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DELTA AIR LINES INC /DE/

Form 10-Q

July 13, 2017

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Accelerated FilerDELTA AIR LINES INC

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

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

For the quarterly period ended June 30, 2017

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 June 30, 2017:

Common Stock, \$0.0001 par value - 724,030,218 shares outstanding

This document is also available through our website at <http://ir.delta.com/>.

Table of Contents

	Page
<u>Forward Looking Statements</u>	<u>1</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>2</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>34</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>34</u>
<u>Item 1A. Risk Factors</u>	<u>34</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
<u>Item 6. Exhibits</u>	<u>36</u>
<u>Signature</u>	<u>37</u>

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, 2016 ("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.

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 June 30, 2017, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016. 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 the standards of the Public Company Accounting Oversight Board (United States), 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 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, 2016, and the related consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 13, 2017.

/s/ Ernst & Young LLP

Atlanta, Georgia
July 13, 2017

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

(in millions, except share data)	June 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,241	\$ 2,762
Short-term investments	747	487
Accounts receivable, net of an allowance for uncollectible accounts of \$11 and \$15 at June 30, 2017 and December 31, 2016, respectively	2,164	2,064
Fuel inventory	537	519
Expendable parts and supplies inventories, net of an allowance for obsolescence of \$119 and \$110 at June 30, 2017 and December 31, 2016, respectively	401	372
Prepaid expenses and other	1,087	1,247
Total current assets	7,177	7,451
Property and Equipment, Net:		
Property and equipment, net of accumulated depreciation and amortization of \$13,336 and \$12,456 at June 30, 2017 and December 31, 2016, respectively	25,367	24,375
Other Assets:		
Goodwill	9,794	9,794
Identifiable intangibles, net of accumulated amortization of \$837 and \$828 at June 30, 2017 and December 31, 2016, respectively	4,855	4,844
Deferred income taxes, net	2,077	3,064
Other noncurrent assets	2,545	1,733
Total other assets	19,271	19,435
Total assets	\$ 51,815	\$ 51,261
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$ 1,098	\$ 1,131
Air traffic liability	6,365	4,626
Accounts payable	2,726	2,572
Accrued salaries and related benefits	2,259	2,924
Frequent flyer deferred revenue	1,726	1,648
Other accrued liabilities	2,457	2,338
Total current liabilities	16,631	15,239
Noncurrent Liabilities:		
Long-term debt and capital leases	7,916	6,201
Pension, postretirement and related benefits	9,623	13,378
Frequent flyer deferred revenue	2,281	2,278
Other noncurrent liabilities	1,885	1,878
Total noncurrent liabilities	21,705	23,735
Commitments and Contingencies		
Stockholders' Equity:		
Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 731,451,949 and 744,886,938 shares issued at June 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	12,279	12,294
Retained earnings	8,905	7,903
Accumulated other comprehensive loss	(7,549)	(7,636)
Treasury stock, at cost, 7,421,731 and 14,149,229 shares at June 30, 2017 and December 31, 2016, respectively	(156)	(274)
Total stockholders' equity	13,479	12,287
Total liabilities and stockholders' equity	\$ 51,815	\$ 51,261

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

3

DELTA AIR LINES, INC.**Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)**

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenue:				
Passenger:				
Mainline	\$ 7,699	\$ 7,471	\$ 14,103	\$ 13,915
Regional carriers	1,532	1,499	2,816	2,817
Total passenger revenue	9,231	8,970	16,919	16,732
Cargo	183	165	343	327
Other	1,377	1,312	2,677	2,639
Total operating revenue	10,791	10,447	19,939	19,698
Operating Expense:				
Salaries and related costs	2,616	2,391	5,089	4,702
Aircraft fuel and related taxes	1,448	1,228	2,688	2,455
Regional carriers expense	1,081	1,096	2,191	2,102
Depreciation and amortization	535	470	1,075	956
Contracted services	543	484	1,066	960
Aircraft maintenance materials and outside repairs	475	446	993	895
Passenger commissions and other selling expenses	458	437	862	825
Landing fees and other rents	379	376	744	724
Passenger service	271	221	491	410
Profit sharing	338	324	489	596
Aircraft rent	86	66	170	132
Other	533	485	1,000	978
Total operating expense	8,763	8,024	16,858	15,735
Operating Income	2,028	2,423	3,081	3,963
Non-Operating Expense:				
Interest expense, net	(103)	(93)	(197)	(200)
Miscellaneous, net	(34)	20	(78)	21
Total non-operating expense, net	(137)	(73)	(275)	(179)
Income Before Income Taxes	1,891	2,350	2,806	3,784
Income Tax Provision	(667)	(804)	(979)	(1,292)
Net Income	\$ 1,224	\$ 1,546	\$ 1,827	\$ 2,492
Basic Earnings Per Share	\$ 1.68	\$ 2.04	\$ 2.51	\$ 3.25
Diluted Earnings Per Share	\$ 1.68	\$ 2.03	\$ 2.50	\$ 3.23
Cash Dividends Declared Per Share	\$ 0.20	\$ 0.14	\$ 0.41	\$ 0.27
Comprehensive Income	\$ 1,246	\$ 1,546	\$ 1,914	\$ 2,488

