

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

DELTA AIR LINES INC /DE/

Form 10-Q

July 12, 2018

P5Y7000000061000000false--12-31Q220180000027904Large Accelerated FilerDELTA AIR LINES INC /DE/1409700000015097000000113000000122000000120000001300000014580000001424000000140000000014260000000.0000027904 2018-01-01 2018-06-30 0000027904 2018-06-30 0000027904 2017-12-31 0000027904 dal:PassengerFrequentFlyerMember 2018-06-30 0000027904 dal:PassengerAirTrafficMember 2018-06-30 0000027904 dal:PassengerFrequentFlyerMember 2017-12-31 0000027904 dal:PassengerAirTrafficMember 2017-12-31 0000027904 2017-04-01 2017-06-30 0000027904 2018-04-01 2018-06-30 0000027904 us-gaap:PassengerMember 2018-04-01 2018-06-30 0000027904 2017-01-01 2017-06-30 0000027904 us-gaap:ProductAndServiceOtherMember 2017-01-01 2017-06-30 0000027904 us-gaap:CargoAndFreightMember 2017-04-01 2017-06-30 0000027904 us-gaap:PassengerMember 2017-04-01 2017-06-30 0000027904 us-gaap:CargoAndFreightMember 2018-01-01 2018-06-30 0000027904 us-gaap:CargoAndFreightMember 2018-04-01 2018-06-30 0000027904 us-gaap:ProductAndServiceOtherMember 2017-04-01 2017-06-30 0000027904 us-gaap:ProductAndServiceOtherMember 2018-01-01 2018-06-30 0000027904 us-gaap:CargoAndFreightMember 2017-01-01 2017-06-30 0000027904 us-gaap:PassengerMember 2017-01-01 2017-06-30 0000027904 us-gaap:ProductAndServiceOtherMember 2018-04-01 2018-06-30 0000027904 us-gaap:PassengerMember 2018-01-01 2018-06-30 0000027904 2016-12-31 0000027904 2017-06-30 0000027904 srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201707Member 2017-04-01 2017-06-30 0000027904 us-gaap:PassengerMember srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2017-01-01 2017-12-31 0000027904 us-gaap:AccountingStandardsUpdate201601Member 2018-01-01 0000027904 dal:PassengerAirTrafficMember srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2017-12-31 0000027904 dal:AirFranceKLMMember us-gaap:AccountingStandardsUpdate201601Member 2018-01-01 2018-06-30 0000027904 srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201707Member 2017-01-01 2017-06-30 0000027904 dal:PassengerFrequentFlyerMember srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2017-12-31 0000027904 dal:PassengerFrequentFlyerMember srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-12-31 0000027904 dal:PassengerAirTrafficMember srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-12-31 0000027904 srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-12-31 0000027904 srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-12-31 0000027904 dal:PassengerAirTrafficMember srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-12-31 0000027904 dal:PassengerFrequentFlyerMember srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-12-31 0000027904 srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-04-01 2017-06-30 0000027904 srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-01-01 2017-06-30 0000027904 us-gaap:PassengerMember srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-01-01 2017-06-30 0000027904 srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-01-01 2017-06-30 0000027904 srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-04-01 2017-06-30 0000027904 us-gaap:PassengerMember srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-04-01 2017-06-30 0000027904 us-gaap:CargoAndFreightMember srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-01-01 2017-06-30 0000027904 us-gaap:PassengerMember srt:RestatementAdjustmentMember 2017-01-01 2017-06-30 0000027904 us-gaap:ProductAndServiceOtherMember srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-04-01 2017-06-30 0000027904 us-gaap:CargoAndFreightMember srt:RestatementAdjustmentMember us-gaap:NewAccountingPronouncementMember 2017-01-01 2017-06-30 0000027904 us-gaap:ProductAndServiceOtherMember srt:ScenarioPreviouslyReportedMember us-gaap:NewAccountingPronouncementMember 2017-01-01 2017-06-30 0000027904 us-gaap:PassengerMember

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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, 2018**

**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, 2018:

Common Stock, \$0.0001 par value - 691,331,319 shares outstanding

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

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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, 2017 ("Form 10-K") and "Item 1A. Risk Factors" of Part II of the Form 10-Q for the quarter ended March 31, 2018, 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.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of  
Delta Air Lines, Inc.

### **Results of Review of Interim Financial Statements**

We have reviewed the accompanying consolidated balance sheet of Delta Air Lines, Inc. (the Company) as of June 30, 2018, the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2018 and 2017, and the related notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements 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) (PCAOB), the consolidated balance sheet of Delta Air Lines, Inc. as of December 31, 2017, the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for the year then ended, and the related notes (not presented herein); and in our report dated February 23, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

### **Basis for Review Results**

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements 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 PCAOB, 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.

/s/ Ernst & Young LLP

Atlanta, Georgia  
July 12, 2018

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

| (in millions, except share data)  | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| <b>Current Assets:</b>  |                  |                      |
| Cash and cash equivalents   | \$ 1,886         | \$ 1,814             |
| Short-term investments  | 520              | 825                  |
| Accounts receivable, net of an allowance for uncollectible accounts of \$13 and \$12 at June 30, 2018 and December 31, 2017, respectively                           | 2,427            | 2,377                |
| Fuel inventory  | 1,149            | 916                  |
| Expendable parts and supplies inventories, net of an allowance for obsolescence of \$122 and \$113 at June 30, 2018 and December 31, 2017, respectively             | 440              | 413                  |
| Prepaid expenses and other  | 1,219            | 1,499                |
| Total current assets  | 7,641            | 7,844                |
| <b>Property and Equipment, Net:</b>   |                  |                      |
| Property and equipment, net of accumulated depreciation and amortization of \$15,097 and \$14,097 at June 30, 2018 and December 31, 2017, respectively              | 28,124           | 26,563               |
| <b>Other Assets:</b>  |                  |                      |
| Goodwill  | 9,794            | 9,794                |
| Identifiable intangibles, net of accumulated amortization of \$853 and \$845 at June 30, 2018 and December 31, 2017, respectively                                   | 4,839            | 4,847                |
| Cash restricted for airport construction  | 1,326            | —                    |
| Deferred income taxes, net  | 804              | 1,354                |
| Other noncurrent assets   | 3,268            | 3,309                |
| Total other assets  | 20,031           | 19,304               |
| Total assets  | \$ 55,796        | \$ 53,711            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                  |                      |
| <b>Current Liabilities:</b>   |                  |                      |
| Current maturities of long-term debt and capital leases   | \$ 1,342         | \$ 2,242             |
| Air traffic liability   | 6,360            | 4,364                |
| Accounts payable  | 3,749            | 3,674                |
| Accrued salaries and related benefits   | 2,436            | 3,022                |
| Frequent flyer deferred revenue   | 2,799            | 2,762                |
| Fuel card obligation  | 1,062            | 1,067                |
| Other accrued liabilities   | 1,521            | 1,868                |
| Total current liabilities   | 19,269           | 18,999               |
| <b>Noncurrent Liabilities:</b>  |                  |                      |
| Long-term debt and capital leases   | 8,562            | 6,592                |
| Pension, postretirement and related benefits  | 9,052            | 9,810                |
| Frequent flyer deferred revenue   | 3,692            | 3,559                |
| Other noncurrent liabilities  | 2,365            | 2,221                |
| Total noncurrent liabilities  | 23,671           | 22,182               |
| <b>Commitments and Contingencies</b>  |                  |                      |
| <b>Stockholders' Equity:</b>  |                  |                      |
| Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 699,486,944 and 714,674,160 shares issued at June 30, 2018 and December 31, 2017, respectively | —                | —                    |
| Additional paid-in capital  | 11,807           | 12,053               |
| Retained earnings   | 8,851            | 8,256                |
| Accumulated other comprehensive loss  | (7,606 )         | (7,621 )             |

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|  |          |           |
|--|----------|-----------|
| Treasury stock, at cost, 8,155,625 and 7,476,181 shares at June 30, 2018 and December 31, 2017, respectively | (196 )   | (158 )    |
| Total stockholders' equity   | 12,856   | 12,530    |
| Total liabilities and stockholders' equity   | \$55,796 | \$ 53,711 |

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

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

| (in millions, except per share data)               | <b>Three Months<br/>Ended June 30,</b> |                 | <b>Six Months Ended<br/>June 30,</b> |                 |
|--|--|-----------------|--------------------------------------|-----------------|
|  | <b>2018</b>                            | <b>2017</b>     | <b>2018</b>                          | <b>2017</b>     |
| <b>Operating Revenue:</b>                          |  |                 |                                      |                 |
| Passenger  | \$ 10,546                              | \$ 9,768        | 19,311                               | 17,946          |
| Cargo  | 223                                    | 187             | 425                                  | 350             |
| Other  | 1,006                                  | 792             | 2,007                                | 1,552           |
| Total operating revenue                            | 11,775                                 | 10,747          | 21,743                               | 19,848          |
| <b>Operating Expense:</b>                          |  |                 |                                      |                 |
| Salaries and related costs                         | 2,668                                  | 2,521           | 5,252                                | 4,906           |
| Aircraft fuel and related taxes                    | 2,341                                  | 1,687           | 4,195                                | 3,169           |
| Regional carriers expense, excluding fuel          | 883                                    | 838             | 1,739                                | 1,702           |
| Depreciation and amortization                      | 590                                    | 531             | 1,200                                | 1,068           |
| Contracted services                                | 540                                    | 525             | 1,084                                | 1,029           |
| Ancillary businesses and refinery                  | 494                                    | 296             | 987                                  | 588             |
| Passenger commissions and other selling expenses   | 511                                    | 467             | 938                                  | 872             |
| Aircraft maintenance materials and outside repairs | 427                                    | 392             | 862                                  | 824             |
| Landing fees and other rents                       | 407                                    | 373             | 780                                  | 734             |
| Profit sharing                                     | 400                                    | 338             | 583                                  | 489             |
| Passenger service                                  | 300                                    | 284             | 563                                  | 518             |
| Aircraft rent                                      | 97                                     | 86              | 191                                  | 170             |
| Other  | 437                                    | 427             | 849                                  | 798             |
| Total operating expense                            | 10,095                                 | 8,765           | 19,223                               | 16,867          |
| <b>Operating Income</b>                            | <b>1,680</b>                           | <b>1,982</b>    | <b>2,520</b>                         | <b>2,981</b>    |
| <b>Non-Operating Expense:</b>                      |  |                 |                                      |                 |
| Interest expense, net                              | (89 )                                  | (103 )          | (191 )                               | (197 )          |
| Unrealized gain/(loss) on investments, net         | (238 )                                 | —               | (220 )                               | —               |
| Miscellaneous, net                                 | 19                                     | (48 )           | (19 )                                | (104 )          |
| Total non-operating expense, net                   | (308 )                                 | (151 )          | (430 )                               | (301 )          |
| <b>Income Before Income Taxes</b>                  | <b>1,372</b>                           | <b>1,831</b>    | <b>2,090</b>                         | <b>2,680</b>    |
| <b>Income Tax Provision</b>                        | <b>(347 )</b>                          | <b>(645 )</b>   | <b>(518 )</b>                        | <b>(933 )</b>   |
| <b>Net Income</b>                                  | <b>\$ 1,025</b>                        | <b>\$ 1,186</b> | <b>\$ 1,572</b>                      | <b>\$ 1,747</b> |
| <b>Basic Earnings Per Share</b>                    | <b>\$ 1.47</b>                         | <b>\$ 1.63</b>  | <b>\$ 2.25</b>                       | <b>\$ 2.40</b>  |
| <b>Diluted Earnings Per Share</b>                  | <b>\$ 1.47</b>                         | <b>\$ 1.62</b>  | <b>\$ 2.24</b>                       | <b>\$ 2.39</b>  |
| <b>Cash Dividends Declared Per Share</b>           | <b>\$ 0.31</b>                         | <b>\$ 0.20</b>  | <b>\$ 0.61</b>                       | <b>\$ 0.41</b>  |
| <b>Comprehensive Income</b>                        | <b>\$ 1,100</b>                        | <b>\$ 1,208</b> | <b>\$ 1,587</b>                      | <b>\$ 1,834</b> |

