DELTA AIR LINES INC /DE/
Form 10-Q
April 15, 2015

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

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

For the quarterly period ended March 31, 2015
Or

o 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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

Large accelerated filer	þ	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Number of shares outstanding by each class of common stock, as of March 31, 2015:
Common Stock, $0.0001 par value - 816,296,778 shares outstanding
This document is also available through our website at http://ir.delta.com/.

Table of Contents

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, 2014 (“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

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, 2015, and the related condensed consolidated statements of operations and comprehensive income and cash flows for the three-month periods ended March 31, 2015 and 2014. 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, 2014 and the related consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity (deficit) 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 10, 2015.

Atlanta, Georgia /s/ Ernst & Young LLP
April 15, 2015

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

(in millions, except share data)	March 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,122	$2,088
Short-term investments	1,447	1,217
Accounts receivable, net of an allowance for uncollectible accounts of $9 and $11 at March 31, 2015 and December 31, 2014, respectively	2,057	2,297
Hedge margin receivable	383	925
Fuel inventory	475	534
Expendable parts and supplies inventories, net of an allowance for obsolescence of $119 and $127 at March 31, 2015 and December 31, 2014, respectively	326	318
Hedge derivatives asset	1,575	1,078
Deferred income taxes, net	3,091	3,275
Prepaid expenses and other	790	733
Total current assets	12,266	12,465
Property and Equipment, Net:		
Property and equipment, net of accumulated depreciation and amortization of $9,765 and $9,340 at March 31, 2015 and December 31, 2014, respectively	22,023	21,929
Other Assets:		
Goodwill	9,794	9,794
Identifiable intangibles, net of accumulated amortization of $797 and $793 at March 31, 2015 and December 31, 2014, respectively	4,599	4,603
Deferred income taxes, net	4,051	4,320
Other noncurrent assets	1,019	1,010
Total other assets	19,463	19,727
Total assets	$53,752	$54,121
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	$1,261	$1,216
Air traffic liability	5,866	4,296
Accounts payable	2,492	2,622
Accrued salaries and related benefits	1,622	2,266
Hedge derivatives liability	2,512	2,772
Frequent flyer deferred revenue	1,575	1,580
Other accrued liabilities	1,991	2,127
Total current liabilities	17,319	16,879
Noncurrent Liabilities:		
Long-term debt and capital leases	8,305	8,561
Pension, postretirement and related benefits	14,170	15,138
Frequent flyer deferred revenue	2,455	2,602
Other noncurrent liabilities	2,457	2,128

Total noncurrent liabilities	27,387	28,429
Commitments and Contingencies		
Stockholders' Equity:		
Common stock at $0.0001 par value; 1,500,000,000 shares authorized, 837,176,320 and 845,048,310 shares issued at March 31, 2015 and December 31, 2014, respectively	—	—
Additional paid-in capital	12,578	12,981
Retained earnings	4,127	3,456
Accumulated other comprehensive loss	(7,294)	(7,311)
Treasury stock, at cost, 20,879,542 and 19,790,077 shares at March 31, 2015 and December 31, 2014, respectively	(365)	(313)
Total stockholders' equity	9,046	8,813
Total liabilities and stockholders' equity	$53,752	$54,121