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

4

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

(in millions)	Six Months Ended June 30,	
	2017	2016
Net Cash Provided by Operating Activities	\$ 1,585	\$ 4,226
Cash Flows from Investing Activities:		
Property and equipment additions:		
Flight equipment, including advance payments	(1,292)	(1,644)
Ground property and equipment, including technology	(498)	(273)
Purchase of equity investments	(622)	—
Purchase of short-term investments	(567)	(866)
Redemption of short-term investments	307	1,051
Other, net	(40)	19
Net cash used in investing activities	(2,712)	(1,713)
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	(564)	(1,149)
Repurchase of common stock	(800)	(1,801)
Cash dividends	(297)	(210)
Fuel card obligation	341	4
Proceeds from long-term obligations	2,004	450
Other, net	(78)	(117)
Net cash provided by (used in) financing activities	606	(2,823)
Net Decrease in Cash and Cash Equivalents	(521)	(310)
Cash and cash equivalents at beginning of period	2,762	1,972
Cash and cash equivalents at end of period	\$ 2,241	\$ 1,662
Non-Cash Transactions:		
Treasury stock contributed to our qualified defined benefit pension plans	\$ 350	\$ 350
Flight and ground equipment acquired under capital leases	208	50

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 and 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 for the year ended December 31, 2016.

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

Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices and other factors, operating results for the three and six months ended June 30, 2017 are not necessarily indicative of operating results for the entire year.

We reclassified certain prior period amounts to conform to the current period presentation. Unless otherwise noted, all amounts disclosed are stated before consideration of income taxes.

Recent Accounting Standards

Standards Effective in Future Years

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The standard is effective for interim and annual reporting periods beginning after December 15, 2017. Under this ASU and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. We expect to use the full retrospective transition method and will adopt the standard effective January 1, 2018.

While we believe the adoption will not have a significant effect on earnings, the classification of certain revenues that are currently classified in other revenue will be reclassified to passenger revenue. Specifically, passenger-related revenues which include baggage fees, administrative charges and other travel-related fees, may be deemed part of the single performance obligation of providing passenger transportation. We expect that these revenues, which are approximately \$2 billion annually, will be reclassified from the current presentation in other revenue to passenger revenue after adoption.

In addition, we expect that the adoption will increase the rate used to account for frequent flyer miles, which would increase the balance of the frequent flyer liability. We continue to evaluate this and the other impacts to the financial statements due to the adoption of the new standard.

Leases. In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted.

We have not completed our assessment, but the adoption of this standard will have a significant impact on our Consolidated Balance Sheets. However, we do not expect the adoption to have a significant impact on the recognition, measurement or presentation of lease expenses within the Consolidated Statements of Operations or the Consolidated Statements of Cash Flows. Information about our undiscounted future lease payments and the timing of those payments is in Note 7, "Lease Obligations," in our Form 10-K.

Statement of Cash Flows. In 2016, the FASB issued ASU Nos. 2016-15 and 2016-18 related to the classification of certain cash receipts and cash payments and the presentation of restricted cash within an entity's statement of cash flows, respectively. These standards are effective for interim and annual reporting periods beginning after December 15, 2017, but early adoption is permitted. We will adopt the standard effective January 1, 2018. We do not expect these standards to have a material impact on our Consolidated Statements of Cash Flows.

Financial Instruments. In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10)." This standard makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. It is effective for interim and annual periods beginning after December 15, 2017.

Our investment in GOL Linhas Aéreas Inteligentes, the parent company of VRG Linhas Aéreas (operating as GOL), is currently accounted for as available-for-sale with changes in fair value recognized in other comprehensive income. At the time of adoption, any amounts in accumulated other comprehensive income/(loss) ("AOCI") related to equity investments would be reclassified to retained earnings.

Retirement Benefits. In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)." This standard requires an entity to report the service cost component in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017. We will adopt the standard effective January 1, 2018. The components of the net (benefit) cost are shown in Note 6, "Employee Benefit Plans."

