

DELTA AIR LINES INC /DE/  
Form 10-Q  
November 09, 2006

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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 September 30, 2006**

**Or**

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

**Commission File Number 1-5424**

**DELTA AIR LINES, INC.**

State of Incorporation: Delaware  
IRS Employer Identification No.: 58-0218548

P.O. 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 R No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

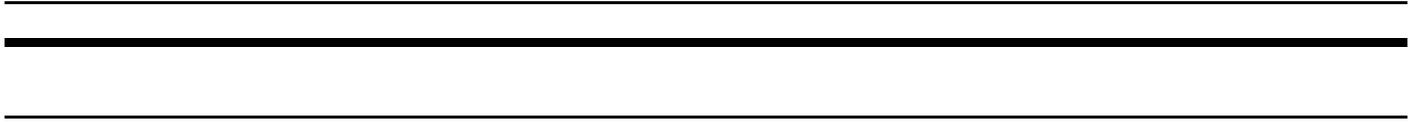
Large accelerated filer  Accelerated filer R Non-accelerated filer

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

Yes  No R

Number of shares outstanding by each class of common stock, as of October 31, 2006:  
Common Stock, \$0.01 par value - 197,335,938 shares outstanding

This document is also available on our website at <http://investor.delta.com/edgar.cfm>.



## 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 regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. For examples of such risks and uncertainties, please see the cautionary statements contained in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (“Form 10-K”) and “Item 1A. Risk Factors” in Part II of this Form 10-Q. 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.

## OTHER INFORMATION

On September 14, 2005 (the “Petition Date”), we and substantially all of our subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). No assurance can be given as to what values, if any, will be ascribed in our bankruptcy proceedings to our various pre-petition liabilities, common stock and other securities. We believe that our currently outstanding common stock will have no value and will be canceled under any plan of reorganization we propose and that the value of our various pre-petition liabilities and other securities is highly speculative. Accordingly, we urge that caution be exercised with respect to existing and future investments in any of these liabilities or securities. In addition, trading of our common stock on the New York Stock Exchange was suspended on October 13, 2005, and our common stock was delisted from the New York Stock Exchange on November 30, 2005. Additional information about our Chapter 11 filing is available on the Internet at [www.delta.com/restructure](http://www.delta.com/restructure). Bankruptcy Court filings and claims information are available at [www.deltadocket.com](http://www.deltadocket.com).

Unless otherwise indicated, the terms “Delta,” the “Company,” “we,” “us,” and “our” refer to Delta Air Lines, Inc. and its subsidiaries.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**DELTA AIR LINES, INC.**  
**Debtor and Debtor-In-Possession**  
**Consolidated Balance Sheets**

ASSETS (in millions)	September 30, 2006 (Unaudited)	December 31, 2005
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,283	\$ 2,008
Short-term investments	525	-
Restricted cash	1,021	870
Accounts receivable, net of an allowance for uncollectible accounts of \$38 at September 30, 2006 and \$41 at December 31, 2005	999	819
Expendable parts and supplies inventories, net of an allowance for obsolescence of \$176 at September 30, 2006 and \$201 at December 31, 2005	178	172
Prepaid expenses and other	875	611
Total current assets	5,881	4,480
<b>PROPERTY AND EQUIPMENT:</b>		
Flight equipment	17,819	18,591
Accumulated depreciation	(6,608)	(6,621)
Flight equipment, net	11,211	11,970
Ground property and equipment	4,666	4,791
Accumulated depreciation	(2,898)	(2,847)
Ground property and equipment, net	1,768	1,944
Flight and ground equipment under capital leases	466	535
Accumulated amortization	(130)	(213)
Flight and ground equipment under capital leases, net	336	322
Advance payments for equipment	56	44
Total property and equipment, net	13,371	14,280
<b>OTHER ASSETS:</b>		
Goodwill	227	227
Operating rights and other intangibles, net of accumulated amortization	70	74

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of \$193 at September 30, 2006 and \$189 at December 31, 2005

Other noncurrent assets	1,132	978
Total other assets	1,429	1,279
Total assets	\$ 20,681	\$ 20,039