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

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

	Three Months Ended March 31,	
(in millions, except per share data)	2015	2014
Operating Revenue:		
Passenger:		
Mainline	$6,549	$6,224
Regional carriers	1,374	1,453
Total passenger revenue	7,923	7,677
Cargo	217	217
Other	1,248	1,022
Total operating revenue	9,388	8,916
Operating Expense:		
Salaries and related costs	2,092	1,969
Aircraft fuel and related taxes	1,835	2,226
Regional carrier expense	1,053	1,319
Depreciation and amortization	470	442
Aircraft maintenance materials and outside repairs	452	448
Contracted services	441	427
Passenger commissions and other selling expenses	386	373
Landing fees and other rents	373	341
Passenger service	190	173
Profit sharing	136	99
Aircraft rent	60	51
Restructuring and other items	10	49
Other	492	379
Total operating expense	7,990	8,296
Operating Income	1,398	620
Other Expense:		
Interest expense, net	(131)	(186)
Loss on extinguishment of debt	—	(18)
Miscellaneous, net	(81)	(81)
Total other expense, net	(212)	(285)
Income Before Income Taxes	1,186	335
Income Tax Provision	(440)	(122)
Net Income	$746	$213
Basic Earnings Per Share	$0.91	$0.25
Diluted Earnings Per Share	$0.90	$0.25
Cash Dividends Declared Per Share	$0.09	$0.06

Comprehensive Income	$763	$204

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)	2015	2014
Net Cash Provided by Operating Activities	$1,636	$951
Cash Flows From Investing Activities:		
Property and equipment additions:		
Flight equipment, including advance payments	(451)	(514)
Ground property and equipment, including technology	(135)	(100)
Purchase of short-term investments	(344)	(240)
Redemption of short-term investments	115	251
Other, net	3	40
Net cash used in investing activities	(812)	(563)
Cash Flows From Financing Activities:		
Payments on long-term debt and capital lease obligations	(301)	(412)
Repurchase of common stock	(425)	(125)
Cash dividends	(75)	(51)
Proceeds from long-term obligations	41	59
Other, net	(30)	(4)
Net cash used in financing activities	(790)	(533)
Net Increase (Decrease) in Cash and Cash Equivalents	34	(145)
Cash and cash equivalents at beginning of period	2,088	2,844
Cash and cash equivalents at end of period	$2,122	$2,699
Non-Cash Transactions:		
Flight equipment under capital leases	$39	$10

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

5

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.

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, 2015 are not necessarily indicative of operating results for the entire year.

We reclassified certain prior period amounts, none of which were material, to conform to the current period presentation. Unless otherwise noted, all amounts disclosed are stated before consideration of income taxes.

Recent Accounting Standards

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." While the standard supersedes existing revenue recognition guidance, it closely aligns with current GAAP. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption.

On April 1, 2015, the FASB proposed deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. We are currently evaluating the impact, if any, the adoption of this standard will have on our Consolidated Financial Statements.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

6

NOTE 2. SEGMENTS

Refinery Operations

We own and operate an oil refinery as part of our strategy to reduce the cost of the refining margin we pay. The refinery's production consists of jet fuel, as well as gasoline, diesel and other refined products ("non-jet fuel products"). We use several counterparties to exchange the non-jet fuel products produced by the refinery for jet fuel consumed in our airline operations. The gross fair value of the products exchanged under these agreements during the three months ended March 31, 2015 and 2014 was $782 million and $1.0 billion, respectively.

Segment Reporting

Segment results are prepared based on our internal accounting policies described below, with reconciliations to consolidated amounts in accordance with GAAP.

(in millions)	Airline	Refinery	Intersegment Sales/Other	Consolidated
Three Months Ended March 31, 2015				
Operating revenue:	$9,314	$1,140		$9,388
Sales to airline segment			$(233) [1]	
Exchanged products			(782) [2]	
Sales of refined products to third parties			(51) [3]	
Operating income[4]	1,312	86	—	1,398
Interest expense, net	131	—	—	131
Depreciation and amortization	463	7	—	470
Total assets, end of period	52,696	1,056	—	53,752
Capital expenditures	579	7	—	586
Three Months Ended March 31, 2014				
Operating revenue:	$8,916	$1,463		$8,916
Sales to airline segment			$(249) [1]	
Exchanged products			(1,003) [2]	
Sales of refined products to third parties			(211) [3]	
Operating income (loss)[4]	661	(41)	—	620
Interest expense, net	186	—	—	186
Depreciation and amortization	437	5	—	442
Total assets, end of period	51,016	1,151	—	52,167
Capital expenditures	592	22	—	614

(1) Represents transfers, valued on a market price basis, from the refinery to the airline segment for use in airline operations. We determine market price by reference to the market index for the primary delivery location, which is New York Harbor, for jet fuel from the refinery.