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





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

| (in millions)  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 2018                         | 2017     |
| <b>Net Cash Provided by Operating Activities</b>                             | \$4,150                      | \$1,539  |
| <b>Cash Flows from Investing Activities:</b>                                 |                              |          |
| Property and equipment additions:  |                              |          |
| Flight equipment, including advance payments                                 | (2,263 )                     | (1,292 ) |
| Ground property and equipment, including technology                          | (583 )                       | (498 )   |
| Purchase of equity investments   | —                            | (622 )   |
| Purchase of short-term investments   | (118 )                       | (567 )   |
| Redemption of short-term investments   | 421                          | 307      |
| Other, net   | 71                           | 6        |
| Net cash used in investing activities  | (2,472 )                     | (2,666 ) |
| <b>Cash Flows from Financing Activities:</b>                                 |                              |          |
| Payments on long-term debt and capital lease obligations                     | (2,093 )                     | (564 )   |
| Repurchase of common stock   | (925 )                       | (800 )   |
| Cash dividends   | (430 )                       | (297 )   |
| Fuel card obligation   | (5 )                         | 341      |
| Proceeds from long-term obligations  | 3,124                        | 2,004    |
| Other, net   | 58                           | (78 )    |
| Net cash (used in) provided by financing activities                          | (271 )                       | 606      |
| <b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b> | 1,407                        | (521 )   |
| Cash, cash equivalents and restricted cash at beginning of period            | 1,853                        | 2,826    |
| Cash, cash equivalents and restricted cash at end of period                  | \$3,260                      | \$2,305  |

**Non-Cash Transactions:**

|   |     |       |
|---|-----|-------|
| Treasury stock contributed to our qualified defined benefit pension plans | \$— | \$350 |
| Flight and ground equipment acquired under capital leases                 | 57  | 208   |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets to the total of the same such amounts shown above:

| (in millions)  | June 30, |         |
|--|----------|---------|
|  | 2018     | 2017    |
| <b>Current assets:</b>                                 |          |         |
| Cash and cash equivalents                              | \$1,886  | \$2,241 |
| Restricted cash included in prepaid expenses and other | 48       | 64      |
| <b>Other assets:</b>                                   |          |         |
| Cash restricted for airport construction               | 1,326    | —       |
| Total cash, cash equivalents and restricted cash       | \$3,260  | \$2,305 |

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, 2017.

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, 2018 are not necessarily indicative of operating results for the entire year.

We recast prior period financial statements to conform with the adoption of the revenue recognition and retirement benefits standards described below. In addition, we have reclassified regional carriers fuel expense from regional carriers expense to aircraft fuel and related taxes, and consolidated ancillary businesses and refinery expenses into one financial statement line item, in addition to making other classification changes to conform to the current year presentation.

Unless otherwise noted, all amounts disclosed are stated before consideration of income taxes.

***Recent Accounting Standards***

***Standards Effective in Future Years***

***Leases.*** In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)." This standard will require leases with durations greater than 12 months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018. We will adopt this standard effective January 1, 2019.

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 material impact on the recognition, measurement or presentation of lease expenses within the Condensed Consolidated Statements of Operations and Comprehensive Income ("income statement") or the Condensed Consolidated Statements of Cash Flows ("cash flows statement"). Information about our undiscounted future lease payments and the timing of those payments is in Note 7, "Lease Obligations," in our Form 10-K.

***Comprehensive Income.*** In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)." This standard provides an option to reclassify stranded tax effects within accumulated other comprehensive income/(loss) ("AOCI") to retained earnings due to the U.S. federal corporate

income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We have not completed our assessment, but the adoption of the standard may impact tax amounts stranded in AOCI related to our pension plans. We will adopt this standard effective January 1, 2019.

*Recently Adopted Standards*

*Revenue from Contracts with Customers.* In 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." 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 adopted this standard using the full retrospective transition method effective January 1, 2018 and recast prior year results as shown below.

While the adoption of the new standard did not have a significant effect on earnings, approximately \$2 billion of certain annual revenues that were previously classified in other revenue have been reclassified to passenger revenue. These revenues include baggage fees, administrative charges and other travel-related fees, which are deemed part of the single performance obligation of providing passenger transportation.

In addition, the adoption of the new standard increases the rate used to account for frequent flyer miles. We previously analyzed our standalone sales of mileage credits to other airlines and customers to establish the accounting value for frequent flyer miles. Considering the guidance in the new standard, we changed our valuation of a mileage credit to an analysis of the award redemption value. The new valuation considers the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash. This change increased our frequent flyer liability at December 31, 2017 by \$2.2 billion. The mileage deferral and redemption rates are approximately the same; therefore, assuming stable volume, there would not be a significant change in revenue recognized from the program in a given period.

The adoption of the new standard also reduced our air traffic liability at December 31, 2017 by \$524 million. This change primarily results from estimating the tickets that will expire unused and recognizing revenue at the scheduled flight date rather than when the unused tickets expire.

See Note 2, "Revenue Recognition," for more information.

*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 cash flows statement, respectively. We adopted these standards effective January 1, 2018.

*Financial Instruments.* In 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. In February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)" to clarify certain aspects of ASU No. 2016-01. We adopted these standards effective January 1, 2018.

Our investments in GOL Linhas Aéreas Inteligentes, the parent company of VRG Linhas Aéreas (operating as GOL), and China Eastern were accounted for as available-for-sale with changes in fair value recognized in other comprehensive income. At the time of adoption, we reclassified an unrealized gain of \$162 million related to these investments from AOCI to retained earnings.

Our investment in Air France-KLM was accounted for at cost during 2017 as our investment agreement restricts the sale or transfer of these shares for five years. Upon adopting ASU Nos. 2016-01 and 2018-03, we recognized a \$148 million gain in unrealized gain/(loss) on investments in our income statement related to the value of Air France-KLM's stock compared to our investment basis at December 31, 2017. Consistent with our investments in GOL and China Eastern, this investment is now accounted for at fair value with changes in fair value recognized in net income.

*Retirement Benefits.* In 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 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. We adopted this standard effective January 1, 2018. The components of the net (benefit) cost are shown in Note 7, "Employee Benefit Plans." As a result of the adoption, for the three and six months ended June 30, 2017, we reclassified expense of \$12 million and \$24 million, respectively, from operating expense into non-operating expense in our income statement.



*Impact of Recently Adopted Standards*

We recast certain prior period amounts to conform with the adoption of the revenue recognition and retirement benefits standards, as shown in the tables below.

| (in millions, except per share data) | Three Months Ended June 30, 2017 |             |                      | Six Months Ended June 30, 2017 |             |                      |
|--------------------------------------|----------------------------------|-------------|----------------------|--------------------------------|-------------|----------------------|
|                                      | As Previously Reported           | Adjustments | Current Presentation | As Previously Reported         | Adjustments | Current Presentation |
| <b>Income statement:</b>             |                                  |             |                      |                                |             |                      |
| Passenger revenue                    | \$9,231                          | \$ 537      | \$ 9,768             | \$16,919                       | \$ 1,027    | \$ 17,946            |
| Cargo revenue                        | 183                              | 4           | 187                  | 343                            | 7           | 350                  |
| Other revenue                        | 1,377                            | (585)       | 792                  | 2,677                          | (1,125)     | 1,552                |
| Total operating revenue              | 10,791                           | (44)        | 10,747               | 19,939                         | (91)        | 19,848               |
| Operating expense                    | 8,763                            | 2           | 8,765                | 16,858                         | 9           | 16,867               |
| Non-operating expense                | (137)                            | (14)        | (151)                | (275)                          | (26)        | (301)                |
| Income tax provision                 | (667)                            | 22          | (645)                | (979)                          | 46          | (933)                |
| Net income                           | 1,224                            | (38)        | 1,186                | 1,827                          | (80)        | 1,747                |
| Diluted earnings per share           | \$ 1.68                          | \$ (0.06)   | \$ 1.62              | \$ 2.50                        | \$ (0.11)   | \$ 2.39              |

| (in millions)  | December 31, 2017      |             |                      |
|--|------------------------|-------------|----------------------|
|  | As Previously Reported | Adjustments | Current Presentation |
| Deferred income taxes, net                               | \$935                  | \$ 419      | \$ 1,354             |
| Air traffic liability                                    | 4,888                  | (524)       | 4,364                |
| Frequent flyer deferred revenue (current and noncurrent) | 4,118                  | 203         | 6,321                |
| Other accrued and other noncurrent liabilities           | 3,969                  | 120         | 4,089                |
| Retained earnings  | 9,636                  | (1,380)     | 8,256                |

**NOTE 2. REVENUE RECOGNITION***Passenger Revenue*

Passenger revenue is primarily composed of passenger ticket sales, loyalty travel awards and travel-related services performed in conjunction with a passenger's flight.

| (in millions)           | Three Months Ended June 30, |         | Six Months Ended June 30, |          |
|-------------------------|-----------------------------|---------|---------------------------|----------|
|                         | 2018                        | 2017    | 2018                      | 2017     |
| Ticket                  | \$9,308                     | \$8,606 | \$16,961                  | \$15,711 |
| Loyalty travel awards   | 680                         | 622     | 1,298                     | 1,204    |
| Travel-related services | 558                         | 540     | 1,052                     | 1,031    |
| Total passenger revenue | \$10,546                    | \$9,768 | \$19,311                  | \$17,946 |

*Ticket*

*Passenger tickets.* We record sales of passenger tickets to be flown by us or that we sell on behalf of other airlines in air traffic liability. Passenger revenue is recognized when we provide transportation or when ticket breakage occurs. For tickets that we sell on behalf of other airlines, we reduce the air traffic liability when consideration is remitted to

those airlines. We periodically evaluate the estimated air traffic liability and record any adjustments in our income statement. These adjustments relate primarily to refunds, exchanges, ticket breakage, transactions with other airlines and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.