Recently Adopted Standards

Equity Method Investments. In March 2016, the FASB issued ASU No. 2016-07, "Investments—Equity Method and Joint Ventures (Topic 323)." This standard eliminates a previous requirement that an investor must restate its historical financial statements when an existing cost method investment qualifies for use of the equity method as if the equity method had been used since the investment was acquired. Under the new guidance, at the point an investment qualifies for the equity method, any unrealized gain or loss in AOCI will be recognized through earnings. We adopted this standard in 2016 and converted our investment in Group Aeroméxico to the equity method upon completion of the tender offer for additional capital stock during the March 2017 quarter.

NOTE 2. FAIR VALUE MEASUREMENTS***Assets (Liabilities) Measured at Fair Value on a Recurring Basis***

(in millions)	June 30, 2017	Level 1	Level 2
Cash equivalents	\$ 1,720	\$ 1,720	\$ —
Short-term investments			
U.S. government and agency securities	103	96	7
Asset- and mortgage-backed securities	158	—	158
Corporate obligations	405	—	405
Other fixed income securities	81	—	81
Restricted cash equivalents and investments	63	63	—
Long-term investments	133	107	26
Hedge derivatives, net			
Fuel hedge contracts	(203)	(52)	(151)
Interest rate contract	(4)	—	(4)
Foreign currency exchange contracts	(7)	—	(7)
(in millions)	December 31, 2016	Level 1	Level 2
Cash equivalents	\$ 2,279	\$ 2,279	\$ —
Short-term investments			
U.S. government and agency securities	112	86	26
Asset- and mortgage-backed securities	68	—	68
Corporate obligations	295	—	295
Other fixed income securities	12	—	12
Restricted cash equivalents and investments	61	61	—
Long-term investments	139	115	24
Hedge derivatives, net			
Fuel hedge contracts	(324)	(26)	(298)
Interest rate contract	6	—	6
Foreign currency exchange contracts	27	—	27

Cash Equivalents and Restricted Cash Equivalents and Investments. Cash equivalents generally consist of money market funds. Restricted cash equivalents and investments generally consist of money market funds and time deposits, which primarily support letters of credit that relate to certain projected self-insurance obligations and airport commitments. The fair value of these investments is based on a market approach using prices and other relevant information generated by market transactions involving identical or comparable assets.

Short-Term Investments. The fair values of short-term investments are based on a market approach using industry standard valuation techniques that incorporate observable inputs such as quoted market prices, interest rates, benchmark curves, credit ratings of the security and other observable information.

Long-Term Investments. Our long-term investments that have historically been measured at fair value primarily consist of equity investments in Grupo Aeroméxico, the parent company of Aeroméxico, and the parent company of GOL. During the March 2017 quarter, we completed a tender offer for additional shares of Grupo Aeroméxico. With the completion of the tender offer, our investment is accounted for under the equity method and is no longer measured at fair value on a recurring basis. Our derivative contracts that may be settled for shares of Grupo Aeroméxico continue to be measured at fair value. Shares of the parent company of GOL are traded on a public exchange and will continue to be valued based on quoted market prices. The investments are classified in other noncurrent assets.

Hedge Derivatives. A portion of our derivative contracts are negotiated over-the-counter 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). Such contracts are classified as Level 2 within the fair value hierarchy. The remainder of our hedge contracts are comprised of futures contracts, which are traded on a public exchange. These contracts are classified within Level 1 of the fair value hierarchy.

Fuel Contracts. Our fuel hedge portfolio consists of options, swaps and futures. The hedge contracts include crude oil, diesel fuel and jet fuel, as these commodities are highly correlated with the price of jet fuel that we consume. Option contracts are valued under an 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 25% to 33% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap contracts are valued under an income approach using a discounted cash flow model based on data either readily observable or provided by counterparties who regularly trade in public markets. Discount rates used in these valuations vary with the maturity dates of the respective contracts and are based on the London interbank offered rate ("LIBOR"). Futures contracts and options on futures contracts are traded on a public exchange and valued based on quoted market prices.

Interest Rate Contract. Our interest rate derivative is a swap contract, which is valued based on data readily observable in public markets.

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

NOTE 3. INVESTMENTS

Short-Term Investments

The estimated fair values of short-term investments, which approximate cost at June 30, 2017, are shown below by contractual maturity. Actual maturities may differ from contractual maturities because issuers of the securities may have the right to retire our investments without prepayment penalties. Investments with maturities beyond one year when purchased may be classified as short-term investments if they are expected to be available to support our short-term liquidity needs.