(2) Represents value of products delivered under exchange agreements with third parties, as discussed above, determined on a market price basis.

(3) Represents sales of refined products to third parties. These sales were at or near cost; accordingly, the margin on these sales is de minimis.

(4) Includes the impact of pricing arrangements between the airline segment and refinery segment with respect to the refinery's inventory price risk.

7

NOTE 3. FAIR VALUE MEASUREMENTS

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

(in millions)	March 31, 2015	Level 1	Level 2
Cash equivalents	$1,618	$1,618	$—
Short-term investments			
U.S. government and agency securities	135	63	72
Asset- and mortgage-backed securities	395	—	395
Corporate obligations	894	—	894
Other fixed income securities	23	—	23
Restricted cash equivalents and investments	45	45	—
Long-term investments	99	73	26
Hedge derivatives, net			
Fuel hedge contracts	(1,428)	(68)	(1,360)
Interest rate contract	(1)	—	(1)
Foreign currency exchange contracts	96	—	96

(in millions)	December 31, 2014	Level 1	Level 2
Cash equivalents	$ 1,612	$1,612	$—
Short-term investments			
U.S. government and agency securities	59	—	59
Asset- and mortgage-backed securities	392	—	392
Corporate obligations	749	—	749
Other fixed income securities	17	—	17
Restricted cash equivalents and investments	37	37	—
Long-term investments	118	90	28
Hedge derivatives, net			
Fuel hedge contracts	(1,848)	(167)	(1,681)
Interest rate contract	(7)	—	(7)
Foreign currency exchange contracts	73	—	73

Cash Equivalents and Restricted Cash Equivalents and Investments. Cash equivalents generally consist of money market funds. Restricted cash equivalents and investments primarily support letters of credit that relate to certain projected self-insurance obligations and airport commitments and generally consist of money market funds and time deposits. 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 are measured at fair value primarily consist of equity investments in Grupo Aeroméxico, S.A.B. de C.V., the parent company of Aeroméxico, and GOL Linhas Aéreas Inteligentes, S.A, the parent company of VRG Linhas Aéreas (operating as GOL). Shares of the parent companies of Aeroméxico and GOL are traded on public exchanges and we have valued our investments based on quoted market prices. The investments are classified in other noncurrent assets.

Hedge Derivatives. Our derivative contracts are generally 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 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 26% to 73% 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 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 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 4. INVESTMENTS

Short-Term Investments

The estimated fair values of short-term investments, which approximate cost at March 31, 2015, are shown below by contractual maturity. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to retire our investment without prepayment penalties.

(in millions)	Available-For-Sale
March 31, 2015	
Due in one year or less	$ 299
Due after one year through three years	902
Due after three years through five years	162
Due after five years	84
Total	$ 1,447

NOTE 5. DERIVATIVES

Changes in aircraft fuel prices, interest rates and foreign currency exchange rates impact our results of operations. 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

Changes in aircraft fuel prices materially impact our results of operations. We actively manage our fuel price risk through a hedging program intended to reduce the financial impact from changes in the price of jet fuel. We utilize different contract and commodity types in this program and frequently test their economic effectiveness against our financial targets. We rebalance the hedge portfolio from time to time according to market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates. During the three months ended March 31, 2015 and 2014, we recorded a $411 million fuel hedge loss and a $78 million fuel hedge gain, respectively.