We recognized approximately \$3 billion in passenger revenue during each of the six months ended June 30, 2018 and 2017 that was recorded in our air traffic liability balances at December 31, 2017 and 2016, respectively. We expect the remaining balance of the December 31, 2017 liability to be recognized during 2018.

*Ticket breakage.* We estimate the value of tickets that will expire unused and recognize revenue at the scheduled flight date.

*Regional carriers.* Our regional carriers include both our contract carrier agreements with third-party regional carriers ("contract carriers") and Endeavor Air, Inc., our wholly owned subsidiary. Our contract carrier agreements are primarily structured as capacity purchase agreements where we purchase all or a portion of the contract carrier's capacity and are responsible for selling the seat inventory we purchase. We record revenue related to our capacity purchase agreements in passenger revenue and the related expenses in regional carriers expense, excluding fuel.

#### *Loyalty Travel Awards*

Loyalty travel awards revenue is related to the redemption of mileage credits for travel. We recognize loyalty travel awards revenue in passenger revenue as mileage credits are redeemed and travel is provided. See below for discussion of our frequent flyer program accounting policies.

#### *Travel-Related Services*

Travel-related services are primarily composed of services performed in conjunction with a passenger's flight, including administrative fees (such as ticket change fees), baggage fees and on-board sales. We recognize revenue for these services when the related transportation service is provided. Prior to the adoption of the new standard, the majority of these fees were classified in other revenue.

#### *Frequent Flyer Program*

Our frequent flyer program (the "SkyMiles program") generates customer loyalty by rewarding customers with incentives to travel on Delta. This program allows customers to earn mileage credits by flying on Delta, Delta Connection and other airlines that participate in the SkyMiles program. When traveling, customers earn redeemable mileage credits based on the passenger's loyalty program status and travel fare paid. Customers can also earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies. To facilitate transactions with participating companies, we sell mileage credits to non-airline businesses, customers and other airlines. Mileage credits are redeemable by customers in future periods for air travel on Delta and other participating airlines, membership in our Sky Club and other program awards.

To reflect the mileage credits earned, the SkyMiles program includes two types of transactions that are considered revenue arrangements with multiple performance obligations: (1) mileage credit earned with travel and (2) mileage credit sold to participating companies.

*Passenger ticket sales earning mileage credits.* Passenger ticket sales earning mileage credits under our SkyMiles program provide customers with (1) mileage credits earned and (2) air transportation. We value each performance obligation on a standalone basis. To value the mileage credits earned, we consider the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ("ETV").

We defer revenue for the mileage credits when earned and recognize loyalty travel awards in passenger revenue as the miles are redeemed and services are provided. We record the air transportation portion of the passenger ticket sales in air traffic liability and recognize passenger revenue when we provide transportation or if the ticket goes unused.

*Sale of mileage credits.* Customers may earn mileage credits based on their spending with participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have multiple performance obligations. During the six months ended June 30, 2018 and 2017, total cash sales from marketing agreements were \$1.7 billion and \$1.5 billion, respectively, which are allocated to travel and other performance obligations, as discussed below.

Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. Our agreements with American Express provide for joint marketing, grant certain benefits to Delta-American Express co-branded credit card holders ("Cardholders") and American Express Membership Rewards program participants, and allow American Express to market using our customer database. Cardholders earn mileage credits for making purchases using co-branded cards, may check their first bag for free, are granted discounted access to Delta Sky Club lounges and receive other benefits while traveling on Delta. Additionally, participants in the American Express Membership Rewards program may exchange their points for mileage credits under the SkyMiles program. We sell mileage credits at agreed-upon rates to American Express which are then provided to their customers under the co-brand credit card program and the Membership Rewards program.

We account for marketing agreements, including American Express, consistent with the accounting method that allocates the consideration received to the individual products and services delivered. We allocate the value based on the relative selling prices of those products and services, which generally consist of award travel, baggage fee waivers, lounge access and the use of our brand. We determined our best estimate of the selling prices by considering discounted cash flow analysis using multiple inputs and assumptions, including: (1) the expected number of miles awarded and number of miles redeemed, (2) ETV for the award travel obligation, (3) published rates on our website for baggage fees, discounted access to Delta Sky Club lounges and other benefits while traveling on Delta and (4) brand value.

We defer the amount for award travel obligation as part of frequent flyer deferred revenue and recognize loyalty travel awards in passenger revenue as the mileage credits are used for travel. Revenue allocated to services performed in conjunction with a passenger's flight, such as baggage fee waivers, is recognized as travel-related services in passenger revenue when the related service is performed. Revenue allocated to access Delta Sky Club lounges is recognized as miscellaneous in other revenue as access is provided. Revenue allocated to the remaining performance obligations, primarily brand value, is recorded as loyalty program in other revenue over time as miles are delivered.

*Mileage breakage.* For mileage credits that we estimate are not likely to be redeemed ("breakage"), we recognize the associated value proportionally during the period in which the remaining mileage credits are expected to be redeemed. Management uses statistical models to estimate breakage based on historical redemption patterns. A change in assumptions as to the period over which mileage credits are expected to be redeemed, the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on our revenue in the year in which the change occurs and in future years.

*Current activity of the frequent flyer program.* Mileage credits are combined in one homogeneous pool and are not separately identifiable. As such, the revenue is comprised of miles that were part of the frequent flyer deferred revenue balance at the beginning of the period as well as miles that were issued during the period.

The table below presents the activity of the current and noncurrent frequent flyer liability, and includes miles earned through travel and miles sold, which are primarily through marketing agreements.

| (in millions)                       | 2018    | 2017    |
|-------------------------------------|---------|---------|
| Balance at January 1                | \$6,321 | \$5,922 |
| Mileage credits earned              | 1,550   | 1,459   |
| Travel mileage credits redeemed     | (1,298) | (1,204) |
| Non-travel mileage credits redeemed | (82)    | (81)    |
| Balance at June 30                  | \$6,491 | \$6,096 |

The timing of mileage redemptions can vary widely; however, the majority of new miles are redeemed within two years.



**Passenger Revenue by Geographic Region**

Passenger revenue is recognized in a specific geographic region based on the origin and destination of each flight segment. Our passenger revenue by geographic region (as defined by the U.S. Department of Transportation) is summarized in the following table:

| (in millions)           | Three Months Ended June 30, |         | Six Months Ended June 30, |          |
|-------------------------|-----------------------------|---------|---------------------------|----------|
|                         | 2018                        | 2017    | 2018                      | 2017     |
| Domestic                | \$7,413                     | \$6,888 | \$13,714                  | \$12,790 |
| Atlantic                | 1,782                       | 1,566   | 2,841                     | 2,495    |
| Latin America           | 709                         | 714     | 1,536                     | 1,489    |
| Pacific                 | 642                         | 600     | 1,220                     | 1,172    |
| Total passenger revenue | \$10,546                    | \$9,768 | \$19,311                  | \$17,946 |

**Cargo Revenue**

Cargo revenue is recognized when we provide the transportation.

**Other Revenue**

| (in millions)                     | Three Months Ended June 30, |       | Six Months Ended June 30, |         |
|-----------------------------------|-----------------------------|-------|---------------------------|---------|
|                                   | 2018                        | 2017  | 2018                      | 2017    |
| Ancillary businesses and refinery | \$522                       | \$320 | \$1,042                   | \$632   |
| Loyalty program                   | 358                         | 316   | 705                       | 621     |
| Miscellaneous                     | 126                         | 156   | 260                       | 299     |
| Total other revenue               | \$1,006                     | \$792 | \$2,007                   | \$1,552 |

*Ancillary businesses and refinery.* Ancillary businesses and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery production sales to third parties. Third-party refinery production sales are at or near cost; accordingly, the margin on these sales is de minimis. See Note 10, "Segments," for more information on revenue recognition within our refinery segment.

*Loyalty program.* Loyalty program revenues relate to brand usage and other performance obligations embedded in mileage credits sold, including redemption of mileage credits for non-travel awards. These revenues are included within the total cash sales from marketing agreements, discussed above.

*Miscellaneous.* Miscellaneous revenue is primarily composed of lounge access and codeshare revenues.

**Accounts Receivable**

Accounts receivable primarily consist of amounts due from credit card companies from the sale of passenger tickets, ancillary businesses and refinery sales, and other companies for the purchase of mileage credits under the SkyMiles program. We provide an allowance for uncollectible accounts equal to the estimated losses expected to be incurred based on historical chargebacks, write-offs, bankruptcies and other specific analyses. Bad debt expense was not material in any period presented.

**Passenger Taxes and Fees**

We are required to charge certain taxes and fees on our passenger tickets, including U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are assessments on the customer for which we act as a collection agent. Because we are not entitled to retain these taxes and fees, we do not include such amounts in passenger revenue. We record a liability when the amounts are collected and reduce the liability when payments are made to the applicable government agency or operating carrier (i.e., for codeshare-related fees).