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

**DELTA AIR LINES, INC.**  
**Debtor and Debtor-In-Possession**  
**Consolidated Balance Sheets**

<b>LIABILITIES AND SHAREOWNERS' DEFICIT</b> (in millions, except share data)	<b>September 30,</b> <b>2006</b> (Unaudited)	<b>December 31,</b> <b>2005</b>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt and capital leases	\$ 1,359	\$ 1,186
Accounts payable, deferred credits and other accrued liabilities	1,756	1,407
Air traffic liability	2,053	1,712
Taxes payable	537	525
Accrued salaries and related benefits	408	435
Total current liabilities	6,113	5,265
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt and capital leases	6,422	6,557
Deferred revenue and credits	326	186
Other	748	299
Total noncurrent liabilities	7,496	7,042
<b>LIABILITIES SUBJECT TO COMPROMISE (Note 1)</b>	<b>20,943</b>	<b>17,380</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 1, 4, 5)</b>		
<b>EMPLOYEE STOCK OWNERSHIP PLAN</b>		
<b>PREFERRED STOCK:</b>		
Series B ESOP Convertible Preferred Stock:		
\$1.00 par value, \$72.00 stated and liquidation value, no shares		
issued and outstanding at September 30, 2006; and 4,667,568 shares issued		
and outstanding at December 31, 2005	-	336
Unearned compensation under employee stock ownership plan	-	(89)
Total Employee Stock Ownership Plan Preferred Stock	-	247
<b>SHAREOWNERS' DEFICIT:</b>		
Common stock:		
\$0.01 par value, 900,000,000 shares authorized, 202,081,648 shares issued		
at September 30, 2006 and December 31, 2005	2	2
Additional paid-in capital	1,561	1,635
Accumulated deficit	(12,433)	(8,209)
Accumulated other comprehensive loss	(2,777)	(2,722)

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Treasury stock at cost, 4,745,710 shares at September 30, 2006 and

12,738,630 shares at December 31, 2005

	(224)	(601)
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Total shareowners' deficit	(13,871)	(9,895)
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Total liabilities and shareowners' deficit	\$	20,681	\$	20,039
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**DELTA AIR LINES, INC.**  
**Debtor and Debtor-In-Possession**  
**Consolidated Statements of Operations**  
**(Unaudited)**

(in millions, except per share data)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>OPERATING REVENUE:</b>				
Passenger:				
Mainline	\$ 3,227	\$ 3,041	\$ 8,992	\$ 8,735
Regional affiliates	1,016	850	2,909	2,370
Cargo	121	128	372	387
Other, net	295	289	760	771
Total operating revenue	4,659	4,308	13,033	12,263
<b>OPERATING EXPENSES:</b>				
Aircraft fuel	1,242	1,203	3,282	3,141
Salaries and related costs	1,008	1,235	3,188	3,944
Contract carrier arrangements	724	313	1,993	728
Depreciation and amortization	293	317	912	956
Contracted services	273	275	791	817
Landing fees and other rents	197	216	680	658
Passenger commissions and other selling expenses	233	244	679	745
Aircraft maintenance materials and outside repairs	183	215	566	598
Passenger service	95	90	247	269
Aircraft rent	70	141	238	435
Restructuring, asset writedowns, pension settlements and related items, net	(2)	85	17	712
Other	175	214	388	586
Total operating expenses	4,491	4,548	12,981	13,589
<b>OPERATING INCOME (LOSS)</b>	<b>168</b>	<b>(240)</b>	<b>52</b>	<b>(1,326)</b>
<b>OTHER (EXPENSE) INCOME:</b>				
Interest expense (contractual interest expense totaled \$299 and \$914 for the three and nine months ended September 30, 2006, respectively, and \$298 and \$859 for the three and nine months ended September 30, 2005, respectively)	(222)	(277)	(663)	(833)
Interest income	16	17	46	45
Miscellaneous, net	(31)	-	(12)	(1)
Total other expense, net	(237)	(260)	(629)	(789)
<b>LOSS BEFORE REORGANIZATION ITEMS, NET</b>	<b>(69)</b>	<b>(500)</b>	<b>(577)</b>	<b>(2,115)</b>

<b>REORGANIZATION ITEMS, NET (Note 1)</b>	98	(607)	(3,685)	(607)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	29	(1,107)	(4,262)	(2,722)
<b>INCOME TAX BENEFIT (PROVISION)</b>	23	(23)	40	139
<b>NET INCOME (LOSS)</b>	52	(1,130)	(4,222)	(2,583)
<b>PREFERRED STOCK DIVIDENDS</b>	-	(4)	(2)	(15)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREOWNERS</b>	\$ 52	\$ (1,134)	\$ (4,224)	\$ (2,598)
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	\$ 0.26	\$ (6.73)	\$ (21.53)	\$ (17.07)
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	\$ 0.22	\$ (6.73)	\$ (21.53)	\$ (17.07)

