | 6 | — | 35 | 15.3 | 13 | — |
| DC9-50 | 21 | — | — | 21 | 34.0 | — | — |
| CRJ-100 | 10 | 9 | 11 | 30 | 13.9 | — | — |
| CRJ-700 | 15 | — | — | 15 | 8.4 | — | — |
| CRJ-900 | 13 | — | — | 13 | 4.3 | — | — |
| Embraer 175 | — | — | — | — | — | — | 36 |
| Total | 571 | 113 | 86 | 770 | 15.8 | 131 | 90 |

(1) Excludes certain aircraft we own or lease which are operated by third party contract carriers on our behalf shown in the table below.

(2) Excludes our orders for five A319-100 aircraft and two A320-200 aircraft because we have the right to cancel these orders.

The following table summarizes the aircraft fleet operated by third party contract carriers on our behalf at March 31, 2012:

| Carrier | Fleet Type | | | | | Embraer 175 | Total |
|-----------------------------|------------|---------|---------|---------|-------------|-------------|-------|
| | CRJ-200 | CRJ-700 | CRJ-900 | ERJ-145 | Embraer 170 | | |
| Pinnacle Airlines | 141 | — | 57 | — | — | — | 198 |
| ExpressJet Airlines, Inc. | 93 | 42 | 10 | — | — | — | 145 |
| SkyWest Airlines, Inc. | 63 | 19 | 21 | — | — | — | 103 |
| Compass Airlines, Inc. | — | — | — | — | 6 | 36 | 42 |
| Shuttle America Corporation | — | — | — | — | 14 | 16 | 30 |
| Chautauqua Airlines, Inc. | — | — | — | 26 | — | — | 26 |
| GoJet Airlines, LLC | — | 6 | — | — | — | — | 6 |
| Total | 297 | 67 | 88 | 26 | 20 | 52 | 550 |

During 2011, Pinnacle Airlines, Inc. ("Pinnacle Airlines") and Mesaba Aviation, Inc. ("Mesaba"), both subsidiaries of Pinnacle Airlines Corp. ("Pinnacle") operated as third party contract carriers on our behalf under capacity purchase agreements. During the March 2012 quarter, Mesaba transferred and assigned all rights and obligations under their capacity purchase agreement with us to Pinnacle Airlines. Pinnacle, along with Pinnacle Airlines, Mesaba and other of its subsidiaries, filed for bankruptcy in April 2012. We do not believe that Pinnacle's bankruptcy filing will have a material effect on our operations or financial statements.

Financial Condition and Liquidity

We expect to meet our cash needs for the next 12 months from cash flows from operations, cash and cash equivalents, short-term investments and financing arrangements. As of March 31, 2012, we had \$5.7 billion in unrestricted liquidity, including \$1.8 billion in availability under credit facilities.

Debt and Capital Leases. At March 31, 2012, total debt and capital leases, including current maturities, was \$13.4 billion, a \$415 million reduction from December 31, 2011. Our ability to obtain additional financing, if needed, on acceptable terms could be adversely affected by the fact that a significant portion of our assets are subject to liens.

Pension Obligations. We sponsor defined benefit pension plans for eligible employees and retirees. These plans are closed to new entrants and are frozen for future benefit accruals. Our funding obligations for these plans are generally governed by the Employee Retirement Income Security Act. We contributed \$324 million to our defined benefit pension plans during the March 2012 quarter, and contributed an additional \$354 million in April 2012. As a result of these contributions, we satisfied on an accelerated basis, our minimum required contributions for our defined benefit pension plans for 2012.

Sources and Uses of Cash

Cash flows from operating activities

Cash provided by operating activities totaled \$831 million for the March 2012 quarter, primarily reflecting (1) a \$900 million increase in advance ticket sales due to seasonal variations in the demand for air travel and higher passenger yield and (2) \$376 million in net income after adjusting for items such as depreciation and amortization partially offset by \$324 million in pension funding and \$264 million in profit sharing payments.

Cash provided by operating activities totaled \$788 million for the March 2011 quarter, primarily reflecting (1) an \$854 million increase in advance ticket sales due to seasonal variations in the demand for air travel and (2) \$445 million in net income after adjusting for items such as depreciation and amortization offset by \$313 million in profit sharing payments and other payments primarily related to increased fuel costs, prepaid commissions on advanced ticket sales and maintenance costs.