**NOTE 3. FAIR VALUE MEASUREMENTS***Assets (Liabilities) Measured at Fair Value on a Recurring Basis*

| (in millions)                         | June 30,<br>2018     | Level 1 | Level<br>2 |
|---------------------------------------|----------------------|---------|------------|
| Cash equivalents                      | \$1,445              | \$1,445 | \$ —       |
| Short-term investments                |                      |         |            |
| U.S. government and agency securities | 64                   | 58      | 6          |
| Asset- and mortgage-backed securities | 105                  | —       | 105        |
| Corporate obligations                 | 275                  | —       | 275        |
| Other fixed income securities         | 76                   | —       | 76         |
| Restricted cash equivalents           | 1,374                | 1,374   | —          |
| Long-term investments                 | 739                  | 712     | 27         |
| Hedge derivatives, net                |                      |         |            |
| Fuel hedge contracts                  | (32                  | )8      | (40)       |
| Interest rate contracts               | (24                  | )—      | (24)       |
| Foreign currency exchange contracts   | 5                    | —       | 5          |
| (in millions)                         | December 31,<br>2017 | Level 1 | Level<br>2 |
| Cash equivalents                      | \$ 1,357             | \$1,357 | \$ —       |
| Short-term investments                |                      |         |            |
| U.S. government and agency securities | 93                   | 84      | 9          |
| Asset- and mortgage-backed securities | 173                  | —       | 173        |
| Corporate obligations                 | 467                  | —       | 467        |
| Other fixed income securities         | 92                   | —       | 92         |
| Restricted cash equivalents           | 38                   | 38      | —          |
| Long-term investments                 | 513                  | 485     | 28         |
| Hedge derivatives, net                |                      |         |            |
| Fuel hedge contracts                  | (66                  | )(43    | )(23)      |
| Foreign currency exchange contracts   | (17                  | )—      | (17)       |

*Cash Equivalents and Restricted Cash Equivalents.* Cash equivalents generally consist of money market funds. Restricted cash equivalents generally consist of money market funds and time deposits, which primarily relate to proceeds from debt issued to finance a portion of the construction costs for the new terminal facilities at the LaGuardia Airport, certain self-insurance obligations and other airport commitments. The fair value of these cash equivalents 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 the parent company of GOL, China Eastern and, as of January 1, 2018, Air France-KLM. Our equity investments are valued based on market prices and 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 and refined products, as these commodities are highly correlated with the price of 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 16% to 32% 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 based on maturity dates utilizing 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 Contracts.* Our interest rate derivatives are swap contracts and they are valued based on data readily observable in public markets.

*Foreign Currency Exchange Contracts.* Our foreign currency derivatives consist of Japanese yen and Euro 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 June 30, 2018, 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.

(in  
Total  
millions)

Due  
in  
one  
\$ 189  
year  
or  
less  
Due  
after  
one  
~~306~~  
through  
three  
years  
Due  
after  
three  
years



through  
five  
years  
Due  
after  
15  
five  
years  
Total

***Long-Term Investments***

We have developed strategic relationships with a number of airlines through equity investments and other forms of cooperation and support. Strategic relationships improve our coordination with these airlines and enable our customers to seamlessly connect to more places while enjoying a consistent, high-quality travel experience.

***Equity Method Investments***

***Aeroméxico.*** We have a non-controlling 49% equity stake in Grupo Aeroméxico, the parent company of Aeroméxico.

***Virgin Atlantic.*** We have a non-controlling 49% equity stake in Virgin Atlantic Limited, the parent company of Virgin Atlantic Airways.

We account for these investments under the equity method of accounting and recognize our portion of their financial results in miscellaneous, net in our income statement under non-operating expense.

*Fair Value Investments*

*Air France-KLM.* We own 9% of the outstanding shares of Air France-KLM. In addition, we have developed a combined long-term joint venture with Air France-KLM and Virgin Atlantic, subject to required regulatory approvals.

*GOL.* Through our investment in preferred shares of GOL's parent company, we own 9% of GOL's outstanding capital stock.

Additionally, GOL has a \$300 million five-year term loan facility with third parties, which we have guaranteed. Our entire guaranty is secured by GOL's ownership interest in Smiles, GOL's publicly traded loyalty program. Because GOL remains in compliance with the terms of its loan facility, we have not recorded a liability on our Consolidated Balance Sheet as of June 30, 2018.

*China Eastern.* We have a 3% equity interest in China Eastern.

We account for these investments at fair value with adjustments to fair value recognized in unrealized gain/(loss) on investments, net in our income statement under non-operating expense.

**NOTE 5. DERIVATIVES AND RISK MANAGEMENT**

Changes in 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.

***Fuel Price Risk***

Changes in fuel prices materially impact our results of operations. Although we do not currently hedge the financial risk of fuel price volatility within our airline segment, we enter into derivatives with third parties to hedge financial risk related to Monroe's refining margins.

During the three and six months ended June 30, 2018, we recorded fuel hedge losses of \$94 million and \$92 million, respectively. During the three and six months ended June 30, 2017, we recorded fuel hedge gains of \$40 million and \$97 million, respectively.

***Foreign Currency Exchange Risk***

We are subject to foreign currency exchange rate risk because we have revenue and expense denominated in foreign currencies with our primary exposures being the Japanese yen and the Euro. To manage exchange rate risk, we execute both our international revenue and expense transactions in the same foreign currency to the extent practicable. From time to time, we may also enter into foreign currency option and forward contracts. Our Japanese yen foreign currency exchange contracts are designated as cash flow hedges with the effective portion of the gains or losses on the derivatives recorded in passenger revenue in the income statement in the same period in which the hedged transaction affects earnings.

In January 2018, we entered into a three-year U.S. dollar-Euro cross currency swap with a notional value of 375 million Euro. This swap is intended to mitigate foreign currency volatility resulting from our Euro-denominated investment in Air France-KLM. During the three and six months ended June 30, 2018, we recorded gains of \$22 million and \$6 million, respectively, which are reflected in unrealized gain/(loss) on investments in the income statement.

***Interest Rate Risk***

Our exposure to market risk from adverse changes in interest rates is primarily associated with our long-term debt obligations. 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 April 2018, we entered into interest rate swaps which are designated as fair value hedges. These swaps range from three to ten years and have a total notional value of \$1.6 billion. The objective of the swaps is to manage toward a higher percentage of net floating rate debt by swapping payments of fixed rate interest on the unsecured notes that we issued in the June 2018 quarter for payments of floating rate interest. The gains/losses on the swaps are recorded within interest expense in the income statement and offset the gain/losses in the related debt obligations due to interest rate fluctuations.

### *Hedge Position as of June 30, 2018*

| (in millions)                               | Volume                                       | Final Maturity Date | Prepaid Expenses and Other | Other Noncurrent Assets | Other Accrued Liabilities | Other Noncurrent Liabilities | Hedge Derivatives, net |
|---|--|---------------------|----------------------------|-------------------------|---------------------------|------------------------------|------------------------|
| <i>Designated as hedges</i>                 |  |                     |                            |                         |                           |                              |                        |
| Interest rate contracts (fair value hedges) | 1,908 U.S. dollars                           | April 2028          | \$ 4                       | \$ —                    | \$(7 )                    | \$(21 )                      | \$(24 )                |
| Foreign currency exchange contracts         | 15,285 Japanese yen                          | November 2019       | —                          | —                       | (1 )                      | —                            | (1 )                   |
| <i>Not designated as hedges</i>             |  |                     |                            |                         |                           |                              |                        |
| Foreign currency exchange contract          | 375 Euros                                    | December 2020       | 10                         | —                       | —                         | (4 )                         | 6                      |
| Fuel hedge contracts                        | 334 gallons - crude oil and refined products | December 2019       | 70                         | 12                      | (98 )                     | (16 )                        | (32 )                  |
| Total derivative contracts                  |  |                     | \$ 84                      | \$ 12                   | \$(106 )                  | \$(41 )                      | \$(51 )                |

### *Hedge Position as of December 31, 2017*

| (in millions)                       | Volume                                       | Final Maturity Date       | Prepaid Expenses and Other | Other Noncurrent Assets | Other Accrued Liabilities | Other Noncurrent Liabilities | Hedge Derivatives, net |
|-------------------------------------|--|---------------------------|----------------------------|-------------------------|---------------------------|------------------------------|------------------------|
| <i>Designated as hedges</i>         |  |                           |                            |                         |                           |                              |                        |
| Foreign currency exchange contracts | 23,512 Japanese yen<br>490 Canadian dollars  | November 2019<br>May 2020 | \$ 1                       | \$ 1                    | \$(13 )                   | \$(6 )                       | \$(17 )                |
| <i>Not designated as hedges</i>     |  |                           |                            |                         |                           |                              |                        |
| Fuel hedge contracts                | 249 gallons - crude oil and refined products | May 2019                  | 638                        | 8                       | (694 )                    | (18 )                        | (66 )                  |
| Total derivative contracts          |  |                           | \$ 639                     | \$ 9                    | \$(707 )                  | \$(24 )                      | \$(83 )                |

### *Offsetting Assets and Liabilities*

We have master netting arrangements with our counterparties giving us the right to offset hedge assets and liabilities. However, 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 by counterparty had we elected to offset.

| (in millions)            | Prepaid Expenses and Other | Other Noncurrent Assets | Other Accrued Liabilities | Other Noncurrent Liabilities | Hedge Derivatives, net |
|--------------------------|----------------------------|-------------------------|---------------------------|------------------------------|------------------------|
| <b>June 30, 2018</b>     |                            |                         |                           |                              |                        |
| Net derivative contracts | \$ 22                      | \$ 9                    | \$(54 )                   | \$(28 )                      | \$(51 )                |
| <b>December 31, 2017</b> |                            |                         |                           |                              |                        |
| Net derivative contracts | \$ —                       | \$ 1                    | \$(68 )                   | \$(16 )                      | \$(83 )                |



**Designated Hedge Gains (Losses)**

Gains (losses) related to our foreign currency exchange contracts are as follows:

| (in millions)                       | Effective Portion Reclassified from AOCI to Earnings |       | Effective Portion Recognized in Other Comprehensive Income |          |
|-------------------------------------|--|-------|--|----------|
|                                     | 2018   | 2017  | 2018   | 2017     |
| <b>Three Months Ended June 30,</b>  |  |       |  |          |
| Foreign currency exchange contracts | \$ (2 )  | \$ 4  | \$ 9   | \$ (8 )  |
| <b>Six Months Ended June 30,</b>    |  |       |  |          |
| Foreign currency exchange contracts | \$ 3   | \$ 11 | \$ —   | \$ (33 ) |

**Credit Risk**

To manage credit risk associated with our fuel price, interest rate and foreign currency hedging programs, we evaluate counterparties based on several criteria including their credit ratings.