During the March 2015 quarter, we restructured our fuel hedge portfolio by early settling certain 2015 hedges and deferring the settlement of a portion of the remaining positions. We paid $302 million to early settle contracts that were in a loss position and originally scheduled to expire in the second half of 2015. Additionally, we effectively deferred settlement of a portion of our hedge portfolio until 2016 by entering into fuel derivative transactions that will provide approximately $300 million in cash receipts during the second half of 2015 and require approximately $300 million in cash payments in 2016 (excluding market movements from the date of the transactions). By effectively deferring settlement of a portion of the original derivative transactions, the restructured hedge portfolio provides additional time for the fuel market to stabilize while adding some hedge protection in 2016. Cash flows associated with these deferral transactions will be reported as cash flows from financing activities within our Condensed Consolidated Statement of Cash Flows in the settlement period.

Hedge Position as of March 31, 2015

(in millions)	Volume		Final Maturity Date	Hedge Derivatives Asset	Other Noncurrent Assets	Hedge Derivatives Liability	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges								
Interest rate contract (fair value hedge)	400	U.S. dollars	August 2022	5	—	—	(6)	(1)
Foreign currency exchange contracts	63,914 506	Japanese yen Canadian dollars	January 2018	48	48	—	—	96
Not designated as hedges								
Fuel hedge contracts	1,618	gallons - crude oil, diesel and jet fuel	December 2016	1,522	35	(2,512)	(473)	(1,428)
Total derivative contracts				$ 1,575	$ 83	$ (2,512)	$ (479)	$ (1,333)

Hedge Position as of December 31, 2014

(in millions)	Volume		Final Maturity Date	Hedge Derivatives Asset	Other Noncurrent Assets	Hedge Derivatives Liability	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges								
Interest rate contract (fair value hedge)	416	U.S. dollars	August 2022	5	—	—	(12)	(7)
Foreign currency exchange contracts	77,576 511	Japanese yen Canadian dollars	October 2017	25	49	(1)	—	73
Not designated as hedges								
Fuel hedge contracts	3,286	gallons - crude oil, diesel and jet fuel	December 2016	1,048	3	(2,771)	(128)	(1,848)
Total derivative contracts				$ 1,078	$ 52	$ (2,772)	$ (140)	$ (1,782)

Offsetting Assets and Liabilities

We have master netting arrangements with our counterparties giving us the right of setoff. We have elected not to offset the fair value positions recorded on our Consolidated Balance Sheets. The following table shows the net fair value positions had we elected to offset.

(in millions)	Hedge Derivatives	Other Noncurrent	Hedge Derivatives	Other Noncurrent	Hedge Derivatives,

	Asset	Assets	Liability	Liabilities	net
March 31, 2015					
Net derivative contracts	$148	$48	$(1,074)	$(455)	$(1,333)
December 31, 2014					
Net derivative contracts	$29	$49	$(1,723)	$(137)	$(1,782)

10

Designated Hedge Gains (Losses)

Gains (losses) related to our designated hedge contracts are as follows:

(in millions)	Effective Portion Reclassified from AOCI to Earnings 2015	2014	Effective Portion Recognized in Other Comprehensive Income 2015	2014
Three Months Ended March 31,				
Foreign currency exchange contracts	51	43	(16)	(51)

As of March 31, 2015, we have recorded $158 million of gains on cash flow hedge contracts in accumulated other comprehensive (loss)/income ("AOCI"), which are scheduled to settle and be reclassified into earnings within the next 12 months.

Credit Risk

To manage credit risk associated with our aircraft fuel price, interest rate and foreign currency hedging programs, we evaluate counterparties based on several criteria including 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 posted margin of $383 million and $925 million as of March 31, 2015 and December 31, 2014, respectively.

NOTE 6. 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 is 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 primarily as Level 2 within the fair value hierarchy.

(in millions)	March 31, 2015	December 31, 2014
Total debt at par value	$9,261	$9,469
Unamortized discount, net	(78)	(90)
Net carrying amount	$9,183	$9,379
Fair value	$9,600	$9,800

Covenants

We were in compliance with the covenants in our financing agreements at March 31, 2015.