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

**DELTA AIR LINES, INC.**  
**Debtor and Debtor-In-Possession**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

(in millions)	<b>Nine Months Ended September 30, 2006                  2005</b>	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 1,044	\$ 163
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment additions:		
Flight equipment, including advance payments	(171)	(535)
Ground property and equipment	(88)	(196)
Proceeds from sale of flight equipment	34	425
Proceeds from sale of wholly owned subsidiary, net of cash remaining with subsidiary	-	297
Increase in restricted cash	(145)	(891)
Other, net	4	81
Net cash used in investing activities	(366)	(819)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt and capital lease obligations	(398)	(1,443)
Proceeds from borrowings under long-term obligations	-	2,045
Other, net	(5)	(48)
Net cash (used in) provided by financing activities	(403)	554
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	275	(102)
Cash and cash equivalents at beginning of period	2,008	1,463
Cash and cash equivalents at end of period	\$ 2,283	\$ 1,361
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAID (RECEIVED) FOR:</b>		
Interest paid (net of amounts capitalized)	\$ 548	\$ 596
Professional fee disbursements due to bankruptcy	73	-
Interest received due to bankruptcy	(79)	(1)
Cash received from aircraft renegotiation	(10)	-
Income taxes, net	(1)	3
<b>NON-CASH TRANSACTIONS:</b>		
Aircraft delivered under seller-financing	\$ -	\$ 251
Flight equipment under capital leases	140	-
Current maturities of long-term debt exchanged for shares of common stock	-	45
Debt extinguishment from aircraft renegotiation	171	-
Dividends on Series B ESOP Convertible Preferred Stock	2	10

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



**DELTA AIR LINES, INC.**  
**Debtor and Debtor-In-Possession**  
**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2006**  
**(Unaudited)**

## 1. CHAPTER 11 PROCEEDINGS

### *General Information*

Delta Air Lines, Inc., a Delaware corporation, is a major air carrier that provides air transportation for passengers and cargo throughout the United States (“U.S.”) and around the world. Our Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly owned subsidiaries, including Comair, Inc. (“Comair”), which are collectively referred to as Delta.

On September 14, 2005 (the “Petition Date”), we and substantially all of our subsidiaries (collectively, the “Debtors”) filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”), in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). The reorganization cases are being jointly administered under the caption “In re Delta Air Lines, Inc., et al., Case No. 05-17923-ASH.”

The Debtors are operating as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In general, as debtors-in-possession, the Debtors are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

Our business plan is intended to make Delta a simpler, more efficient and customer focused airline with an improved financial condition. As part of our Chapter 11 reorganization, we are seeking \$3 billion in annual financial benefits (revenue enhancements and cost reductions) by the end of 2007 from revenue and network improvements, savings to be achieved through the Chapter 11 restructuring process, and reduced Mainline employee cost. This amount is in addition to the implementation of initiatives to achieve \$5 billion in annual financial benefits by the end of 2006, as compared to 2002, under the transformation plan we announced in 2004.

*Notices to Creditors; Effect of Automatic Stay.* Shortly after the Petition Date, the Debtors began notifying all known current or potential creditors of the Chapter 11 filing. Subject to certain exceptions under the Bankruptcy Code, the Debtors’ Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim, are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

*Appointment of Creditors Committee.* As required by the Bankruptcy Code, the United States Trustee for the Southern District of New York appointed an official committee of unsecured creditors (the “Creditors Committee”). The Creditors Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Debtors. The Creditors Committee has been generally supportive of the Debtors’ positions on various matters; however, there can be no assurance that the Creditors Committee will support the Debtors’ positions on matters to be presented to the Bankruptcy Court in the future or on the Debtors’ plan of reorganization, once

proposed. Disagreements between the Debtors and the Creditors Committee could protract the Chapter 11 proceedings, negatively impact the Debtors' ability to operate and delay the Debtors' emergence from the Chapter 11 proceedings.

*Rejection of Executory Contracts.* Under Section 365 and other relevant sections of the Bankruptcy Code, the Debtors may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property, aircraft and aircraft engines, subject to the approval of the Bankruptcy Court and certain other conditions. By order of the Bankruptcy Court, our Section 365 rights to assume, assume and assign, or reject unexpired leases of non-residential real estate expire on April 16, 2007 (subject to further extension by the Bankruptcy Court). In general, rejection of an executory contract or unexpired lease is treated as a pre-petition breach of the executory contract or unexpired lease in question and, subject to certain exceptions, relieves the Debtors of performing their future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts or leases can file claims against the Debtors' estate for such damages. Generally, the assumption of an executory contract or unexpired lease requires the Debtors to cure existing defaults under such executory contract or unexpired lease.

Any description of an executory contract or unexpired lease elsewhere in these Notes, including where applicable our express termination rights or a quantification of our obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights we have under Section 365 of the Bankruptcy Code.

We expect that liabilities subject to compromise and resolution in the Chapter 11 proceedings will arise in the future as a result of damage claims created by the Debtors' rejection of various executory contracts and unexpired leases. Due to the uncertain nature of many of the potential rejection claims, the magnitude of such claims is not reasonably estimable at this time. Such claims may be material (see "Liabilities Subject to Compromise" below).