**NOTE 6. LONG-TERM DEBT**

The following table summarizes our long-term debt:

| (in millions)  | Maturity Dates | Interest Rate(s) <sup>(5)</sup> Per Annum at June 30, 2018 |                         | June 30, 2018 | December 31, 2017 |
|--|----------------|--|-------------------------|---------------|-------------------|
| Pacific Facilities:  |                |  |                         |               |                   |
| Pacific Term Loan B-1  | n/a            | n/a  | n/a                     | \$—           | \$1,048           |
| Pacific Revolving Credit Facility                                  | n/a            | n/a  | n/a                     | —             | —                 |
| 2015 Credit Facilities:  |                |  |                         |               |                   |
| Term Loan Facility   | n/a            | n/a  | n/a                     | —             | 490               |
| Revolving Credit Facility  | n/a            | n/a  | n/a                     | —             | —                 |
| Financing arrangements secured by aircraft:                        |                |  |                         |               |                   |
| Certificates <sup>(1)</sup>  | 2018 to 2027   | 3.63%  | to 8.02%                | 2,207         | 2,380             |
| Notes <sup>(1)</sup>   | 2018 to 2027   | 2.75%  | to 6.76%                | 1,647         | 1,961             |
| 2018 Unsecured notes   | 2021 to 2028   | 3.40%  | to 4.38%                | 1,600         | —                 |
| 2018 Unsecured revolving credit facility                           | 2021 to 2023   | undrawn  | variable <sup>(4)</sup> | —             | —                 |
| NYTDC Special Facilities Revenue Bonds, Series 2018 <sup>(1)</sup> | 2022 to 2036   | 4.00%  | to 5.00%                | 1,383         | —                 |
| Other unsecured notes  | 2020 to 2022   | 2.60%  | to 3.63%                | 2,450         | 2,450             |
| Other financings <sup>(1)(2)</sup>                                 | 2019 to 2030   | 1.81%  | to 8.75%                | 204           | 210               |
| Other revolving credit facilities <sup>(3)</sup>                   | 2019 to 2021   | undrawn  | variable <sup>(4)</sup> | —             | —                 |
| Total secured and unsecured debt                                   |                |  |                         | 9,491         | 8,539             |
| Unamortized premium (discount) and debt issue cost, net            |                |  |                         | 23            | (99 )             |
| Total debt   |                |  |                         | 9,514         | 8,440             |
| Less: current maturities   |                |  |                         | (1,256 )      | (2,145 )          |
| Total long-term debt   |                |  |                         | \$8,258       | \$6,295           |

(1) Due in installments.

(2) Primarily includes unsecured bonds and debt secured by certain accounts receivable and real estate.

(3) Guaranteed by substantially all of our domestic subsidiaries (the "Guarantors"). As of June 30, 2018, we have \$436 million available under these revolving credit facilities, all of which are undrawn.

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- (4) Interest rate equal to LIBOR (generally subject to a floor) or another index rate, in each case plus a specified margin.
- (5) Certain aircraft and other financings are comprised of variable rate debt.

### ***2018 Unsecured Notes***

During the June 2018 quarter, we issued \$1.6 billion in aggregate principal amount of unsecured notes, consisting of \$600 million of 3.4% Notes due 2021, \$500 million of 3.8% Notes due 2023 and \$500 million of 4.375% Notes due 2028 (collectively, the "Notes"). Concurrently with issuing the Notes, we entered into interest rate derivatives that swapped payments of fixed rate interest for payments of floating rate interest, which reduced our effective interest rate to one-month LIBOR plus 1.17%. See Note 5, "Derivatives," for more information.

The Notes are equal in right of payment with our other unsubordinated indebtedness and senior in right of payment to our future subordinated debt. The Notes are subject to covenants that, among other things, limit our ability to incur liens securing indebtedness for borrowed money or capital leases and engage in mergers and consolidations or transfer all or substantially all of our assets, in each case subject to certain exceptions. The Notes are also subject to customary event of default provisions, including cross-defaults to other material indebtedness.

If we experience certain changes of control, followed by a ratings decline of any series of Notes by two of the ratings agencies to a rating below investment grade, we must offer to repurchase such series.

We used the net proceeds from the offering of the Notes to repay borrowings outstanding under our secured Pacific term loan B-1 facility and 2015 term loan facility and for general corporate purposes.

### ***2018 Unsecured Revolving Credit Facility***

During the June 2018 quarter, we entered into a \$2.65 billion unsecured revolving credit facility, up to \$500 million of which may be used for the issuance of letters of credit (the "Revolving Credit Facility"). The Revolving Credit Facility was undrawn at the time we entered into it and remains undrawn. The Revolving Credit Facility replaces the undrawn secured Pacific Revolving Credit Facility and the 2015 Revolving Credit Facility, both of which were terminated in conjunction with the repayment of the term loans described above.

The Revolving Credit Facility is split evenly into a \$1.325 billion three-year facility and a \$1.325 billion five-year facility. Borrowings on both facilities bear interest at a variable rate equal to LIBOR, or another index rate, in each case plus a specified margin.

### ***NYTDC Special Facilities Revenue Bonds***

During the June 2018 quarter, the New York Transportation Development Corporation ("NYTDC") issued Special Facilities Revenue Bonds, Series 2018 (the "2018 Bonds") in the aggregate principal amount of \$1.4 billion. We entered into loan agreements with the NYTDC to use the proceeds from the 2018 Bonds to finance a portion of the construction costs for the new terminal facilities at the LaGuardia Airport. The proceeds from the 2018 Bonds are recorded in cash restricted for airport construction on the Consolidated Balance Sheet. Additional information about the construction project at the LaGuardia Airport is included in Note 8, "Airport Development," in our Form 10-K.

We are required to pay debt service on the 2018 Bonds through payments under loan agreements with NYTDC, and we have guaranteed the 2018 Bonds.



***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. The fair value of debt, shown below, is principally based on reported market values, recently completed market transactions and estimates based on interest rates, maturities, credit risk and underlying collateral. Long-term debt is primarily classified as Level 2 within the fair value hierarchy.

| (in millions)   | June 30, December 31,<br>2018 2017 |          |
|---|------------------------------------|----------|
| Total debt at par value                                 | \$9,491                            | \$ 8,539 |
| Unamortized premium (discount) and debt issue cost, net | 23                                 | (99 )    |
| Net carrying amount                                     | \$9,514                            | \$ 8,440 |
| Fair value  | \$9,700                            | \$ 8,700 |

***Covenants***

We were in compliance with the covenants in our financings at June 30, 2018.

**NOTE 7. EMPLOYEE BENEFIT PLANS**

The following table shows the components of net (benefit) cost:

| (in millions)                        | Pension Benefits |         | Other<br>Postretirement<br>and<br>Postemployment<br>Benefits |       |
|--------------------------------------|------------------|---------|--|-------|
|                                      | 2018             | 2017    | 2018   | 2017  |
| <b>Three Months Ended June 30,</b>   |                  |         |  |       |
| Service cost                         | \$—              | \$—     | \$ 21  | \$ 22 |
| Interest cost                        | 195              | 213     | 32   | 35    |
| Expected return on plan assets       | (329 )           | (286 )  | (17 )  | (17 ) |
| Amortization of prior service credit | —                | —       | (7 )   | (7 )  |
| Recognized net actuarial loss        | 66               | 66      | 10   | 8     |
| Settlements                          | 4                | —       | —  | —     |
| Net (benefit) cost                   | \$(64 )          | \$(7 )  | \$ 39  | \$ 41 |
| <b>Six Months Ended June 30,</b>     |                  |         |  |       |
| Service cost                         | \$—              | \$—     | \$ 43  | \$ 44 |
| Interest cost                        | 390              | 426     | 63   | 70    |
| Expected return on plan assets       | (659 )           | (572 )  | (34 )  | (34 ) |
| Amortization of prior service credit | —                | —       | (13 )  | (14 ) |
| Recognized net actuarial loss        | 134              | 132     | 18   | 16    |
| Settlements                          | 4                | —       | —  | —     |
| Net (benefit) cost                   | \$(131 )         | \$(14 ) | \$ 77  | \$ 82 |

Service cost is recorded in salaries and related costs in the income statement while all other components are recorded within miscellaneous, net under non-operating expense.



**NOTE 8. COMMITMENTS AND CONTINGENCIES*****Aircraft Purchase and Lease Commitments***

Our future aircraft purchase commitments totaled approximately \$16.4 billion at June 30, 2018:

| (in millions)                       | Total    |
|-------------------------------------|----------|
| Six months ending December 31, 2018 | \$1,350  |
| 2019                                | 3,470    |
| 2020                                | 3,420    |
| 2021                                | 3,910    |
| 2022                                | 2,450    |
| Thereafter                          | 1,780    |
| Total                               | \$16,380 |

Our future aircraft purchase commitments included the following aircraft at June 30, 2018:

| Aircraft Type                    | Purchase<br>Commitments |
|----------------------------------|-------------------------|
| A220-100 (formerly called CS100) | 75                      |
| A321-200                         | 71                      |
| A321-200neo                      | 100                     |
| A330-900neo                      | 25                      |
| A350-900                         | 14                      |
| B-737-900ER                      | 30                      |
| CRJ-900                          | 20                      |
| Total                            | 335                     |

In June 2018, we signed an agreement with Bombardier Commercial Aircraft to purchase 20 CRJ-900 aircraft. These aircraft will be operated by a Delta Connection carrier and will replace older dual-class aircraft that they own or lease. The new aircraft will be delivered beginning in late 2018 with the last delivery to occur in 2020.

***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. Although the outcome of the legal proceedings in which we are involved cannot be predicted with certainty, we believe 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 insurance policies in place as required by applicable environmental laws.

Some 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 specified changes in law or regulations. In some of these financing transactions, we also bear the risk of 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.

#### *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<br>Other<br>Benefits<br>Liabilities <sup>(3)</sup> | Derivative<br>Contracts<br>and Other | Available-for-Sale<br>Investments | Total      |
|---|--|--------------------------------------|-----------------------------------|------------|
| Balance at January 1, 2018 (net of tax effect of \$1,400)                           | \$(7,812 )   | \$ 85                                | \$ 106                            | \$(7,621 ) |
| Changes in value (net of tax effect of \$1)   | —  | 4                                    | —                                 | 4          |
| Reclassifications into retained earnings (net of tax effect of \$61) <sup>(1)</sup> | —  | —                                    | (106 )                            | (106 )     |
| Reclassifications into earnings (net of tax effect of \$35) <sup>(2)</sup>          | 111  | 6                                    | —                                 | 117        |
| Balance at June 30, 2018 (net of tax effect of \$1,426)                             | \$(7,701 )   | \$ 95                                | \$ —                              | \$(7,606 ) |
| Balance at January 1, 2017 (net of tax effect of \$1,458)                           | \$(7,714 )   | \$114                                | \$(36 )                           | \$(7,636 ) |
| Changes in value (net of tax effect of \$6)   | —  | (14 )                                | 32                                | 18         |
| Reclassifications into earnings (net of tax effect of \$40) <sup>(2)</sup>          | 83   | (7 )                                 | (7 )                              | 69         |
| Balance at June 30, 2017 (net of tax effect of \$1,424)                             | \$(7,631 )   | \$93                                 | \$(11 )                           | \$(7,549 ) |

The reclassification into retained earnings relates to our investments in GOL, China Eastern and other available-for-sale investments, and the related

<sup>(1)</sup> conversion to accounting for changes in fair value of these investments from AOCI to the income statement. See Note 1, "Summary of Significant Accounting Policies," for more information.