11

NOTE 7. EMPLOYEE BENEFIT PLANS

The following table shows the components of net periodic cost:

	Pension Benefits		Other Postretirement and Postemployment Benefits	
(in millions)	2015	2014	2015	2014
Three Months Ended March 31,				
Service cost	$—	$—	$16	$13
Interest cost	221	232	35	39
Expected return on plan assets	(220)	(207)	(20)	(21)
Amortization of prior service credit	—	—	(7)	(7)
Recognized net actuarial loss	58	34	6	1
Net periodic cost	$59	$59	$30	$25

NOTE 8. COMMITMENTS AND CONTINGENCIES

Aircraft Purchase and Lease Commitments

At March 31, 2015, future aircraft purchase commitments totaled approximately $13.6 billion and included 63 B-737-900ER, 45 A321-200, 25 A330-900neo, 25 A350-900, 18 B-787-8, 10 A330-300, 5 B-757-200 and 3 B-717-200 aircraft. We have obtained long-term financing commitments for a substantial portion of the purchase price of these aircraft, except for the 18 B-787-8 aircraft. Our purchase commitment for the 18 B-787-8 aircraft provides for certain aircraft substitution rights.

(in millions)	Total
Nine months ending December 31, 2015	$1,140
2016	1,970
2017	2,390
2018	2,230
2019	1,060
Thereafter	4,820
Total	$13,610

In addition, we have agreements with Southwest Airlines and The Boeing Company to lease an additional 27 B-717-200 aircraft, which will be delivered during 2015.

Venezuelan Currency Devaluation

As of March 31, 2015, we had $93 million of unrestricted cash on our Consolidated Balance Sheets primarily related to our 2013 Venezuelan ticket sales for which repatriation has been requested, but not yet authorized. While the cash is available for use in Venezuela, our ability to repatriate these funds has been limited due to Venezuelan government controls. Until these funds can be repatriated, they are at risk of future devaluations.

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 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 laws or regulations. In certain of these financing transactions, we also bear the risk of certain changes in tax laws that would subject payments to non-U.S. lenders to withholding taxes.

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

Employees Under Collective Bargaining Agreements

At March 31, 2015, we had approximately 81,000 full-time equivalent employees. Approximately 18% of these employees were represented by unions.

During the March 2015 quarter, we reached a new collective bargaining agreement with the union representing our refinery employees. The agreement will expire on February 28, 2019.

Other

We have certain contracts for goods and services that require us to pay a penalty, acquire inventory specific to us or purchase contract-specific equipment, as defined by each respective contract, if we terminate the contract without cause prior to its expiration date. Because these obligations are contingent on our termination of the contract without cause prior to its expiration date, no obligation would exist unless such a termination occurs.

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables show the components of accumulated other comprehensive loss:

(in millions)	Pension and Other Benefits Liabilities(2)	Derivative Contracts	Investments	Total
Balance at January 1, 2015	$(7,517)	$222	$(16)	$(7,311)
Changes in value (net of tax effect of $13)	—	22	(12)	10
Reclassifications into earnings (net of tax effect of $5)(1)	39	(32)	—	7
Balance at March 31, 2015	$(7,478)	$212	$(28)	$(7,294)

(in millions)	Pension and Other Benefits Liabilities(2)	Derivative Contracts	Investments	Total
Balance at January 1, 2014	$(5,323)	$219	$(26)	$(5,130)
Changes in value (net of tax effect of $2)	—	(3)	10	7
Reclassifications into earnings (net of tax effect of $9)(1)	12	(28)	—	(16)
Balance at March 31, 2014	$(5,311)	$188	$(16)	$(5,139)

(1) Amounts reclassified from AOCI for pension and other benefits liabilities are recorded in salaries and related costs in the Condensed Consolidated Statements of Operations and Comprehensive Income. Amounts reclassified from AOCI for derivative contracts designated as foreign currency cash flow hedges and interest rate cash flow hedges are recorded in passenger revenue and interest expense, net, respectively, in the Condensed Consolidated Statements of Operations and Comprehensive Income. Amounts reclassified from AOCI for investments are recorded in interest expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Income.