Cash flows from investing activities

Cash used in investing activities totaled \$349 million for the March 2012 quarter, primarily reflecting investments of (1) \$308 million for flight equipment, including investments in full flat-bed seats in BusinessElite, in-seat audio and video entertainment systems in trans-continental and international coach class, and the purchase of three previously owned MD-90 aircraft and (2) \$99 million for ground property and equipment.

Cash used in investing activities totaled \$576 million for the March 2011 quarter, primarily reflecting investments of (1) \$274 million for flight equipment, (2) \$240 million purchases of short-term investments and (3) \$66 million for ground property and equipment. Included in flight equipment acquisitions are four previously owned MD-90 aircraft.

Cash flows from financing activities

Cash used in financing activities totaled \$228 million for the March 2012 quarter, reflecting the repayment of \$367 million in long-term debt and capital lease obligations, partially offset by a \$171 million net increase in the fuel card obligation.

Cash used in financing activities totaled \$223 million for the March 2011 quarter, reflecting the repayment of \$460 million in long-term debt and capital lease obligations. Cash used in financing activities was partially offset by \$245 million in proceeds from aircraft financing.

Critical Accounting Policies and Estimates

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

Supplemental Information

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

The following tables show reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures. We exclude the following items from CASM to determine CASM-Ex:

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

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

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

• Mark-to-market ("MTM") adjustments for fuel hedges recorded in periods other than the settlement period. Management believes these adjustments are helpful to evaluate our financial results in the period shown.

| | Three Months Ended March 31, | | | |
|--|------------------------------|---|-------|---|
| | 2012 | | 2011 | |
| CASM | 14.76 | ¢ | 13.94 | ¢ |
| Items excluded: | | | | |
| Aircraft fuel and related taxes | (5.34 |) | (4.72 |) |
| Ancillary businesses | (0.44 |) | (0.30 |) |
| MTM adjustments for fuel hedges recorded in periods other than the settlement period | 0.28 | | 0.05 | |
| Restructuring and other items | 0.02 | | (0.01 |) |
| CASM-Ex | 9.28 | ¢ | 8.96 | ¢ |

The following table reconciles average price per fuel gallon to average price per fuel gallon, adjusted for MTM adjustments for fuel hedges recorded in periods other than the settlement period. These mark-to-market adjustments are based on market prices as of the end of the reporting period. Such market prices are not necessarily indicative of the actual future cash value of the underlying hedge in the contract settlement period. Therefore, Delta adjusts fuel expense for these items to arrive at a more meaningful measure of fuel cost.

| | Three Months Ended March 31, | |
|--|------------------------------|--------|
| | 2012 | 2011 |
| Consolidated ⁽¹⁾ | | |
| Average price per fuel gallon ⁽²⁾ | \$3.11 | \$2.86 |
| MTM adjustments for fuel hedges recorded in periods other than the settlement period | 0.17 | 0.03 |
| Average price per fuel gallon, adjusted | \$3.28 | \$2.89 |

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

⁽²⁾ Includes the impact of fuel hedge activity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Aircraft Fuel Price Risk

Our results of operations are materially impacted by changes in aircraft fuel prices. We actively manage our fuel price risk through a hedging program intended to generate a positive cash position to defray the cost of jet fuel purchases, while preserving participation in downward price movements of jet fuel to the extent possible. This fuel hedging program utilizes several different contract and commodity types, which are used together to create a risk mitigating hedge portfolio. The economic effectiveness of this hedge portfolio is frequently tested against our financial targets. The hedge portfolio is rebalanced from time to time according to market conditions, which results in locking in gains or losses on hedge contracts prior to their settlement dates.

Our fuel hedge portfolio generally consists of call options; put options, combinations of two or more call options and put options; swap contracts; and futures contracts. The products underlying the hedge contracts include heating oil, crude oil, jet fuel and diesel, as these commodities are highly correlated with the price of jet fuel. Our fuel hedge contracts contain margin funding requirements. The margin funding requirements may cause us to post margin to counterparties or may cause counterparties to post margin to us as market prices in the underlying hedged items change. If fuel prices decrease significantly from the levels existing at the time we enter into fuel hedge contracts, we may be required to post a significant amount of margin. We may adjust our hedge portfolio from time to time in response to margin posting requirements.