<sup>(2)</sup> Amounts reclassified from AOCI for pension and other benefits liabilities and for derivative contracts designated as foreign currency cash flow hedges are recorded in miscellaneous, net and in passenger revenue, respectively, in the income statement. The reclassification into earnings for investments relates to our investment in Grupo Aeroméxico and the related conversion to accounting under the equity method. The reclassification of the unrealized gain was recorded to non-operating expense in our income statement.

Includes \$700 million of deferred income tax expense primarily related to pension and other benefit obligations that will not be recognized in net income until <sup>(3)</sup> these obligations are fully extinguished. We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations.



**NOTE 10. SEGMENTS*****Refinery Operations***

Our refinery segment operates for the benefit of the airline segment by providing jet fuel to the airline segment from its own production and through jet fuel obtained through agreements with third parties. The refinery's production consists of jet fuel, as well as 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 and six months ended June 30, 2018 was \$1.1 billion and \$2.0 billion, respectively, compared to \$756 million and \$1.5 billion, respectively, for the three and six months ended June 30, 2017.

***Segment Reporting***

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

| (in millions)                           | Airline   | Refinery | Intersegment<br>Sales/Other | Consolidated |
|---|-----------|----------|-----------------------------|--------------|
| <b>Three Months Ended June 30, 2018</b> |           |          |                             |              |
| Operating revenue:                      | \$ 11,559 | \$ 1,667 |                             | \$ 11,775    |
| Sales to airline segment                |           |          | \$ (275 ) <sup>(1)</sup>    |              |
| Exchanged products                      |           |          | (1,096 ) <sup>(2)</sup>     |              |
| Sales of refined products               |           |          | (80 ) <sup>(3)</sup>        |              |
| Operating income                        | 1,635     | 45       | —                           | 1,680        |
| Interest expense (income), net          | 97        | (8 )     | —                           | 89           |
| Depreciation and amortization           | 573       | 17       | —                           | 590          |
| Total assets, end of period             | 53,335    | 2,461    | —                           | 55,796       |
| Capital expenditures                    | 1,567     | 13       | —                           | 1,580        |
| <b>Three Months Ended June 30, 2017</b> |           |          |                             |              |
| Operating revenue:                      | \$ 10,680 | \$ 1,139 |                             | \$ 10,747    |
| Sales to airline segment                |           |          | \$ (193 ) <sup>(1)</sup>    |              |
| Exchanged products                      |           |          | (756 ) <sup>(2)</sup>       |              |
| Sales of refined products               |           |          | (123 ) <sup>(3)</sup>       |              |
| Operating income                        | 1,976     | 6        | —                           | 1,982        |
| Interest expense, net                   | 103       | —        | —                           | 103          |
| Depreciation and amortization           | 520       | 11       | —                           | 531          |
| Total assets, end of period             | 50,964    | 1,487    | —                           | 52,451       |
| Capital expenditures                    | 928       | 60       | —                           | 988          |

<sup>(1)</sup> 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.

<sup>(2)</sup> Represents value of products delivered under our exchange agreements, as discussed above, determined on a market price basis.

<sup>(3)</sup> These sales were at or near cost; accordingly, the margin on these sales is de minimis.

| (in millions)                         | Airline  | Refinery | Intersegment<br>Sales/Other | Consolidated |
|---------------------------------------|----------|----------|-----------------------------|--------------|
| <b>Six Months Ended June 30, 2018</b> |          |          |                             |              |
| Operating revenue:                    | \$21,314 | \$3,158  |                             | \$ 21,743    |
| Sales to airline segment              |          |          | \$ (537 ) <sup>(1)</sup>    |              |
| Exchanged products                    |          |          | (1,972 ) <sup>(2)</sup>     |              |
| Sales of refined products             |          |          | (220 ) <sup>(3)</sup>       |              |
| Operating income                      | 2,431    | 89       | —                           | 2,520        |
| Interest expense (income), net        | 203      | (12 )    | —                           | 191          |
| Depreciation and amortization         | 1,168    | 32       | —                           | 1,200        |
| Capital expenditures                  | 2,818    | 28       | —                           | 2,846        |

**Six Months Ended June 30, 2017**

|                               |           |         |                          |           |
|-------------------------------|-----------|---------|--------------------------|-----------|
| Operating revenue:            | \$ 19,720 | \$2,267 |                          | \$ 19,848 |
| Sales to airline segment      |           |         | \$ (383 ) <sup>(1)</sup> |           |
| Exchanged products            |           |         | (1,489 ) <sup>(2)</sup>  |           |
| Sales of refined products     |           |         | (267 ) <sup>(3)</sup>    |           |
| Operating income              | 2,931     | 50      | —                        | 2,981     |
| Interest expense, net         | 197       | —       | —                        | 197       |
| Depreciation and amortization | 1,047     | 21      | —                        | 1,068     |
| Capital expenditures          | 1,704     | 86      | —                        | 1,790     |

<sup>(1)</sup> 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.

<sup>(2)</sup> Represents value of products delivered under our exchange agreements, as discussed above, determined on a market price basis.

<sup>(3)</sup> These sales were at or near cost; accordingly, the margin on these sales is de minimis.

**NOTE 11. RESTRUCTURING**

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

| (in millions)                   | Lease<br>Restructuring |
|---------------------------------|------------------------|
| Liability as of January 1, 2018 | \$ 237                 |
| Payments                        | (39 )                  |
| Additional expenses and other   | 1                      |
| Liability as of June 30, 2018   | \$ 199                 |

Restructuring charges primarily include remaining lease payments for permanently grounded aircraft related to domestic and Pacific fleet restructurings. The domestic fleet restructuring involves replacing a portion of our 50-seat regional fleet with more efficient and customer preferred aircraft and replacing older, less cost effective B-757-200 aircraft with B-737-900ER aircraft. The Pacific fleet restructuring resulted in the 2017 retirement of the B-747-400 fleet, which is being replaced with smaller-gauge, widebody aircraft to better match capacity with demand.



**NOTE 12. 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. We calculate diluted earnings per share by dividing net income by the weighted average number of common shares outstanding plus the dilutive effect of outstanding share-based awards, including stock options and restricted stock awards. 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:

| (in millions, except per share data)        | Three Months<br>Ended June 30, |         | Six Months Ended<br>June 30, |         |
|---|--------------------------------|---------|------------------------------|---------|
|   | 2018                           | 2017    | 2018                         | 2017    |
| Net income                                  | \$1,025                        | \$1,186 | \$1,572                      | \$1,747 |
| Basic weighted average shares outstanding   | 695                            | 728     | 699                          | 728     |
| Dilutive effect of share-based awards       | 2                              | 3       | 2                            | 3       |
| Diluted weighted average shares outstanding | 697                            | 731     | 701                          | 731     |
| Basic earnings per share                    | \$1.47                         | \$1.63  | \$2.25                       | \$2.40  |
| Diluted earnings per share                  | \$1.47                         | \$1.62  | \$2.24                       | \$2.39  |

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

### June 2018 Quarter Financial Highlights

Our pre-tax income for the June 2018 quarter was \$1.4 billion, representing a \$459 million decrease compared to the corresponding prior year quarter primarily resulting from higher fuel expense and net unrealized losses on our equity investments, partially offset by increased passenger revenue. Pre-tax income, adjusted for special items (a non-GAAP financial measure) was \$1.6 billion, a decrease of \$183 million compared to the corresponding prior year period. Special items for the June 2018 quarter were primarily related to \$238 million of net unrealized losses on our equity investments in GOL, China Eastern and Air France-KLM.

*Revenue.* Compared to the June 2017 quarter, our operating revenue increased \$1.0 billion, or 9.6%, on 3.5% higher capacity combined with strong demand and fare increases implemented in response to higher fuel prices. Total revenue per available seat mile ("TRASM") increased 5.9% and TRASM, adjusted (a non-GAAP financial measure) increased 4.6% compared to the June 2017 quarter, led by (1) unit revenue growth in all four geographic regions, (2) broad-based strength in both leisure and business demand, (3) foreign currency improvements, and (4) expansion of Branded Fares.

Other revenue increased 27.1% primarily from sales of non-jet fuel products to third parties by our refinery, resulting from higher sales volume and market prices.

*Operating Expense.* Total operating expense increased \$1.3 billion, or 15.2%, and our consolidated operating cost per available seat mile ("CASM") increased 11.3% to 14.73 cents compared to the June 2017 quarter, primarily due to higher fuel expense and ancillary businesses and refinery expenses. The increase in fuel expense primarily resulted from an approximately 38% increase in the market price per gallon of fuel and a 2% increase in consumption. The increase in ancillary businesses and refinery expenses primarily resulted from \$149 million of additional costs related to refinery sales to third parties.

Non-fuel unit costs ("CASM-Ex" a non-GAAP financial measure) increased 2.9% to 10.02 cents compared to the June 2017 quarter.

*Non-Operating Expense.* Total non-operating expense increased \$157 million compared to the June 2017 quarter, primarily due to net unrealized losses on our equity investments in GOL, China Eastern and Air France-KLM of \$238 million. In 2017, before we adopted the new financial instruments standard, we recorded unrealized gains/(losses) on our equity investments in AOCI.

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

**Results of Operations - Three Months Ended June 30, 2018 and 2017****Operating Revenue**

| (in millions)           | Three Months Ended |          | Increase<br>(Decrease) | Increase %<br>(Decrease) |   |
|-------------------------|--------------------|----------|------------------------|--------------------------|---|
|                         | June 30,<br>2018   | 2017     |                        |                          |   |
| Passenger               | \$10,546           | \$9,768  | \$778                  | 8.0                      | % |
| Cargo                   | 223                | 187      | 36                     | 19.1                     | % |
| Other                   | 1,006              | 792      | 214                    | 27.1                     | % |
| Total operating revenue | \$11,775           | \$10,747 | \$1,028                | 9.6                      | % |

TRASM (cents) 17.19 ¢ 16.23 ¢ 0.96 ¢ 5.9 %

Third-party refinery sales<sup>(1)</sup> (0.32 ) (0.10 ) (0.22 ) NM

TRASM, adjusted (cents) 16.87 ¢ 16.13 ¢ 0.74 ¢ 4.6 %

<sup>(1)</sup> For additional information on adjusting for third-party refinery sales, see "Supplemental Information" below.