(2) Includes $1.9 billion of deferred income tax expense primarily related to pension obligations that will not be recognized in net income until the pension obligations are fully extinguished.

NOTE 10. RESTRUCTURING AND OTHER ITEMS

During the March 2015 quarter, we recorded a $10 million charge associated with our fleet restructuring initiative. We continue to restructure our domestic fleet by replacing a significant portion of our 50-seat regional flying with more efficient and customer preferred CRJ-900 and B-717-200 aircraft and replacing older, less cost effective B-757-200 aircraft with B-737-900ER aircraft. These restructuring charges include remaining lease payments and lease return costs for permanently grounded aircraft.

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

(in millions)	Severance and Related Costs	Lease Restructuring
Liability as of January 1, 2015	$42	$462
Additional costs and expenses	—	10
Payments	(24)	(20)
Liability as of March 31, 2015	$18	$452

14

NOTE 11. EARNINGS PER SHARE

We calculate basic earnings per share by dividing net income by the weighted average number of common shares outstanding, excluding restricted shares. Antidilutive common stock equivalents excluded from the diluted earnings per share calculation are not material. The following table shows the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
(in millions, except per share data)	2015	2014
Net income	$746	$213
Basic weighted average shares outstanding	818	844
Dilutive effect of share-based awards	8	9
Diluted weighted average shares outstanding	826	853
Basic earnings per share	$0.91	$0.25
Diluted earnings per share	$0.90	$0.25

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

March 2015 Quarter Financial Highlights

Our pre-tax income for the March 2015 quarter was $1.2 billion, representing an $851 million increase compared to the corresponding prior year period as a result of higher passenger revenue and lower fuel prices. Pre-tax income, adjusted for special items, increased $150 million, or 34%, to $594 million. Special items were primarily comprised of $589 million from (1) the impact of unfavorable mark-to-market adjustments recorded on hedges in periods other than the settlement period and (2) $302 million in cash paid to early settle contracts that were in a loss position and originally scheduled to expire in the second half of 2015.

Revenue. Our passenger revenue increased $246 million, or 3%, compared to the March 2014 quarter on 3.6% higher traffic. The increase in revenue resulted from strength in our domestic operations, higher corporate sales and merchandising initiatives such as branded fares, first class upsell and preferred seating. This growth was achieved despite lower market fuel prices and foreign currency weakness.

Operating Expense. Total operating expense decreased $306 million from the March 2014 quarter driven by lower fuel prices, partially offset by higher salaries and related costs, higher profit sharing and volume-based cost increases due to increases in capacity and traffic. Salaries and related costs are higher primarily due to pay rate increases and an increase in pilot and flight attendant block hours.

Our consolidated operating cost per available seat mile ("CASM") for the March 2015 quarter decreased 8.3% to 14.12 cents from 15.39 cents in the March 2014 quarter, on a 5.0% increase in capacity. Non-fuel unit costs ("CASM-Ex," a non-GAAP financial measure) decreased 1.4% to 9.64 cents compared to the March 2014 quarter primarily due to upgauging initiatives, lower maintenance expense due to 50-seat regional fleet retirements and other productivity improvement efforts.

The non-GAAP financial measures for pre-tax income, adjusted for special items, and CASM-Ex used in this section are defined and reconciled in "Supplemental Information" below.

Results of Operations - Three Months Ended March 31, 2015 and 2014

Operating Revenue

(in millions)	Three Months Ended March 31, 2015	2014	Increase (Decrease)	% Increase (Decrease)
Passenger:				
Mainline	$6,549	$6,224	$325	5 %
Regional carriers	1,374	1,453	(79)	(5)%
Total passenger revenue	7,923	7,677	246	3 %
Cargo	217			