For the three months ended March 31, 2012, aircraft fuel and related taxes, including our contract carriers under capacity purchase agreements, accounted for \$2.8 billion, or 34%, of our total operating expense, including \$196 million of net fuel hedge gains.

The following table shows the projected cash impact to fuel cost, on both an unhedged and hedged basis, assuming 10% and 20% increases or decreases in fuel prices. The hedge gain (loss) reflects the change in the projected cash settlement value of our open fuel hedge contracts at March 31, 2012 based on their contract settlement dates, assuming the same 10% and 20% changes.

| (in millions) | Nine Months ending December 31, 2012 | | | Fuel Hedge Margin (Posted to) Received from Counterparties |
|---------------|--|----------------------------------|------------|--|
| | Decrease (Increase) to Unhedged Fuel Cost ⁽¹⁾ | Hedge Gain (Loss) ⁽²⁾ | Net Impact | |
| + 20% | \$(1,880 |) \$160 | \$(1,720 |) \$150 |
| + 10% | (940 |) 160 | (780 |) 90 |
| - 10% | 940 | (190 |) 750 | (70) |
| - 20% | 1,880 | (420 |) 1,460 | (230) |

Projections based upon the (increase) decrease to unhedged fuel cost as compared to the jet fuel price per gallon of

⁽¹⁾ \$3.23, excluding transportation costs and taxes, at March 31, 2012 and estimated fuel consumption of 2.9 billion gallons for the nine months ending December 31, 2012.

- (2) Projections based on average futures prices by contract settlement month compared to futures prices at March 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that the controls and procedures were effective as of March 31, 2012 to ensure that material information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the March 2012 quarter, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the consolidated balance sheet of Delta Air Lines, Inc. (the Company) as of March 31, 2012, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month periods ended March 31, 2012 and 2011, and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and 2011. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Delta Air Lines, Inc. as of December 31, 2011 and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year ended December 31, 2011 and in our report dated February 10, 2012, we expressed an unqualified opinion on those consolidated financial statements.

Atlanta, Georgia

/s/ Ernst & Young LLP

April 25, 2012

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We withheld the following shares of common stock to satisfy tax withholding obligations during the March 2012 quarter from the distributions described below. These shares may be deemed to be “issuer purchases” of shares that are required to be disclosed pursuant to this Item.

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾ | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plan or Programs |
|---------------|---|------------------------------|---|---|
| January 2012 | 3,722 | \$8.09 | 3,722 | (1) |
| February 2012 | 1,114,595 | \$10.97 | 1,114,595 | (1) |
| March 2012 | 6,626 | \$9.74 | 6,626 | (1) |
| Total | 1,124,943 | | 1,124,943 | |

Shares were withheld from employees to satisfy certain tax obligations due in connection with grants of stock under the Delta Air Lines, Inc. 2007 Performance Compensation Plan (the "2007 Plan"). The 2007 Plan provides for the withholding of shares to satisfy tax obligations. It does not specify a maximum number of shares that can be withheld for this purpose.

ITEM 6. EXHIBITS

(a) Exhibits

10.1 Separation Agreement and General Release, dated March 29, 2012, by and between Delta Air Lines, Inc. and Samuel H. Halter

10.2 Model Award Agreement for the Delta Air Lines, Inc. 2012 Long Term Incentive Program

15 Letter from Ernst & Young LLP regarding unaudited interim financial information

31.1 Certification by Delta's Chief Executive Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012

31.2 Certification by Delta's Senior Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012

Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief
32Executive Officer and Senior Vice President and Chief Financial Officer with respect to Delta's Quarterly Report
on Form 10-Q for the quarterly period ended March 31, 2012

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.DEFBRL Taxonomy Extension Definition Linkbase Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.LABXBRL Taxonomy Extension Labels Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Delta Air Lines, Inc.
(Registrant)

/s/ Michael O. Randolfi
Michael O. Randolfi
Senior Vice President - Finance and Controller
(Principal Accounting Officer)

April 25, 2012