**Passenger Revenue**

Passenger revenue is composed of passenger ticket sales, loyalty travel awards and travel-related services performed in conjunction with a passenger's flight.

| (in millions)           | Three Months Ended June 30, |         | Increase<br>(Decrease) | Increase %<br>(Decrease) |   |
|-------------------------|-----------------------------|---------|------------------------|--------------------------|---|
|                         | 2018                        | 2017    |                        |                          |   |
| Ticket                  | \$9,308                     | \$8,606 | \$702                  | 8.2                      | % |
| Loyalty travel awards   | 680                         | 622     | 58                     | 9.3                      | % |
| Travel-related services | 558                         | 540     | 18                     | 3.3                      | % |
| Total passenger revenue | \$10,546                    | \$9,768 | \$778                  | 8.0                      | % |

**Ticket and Loyalty Travel Awards Revenue**

Ticket and loyalty travel awards revenue increased \$702 million and \$58 million, respectively, compared to the June 2017 quarter, consistent with the geographic region discussion below.

**Passenger Revenue by Geographic Region**

| (in millions) | Three Months Ended June 30, 2018 | Increase (Decrease)<br>vs. Three Months Ended June 30, 2017 |                |                 |                      |        |             |
|---------------|----------------------------------|---|----------------|-----------------|----------------------|--------|-------------|
|               |                                  | Passenger Revenue   | RPMs (Traffic) | ASMs (Capacity) | Passenger Mile Yield | PRASM  | Load Factor |
| Domestic      | \$7,413                          | 7.6 %   | 4.9 %          | 5.5 %           | 2.5 %                | 2.0 %  | (0.5) pts   |
| Atlantic      | 1,782                            | 13.9 %  | 2.4 %          | 2.4 %           | 11.1 %               | 11.2 % | 0.1 pts     |
| Latin America | 709                              | (0.8) %   | (3.1) %        | (1.3) %         | 2.4 %                | 0.6 %  | (1.6) pts   |
| Pacific       | 642                              | 6.9 %   | (1.0) %        | (3.1) %         | 8.0 %                | 10.4 % | 1.9 pts     |
| Total         | \$10,546                         | 8.0 %   | 3.2 %          | 3.5 %           | 4.6 %                | 4.4 %  | (0.2) pts   |

Passenger revenue increased \$778 million, or 8.0%, compared to the June 2017 quarter. Passenger revenue per available seat mile ("PRASM") increased 4.4% and passenger mile yield increased 4.6% on 3.5% higher capacity. Load factor declined slightly from the prior year quarter at 86.7%.

Unit revenues of the domestic region increased 2.0%, resulting from our commercial initiatives, including differentiated products for our customers, known as Branded Fares, strong demand and fare increases implemented in

response to higher fuel prices. Our domestic operations have generated five consecutive quarters of year-over-year unit revenue growth, including a continuation of the business yield growth generated in the March 2018 quarter.

Passenger revenues related to our international regions increased 8.8% year-over-year, despite reduced capacity in the Pacific and Latin America. During the quarter, we continued to expand our Branded Fares product and generated unit revenue increases in all three regions,

In the Atlantic, unit revenues increased 11.2% due to strengthening yields from business cabin traffic and the benefit provided by foreign currency fluctuations. Yield growth was particularly strong as we continue to leverage our alliance partners' hub positions in Europe's leading business markets of London, Amsterdam and Paris. During the quarter, we began service on our flagship A350-900 with Delta One suites and the Delta Premium Select cabin from Detroit to Amsterdam. We also launched several new routes, including Los Angeles to Paris and Amsterdam, Indianapolis to Paris and Atlanta to Lisbon.

Unit revenues increased in Latin America principally as a result of yield growth, particularly in Central America and the Caribbean. The increase was partially offset by challenges in the Mexico market from travel advisories and increased industry capacity impacting demand to beach destinations. These challenges have been mitigated through our joint cooperation agreement with Aeroméxico, which marked its first anniversary during the June 2018 quarter. Over that time, we have combined to launch eight new routes between the United States and Mexico, providing our customers with improved connectivity, more convenient schedules and increasingly seamless service between the two carriers.

Unit revenues increased in the Pacific region due to yield strength across all markets, particularly Japan and Korea, in addition to the benefit provided by foreign currency fluctuations. We launched a joint venture with Korean Air in May 2018 which provides more opportunities for our customers to reach destinations throughout Asia. During the June 2018 quarter, we generated double-digit unit revenue growth in Korea on a more than 20% increase in capacity compared to the prior year. We also introduced our flagship A350-900 on the Los Angeles to Shanghai route.

### ***Other Revenue***

| (in millions)                     | Three Months           |       | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|-----------------------------------|------------------------|-------|------------------------|--------------------------|
|                                   | Ended June 30,<br>2018 | 2017  |                        |                          |
| Ancillary businesses and refinery | \$522                  | \$320 | \$ 202                 | 63.1 %                   |
| Loyalty program                   | 358                    | 316   | 42                     | 13.3 %                   |
| Miscellaneous                     | 126                    | 156   | (30 )                  | (19.2)%                  |
| Total other revenue               | \$1,006                | \$792 | \$ 214                 | 27.1 %                   |

*Ancillary businesses and refinery.* Ancillary businesses and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Refinery sales to third parties, which are at or near cost, increased \$149 million compared to the June 2017 quarter, resulting from higher sales volume and market prices.

*Loyalty program.* Loyalty program revenues relate to brand usage and other performance obligations embedded in mileage credits sold, including redemption of mileage credits for non-travel awards.

**Operating Expense**

| (in millions)                                      | Three Months Ended June 30, |         | Increase (Decrease) | % Increase (Decrease) |   |
|--|-----------------------------|---------|---------------------|-----------------------|---|
|  | 2018                        | 2017    |                     |                       |   |
| Salaries and related costs                         | \$2,668                     | \$2,521 | \$ 147              | 5.8                   | % |
| Aircraft fuel and related taxes                    | 2,341                       | 1,687   | 654                 | 38.8                  | % |
| Regional carriers expense, excluding fuel          | 883                         | 838     | 45                  | 5.4                   | % |
| Depreciation and amortization                      | 590                         | 531     | 59                  | 11.1                  | % |
| Contracted services                                | 540                         | 525     | 15                  | 2.9                   | % |
| Ancillary businesses and refinery                  | 494                         | 296     | 198                 | 66.9                  | % |
| Passenger commissions and other selling expenses   | 511                         | 467     | 44                  | 9.4                   | % |
| Aircraft maintenance materials and outside repairs | 427                         | 392     | 35                  | 8.9                   | % |
| Landing fees and other rents                       | 407                         | 373     | 34                  | 9.1                   | % |
| Profit sharing                                     | 400                         | 338     | 62                  | 18.3                  | % |
| Passenger service                                  | 300                         | 284     | 16                  | 5.6                   | % |
| Aircraft rent                                      | 97                          | 86      | 11                  | 12.8                  | % |
| Other  | 437                         | 427     | 10                  | 2.3                   | % |
| Total operating expense                            | \$10,095                    | \$8,765 | \$1,330             | 15.2                  | % |

**Aircraft Fuel and Related Taxes.** Fuel expense increased \$654 million compared to the prior year quarter from an approximately 38% increase in the market price per gallon of fuel and a 2% increase in consumption, partially offset by profits generated within our refinery segment.

The table below shows the impact of hedging and the refinery on fuel expense and average price per gallon, adjusted (non-GAAP financial measures):

| (in millions, except per gallon data)          | Three Months Ended |         | Average Price Per Gallon |                             |        |        |
|--|--------------------|---------|--------------------------|-----------------------------|--------|--------|
|  | June 30,           |         | Change                   | Three Months Ended June 30, |        | Change |
|  | 2018               | 2017    |                          | 2018                        | 2017   |        |
| Fuel purchase cost <sup>(1)</sup>              | \$2,361            | \$1,676 | \$685                    | \$2.21                      | \$1.60 | \$0.61 |
| Airline segment fuel hedge impact              | 25                 | 17      | 8                        | 0.02                        | 0.02   | —      |
| Refinery segment impact                        | (45)               | (6)     | (39)                     | (0.04)                      | (0.01) | (0.03) |
| Total fuel expense                             | \$2,341            | \$1,687 | \$654                    | \$2.19                      | \$1.61 | \$0.58 |
| MTM adjustments and settlements <sup>(2)</sup> | (24)               | 52      | (76)                     | (0.02)                      | 0.05   | (0.07) |
| Total fuel expense, adjusted                   | \$2,317            | \$1,739 | \$578                    | \$2.17                      | \$1.66 | \$0.51 |

<sup>(1)</sup> Market price for jet fuel at airport locations, including related taxes and transportation costs.

<sup>(2)</sup> Mark-to-market ("MTM") adjustments and settlements include the effects of the derivative transactions discussed in Note 5 of the Notes to the Condensed Consolidated Financial Statements. For additional information and the reason for adjusting fuel expense, see "Supplemental Information" below.

**Depreciation and Amortization.** The increase in depreciation and amortization primarily results from more new aircraft deliveries than the prior year, including B-737-900ER, A321-200 and A350-900 aircraft, and fleet modifications. In addition, as part of our fleet evolution, the current period includes accelerated depreciation due to the planned retirement of our MD-88 fleet. As we take delivery of the aircraft discussed above, we continue to evaluate our current fleet compared to network requirements.

**Ancillary Businesses and Refinery.** Ancillary businesses and refinery includes expenses associated with aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Expenses related to refinery sales to third parties increased \$149 million compared to the June 2017 quarter. Refinery sales to third parties are at or near cost.



*Profit Sharing.* The increase in profit sharing is related to the alignment of our profit sharing programs under a single formula, which was implemented October 1, 2017. Under this formula, our profit sharing program pays 10% to all eligible employees for the first \$2.5 billion of annual profit and 20% of annual profit above \$2.5 billion. Prior to October 1, 2017, the profit sharing program for merit, ground and flight attendant employees paid 10% of annual profit (as defined by the terms of the program) and, if we exceeded our prior-year results, the program paid 20% of the year-over-year increase in profit to eligible employees.



**Results of Operations - Six Months Ended June 30, 2018 and 2017****Operating Revenue**

| (in millions)           | Six Months Ended |          | Increase<br>(Decrease) | Increase %<br>(Decrease) |   |
|-------------------------|------------------|----------|------------------------|--------------------------|---|
|                         | June 30,<br>2018 | 2017     |                        |                          |   |
| Passenger               | \$19,311         | \$17,946 | \$1,365                | 7.6                      | % |
| Cargo                   | 425              | 350      | 75                     | 21.4                     | % |
| Other                   | 2,007            | 1,552    | 455                    | 29.3                     | % |
| Total operating revenue | \$21,743         | \$19,848 | \$1,895                | 9.5                      | % |

TRASM (cents) 16.99 ¢ 15.99 ¢ 1.00 ¢ 6.3 %

Third-party refinery sales<sup>(1)</sup> (0.33 ) (0.11 ) (0.22 ) NM

TRASM, adjusted (cents) 16.66 ¢ 15.89 ¢ 0.77 ¢ 4.8 %

<sup>(1)</sup> For additional information on adjusting for third-party refinery sales, see "Supplemental Information" below.