*Special Protection Applicable to Leases and Secured Financing of Aircraft and Aircraft Equipment.* Notwithstanding the general discussion above of the impact of the automatic stay, under Section 1110 of the Bankruptcy Code ("Section 1110"), certain secured parties, lessors and conditional sales vendors may take possession of certain qualifying aircraft, aircraft engines and other aircraft-related equipment that are leased or subject to a security interest or conditional sale contract pursuant to their agreement with the Debtors. Section 1110 provides that, unless the Debtors agree to perform under the agreement and cure all defaults within 60 days after the Petition Date, such financing party can take possession of such equipment.

Section 1110 effectively shortens the automatic stay period to 60 days with respect to Section 1110 eligible aircraft, engines and related equipment, subject to the following two conditions. First, with court approval, the debtor may extend the 60-day period by agreement of the relevant financing party. Alternatively, the debtor may elect, with court approval, to perform all of the obligations under the applicable financing and cure any defaults thereunder as required by the Bankruptcy Code (which does not preclude later rejecting any related lease). In the absence of either such arrangement, the financing party may take possession of the property and enforce any of its contractual rights or remedies to sell, lease or otherwise retain or dispose of such equipment.

The 60-day period under Section 1110 expired on November 14, 2005. We have entered into agreements to extend the automatic stay or elected to perform under the applicable financing with respect to a substantial number of the aircraft in our fleet. While we have reached agreement with respect to certain of our aircraft obligations and are negotiating with respect to many of our other aircraft obligations, the ultimate outcome of these negotiations cannot be predicted with certainty. To the extent we are unable to reach definitive agreements with aircraft financing parties, those parties may seek to repossess aircraft. The loss of a significant number of aircraft could result in a material adverse effect on our financial and operating performance.

*Request for Adequate Protection.* Certain aircraft financing parties have filed motions with the Bankruptcy Court seeking adequate protection against the risk that their aircraft collateral could lose value while in the possession of or while being used by the Debtors. The Bankruptcy Court could determine that such parties are not adequately protected and that the Debtors must pay certain amounts, which could be material, in order to continue using the equipment.

*Collective Bargaining Agreements.* Section 1113 of the Bankruptcy Code permits a debtor to reject its collective bargaining agreements ("CBAs") with its unions if the debtor first satisfies several statutorily prescribed substantive and procedural prerequisites and obtains the Bankruptcy Court's approval of the rejection. The debtor must make a proposal to modify its existing CBAs based on the most complete and reliable information available at the time, must bargain in good faith and must share relevant information with its unions. The proposed modifications must be necessary to permit the reorganization of the debtor and must ensure that all affected parties are treated fairly and equitably relative to the creditors and the debtor. Rejection is appropriate if the unions refuse to agree to the debtors' necessary proposals "without good cause" and the balance of the equities favors rejection.

The Air Line Pilots Association, International ("ALPA") is the collective bargaining representative of Delta's approximately 6,800 pilots. Because we were not able to reach a consensual agreement with ALPA during

negotiations in the fall of 2005 to amend our collective bargaining agreement with ALPA to reduce our pilot labor costs, on November 1, 2005, we filed a motion with the Bankruptcy Court under Section 1113 of the Bankruptcy Code to reject the collective bargaining agreement. We continued to negotiate with ALPA after the filing of this motion and, as described below, reached a comprehensive agreement that was ratified by Delta pilots and approved by the Bankruptcy Court. The comprehensive agreement became effective June 1, 2006 and will become amendable on December 31, 2009.

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The comprehensive agreement with ALPA provides us with approximately \$280 million in average annual pilot labor cost savings between June 1, 2006 and December 31, 2009 due to changes in pay rates, benefits and work rules. It provides, among other things, that:

- the 14% hourly pilot wage rate reduction, and other pilot pay and cost reductions equivalent to an approximately additional 1% hourly wage rate reduction, which became effective on December 15, 2005 under an interim agreement between Delta and ALPA, will remain in effect, and annual pay rate increases will begin in January 2007;
- ALPA will not oppose termination of the defined benefit pension plan for pilots (the “Pilot Plan”);
- ALPA will have an allowed general, unsecured pre-petition claim in our bankruptcy proceedings in the amount of \$2.1 billion in connection with a plan of reorganization;
- if the Pilot Plan is terminated, we will issue for the benefit of pilots, on a date that is no later than 120 days following our emergence from bankruptcy, senior unsecured notes (“Pilot Notes”) with an aggregate principal amount equal to \$650 million and a term of up to 15 years from the issuance date; the full principal amount of the Pilot Notes