**Passenger Revenue**

Passenger revenue is composed of passenger ticket sales, loyalty travel awards and travel-related services performed in conjunction with a passenger's flight.

| (in millions)           | Six Months Ended |          | Increase<br>(Decrease) | Increase %<br>(Decrease) |   |
|-------------------------|------------------|----------|------------------------|--------------------------|---|
|                         | June 30,<br>2018 | 2017     |                        |                          |   |
| Ticket                  | \$16,961         | \$15,711 | \$1,250                | 8.0                      | % |
| Loyalty travel awards   | 1,298            | 1,204    | 94                     | 7.8                      | % |
| Travel-related services | 1,052            | 1,031    | 21                     | 2.0                      | % |
| Total passenger revenue | \$19,311         | \$17,946 | \$1,365                | 7.6                      | % |

**Ticket and Loyalty Travel Awards Revenue**

Ticket and loyalty travel awards revenue increased \$1.3 billion and \$94 million, respectively, compared to the six months ended June 30, 2017, consistent with the geographic region discussion below.

**Passenger Revenue by Geographic Region**

| (in millions) | Six<br>Months<br>Ended<br>June 30,<br>2018 | Increase (Decrease)<br>vs. Six Months Ended June 30, 2017 |                |                 |                            |        |                |
|---------------|--|---|----------------|-----------------|----------------------------|--------|----------------|
|               |  | Passenger<br>Revenue                                      | RPMs (Traffic) | ASMs (Capacity) | Passenger<br>Mile<br>Yield | PRASM  | Load<br>Factor |
| Domestic      | \$13,714                                   | 7.2 %   | 4.1 %          | 4.7 %           | 3.0 %                      | 2.4 %  | (0.5) pts      |
| Atlantic      | 2,841                                      | 13.9 %  | 3.6 %          | 2.6 %           | 9.9 %                      | 11.0 % | 0.8 pts        |
| Latin America | 1,536                                      | 3.2 %   | (1.2) %        | (0.1) %         | 4.4 %                      | 3.3 %  | (0.9) pts      |
| Pacific       | 1,220                                      | 4.1 %   | (1.3) %        | (2.6) %         | 5.4 %                      | 6.8 %  | 1.2 pts        |
| Total         | \$19,311                                   | 7.6 %   | 3.0 %          | 3.1 %           | 4.5 %                      | 4.4 %  | (0.1) pts      |

Passenger revenue increased \$1.4 billion, or 7.6%, compared to the six months ended June 30, 2017. PRASM increased 4.4% and passenger mile yield increased 4.5% on 3.1% higher capacity. Load factor was slightly lower than the prior year period at 84.9%.

Unit revenues of the domestic region increased 2.4%, resulting from our commercial initiatives, including differentiated products for our customers, known as Branded Fares, strong demand and fare increases implemented in response to higher fuel prices.



Passenger revenue related to our international regions increased 8.6% year-over-year including growth in all three regions, despite reduced capacity in the Pacific and Latin America. During the six months ended June 30, 2018, we continued to expand our Branded Fares product and generated unit revenue increases in all three regions,

In the Atlantic, unit revenues increased 11.0% due to strengthening yields from business cabin traffic and the benefit provided by foreign currency fluctuations. Yield growth was particularly strong as we continue to leverage our alliance partners' hub positions in Europe's leading business markets of London, Amsterdam and Paris. During the six months ended June 30, 2018, we began service on our flagship A350-900 with Delta One suites and the Delta Premium Select cabin from Detroit to Amsterdam. We also launched several new routes, including Los Angeles to Paris and Amsterdam, Indianapolis to Paris and Atlanta to Lisbon.

Unit revenues increased in Latin America principally as a result of yield growth, particularly in Central America and the Caribbean. The increase was partially offset by challenges in the Mexico market from travel advisories and increased industry capacity impacting demand to beach destinations. These challenges have been mitigated through our joint cooperation agreement with Aeroméxico, which marked its first anniversary during the six months ended June 30, 2018. Over that time, we have combined to launch eight new routes between the United States and Mexico, providing our customers with improved connectivity, more convenient schedules and increasingly seamless service between the two carriers.

Unit revenues increased in the Pacific region due to yield strength, particularly Japan and Korea. In May 2018, we launched a joint venture with Korean Air which provides more opportunities for our customers to reach destinations throughout Asia. We also introduced our flagship A350-900 on routes from Los Angeles to Shanghai, Detroit to Beijing and Shanghai and Atlanta to Seoul-Incheon.

### ***Other Revenue***

| (in millions)                     | Six Months Ended |          | Increase<br>(Decrease) | % Increase<br>(Decrease) |   |
|-----------------------------------|------------------|----------|------------------------|--------------------------|---|
|                                   | June 30,<br>2018 | 2017     |                        |                          |   |
| Ancillary businesses and refinery | \$ 1,042         | \$ 632   | \$ 410                 | 64.9                     | % |
| Loyalty program                   | 705              | 621      | 84                     | 13.5                     | % |
| Miscellaneous                     | 260              | 299      | (39)                   | (13.0)                   | % |
| Total other revenue               | \$ 2,007         | \$ 1,552 | \$ 455                 | 29.3                     | % |

*Ancillary businesses and refinery.* Ancillary businesses and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Refinery sales to third parties, which are at or near cost, increased \$301 million compared to the six months ended June 30, 2017, resulting from higher sales volume and market prices.

*Loyalty program.* Loyalty program revenues relate to brand usage and other performance obligations embedded in mileage credits sold, including redemption of mileage credits for non-travel awards.

**Operating Expense**

| (in millions)                                      | Six Months Ended |           | Increase<br>(Decrease) | Increase<br>(Decrease) |   |
|--|------------------|-----------|------------------------|------------------------|---|
|  | June 30,<br>2018 | 2017      |                        | %                      | % |
| Salaries and related costs                         | \$5,252          | \$4,906   | \$ 346                 | 7.1                    | % |
| Aircraft fuel and related taxes                    | 4,195            | 3,169     | 1,026                  | 32.4                   | % |
| Regional carriers expense, excluding fuel          | 1,739            | 1,702     | 37                     | 2.2                    | % |
| Depreciation and amortization                      | 1,200            | 1,068     | 132                    | 12.4                   | % |
| Contracted services                                | 1,084            | 1,029     | 55                     | 5.3                    | % |
| Ancillary businesses and refinery                  | 987              | 588       | 399                    | 67.9                   | % |
| Passenger commissions and other selling expenses   | 938              | 872       | 66                     | 7.6                    | % |
| Aircraft maintenance materials and outside repairs | 862              | 824       | 38                     | 4.6                    | % |
| Landing fees and other rents                       | 780              | 734       | 46                     | 6.3                    | % |
| Profit sharing                                     | 583              | 489       | 94                     | 19.2                   | % |
| Passenger service                                  | 563              | 518       | 45                     | 8.7                    | % |
| Aircraft rent                                      | 191              | 170       | 21                     | 12.4                   | % |
| Other  | 849              | 798       | 51                     | 6.4                    | % |
| Total operating expense                            | \$ 19,223        | \$ 16,867 | \$ 2,356               | 14.0                   | % |

*Salaries and Related Costs.* The increase in salaries and related costs is primarily due to increases for eligible merit, ground and flight attendant employees implemented in the June 2017 quarter.

*Aircraft Fuel and Related Taxes.* Fuel expense increased \$1.0 billion compared to the prior year due to a 31% increase in the market price per gallon of fuel and a 2% increase in consumption, partially offset by profits generated within our refinery segment.

The table below shows the impact of hedging and the refinery on fuel expense and average price per gallon, adjusted (non-GAAP financial measures):

| (in millions, except per gallon data)          | Six Months Ended |         |          | Average Price Per Gallon |        |        |
|--|------------------|---------|----------|--------------------------|--------|--------|
|  | June 30,         |         | Change   | Six Months               |        | Change |
|  | 2018             | 2017    |          | Ended June 30,           | 2017   |        |
| Fuel purchase cost <sup>(1)</sup>              | \$4,289          | \$3,207 | \$ 1,082 | \$2.14                   | \$1.63 | \$0.51 |
| Airline segment fuel hedge impact              | (5)              | 12      | (17)     | —                        | 0.01   | (0.01) |
| Refinery segment impact                        | (89)             | (50)    | (39)     | (0.04)                   | (0.03) | (0.01) |
| Total fuel expense                             | \$4,195          | \$3,169 | \$ 1,026 | \$2.10                   | \$1.61 | \$0.49 |
| MTM adjustments and settlements <sup>(2)</sup> | 4                | 136     | (132)    | —                        | 0.07   | (0.07) |
| Total fuel expense, adjusted                   | \$4,199          | \$3,305 | \$894    | \$2.10                   | \$1.68 | \$0.42 |

<sup>(1)</sup> Market price for jet fuel at airport locations, including related taxes and transportation costs.

<sup>(2)</sup> MTM adjustments and settlements include the effects of the derivative transactions discussed in Note 5 of the Notes to the Condensed Consolidated Financial Statements. For additional information and the reason for adjusting fuel expense, see "Supplemental Information" below.

*Depreciation and Amortization.* The increase in depreciation and amortization primarily results from more new aircraft deliveries than the prior year, including B-737-900ER, A321-200, A330-300 and A350-900 aircraft, and fleet modifications. In addition, as part of our fleet evolution, the current period includes accelerated depreciation due to the planned retirement of our MD-88 fleet. As we take delivery of the aircraft discussed above, we continue to evaluate our current fleet compared to network requirements.

*Ancillary Businesses and Refinery.* Ancillary businesses and refinery includes expenses associated with aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Expenses related to refinery sales to third parties increased \$301 million

compared to the corresponding prior year period. Refinery sales to third parties are at or near cost.

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*Profit Sharing.* The increase in profit sharing is related to the alignment of our profit sharing programs under a single formula, which was implemented October 1, 2017. Under this formula, our profit sharing program pays 10% to all eligible employees for the first \$2.5 billion of annual profit and 20% of annual profit above \$2.5 billion. Prior to October 1, 2017, the profit sharing program for merit, ground and flight attendant employees paid 10% of annual profit (as defined by the terms of the program) and, if we exceeded our prior-year results, the program paid 20% of the year-over-year increase in profit to eligible employees.

| <i>Non-Operating Results</i>               | Three Months Ended June 30, |         |                         | Six Months Ended June 30, |         |                         |
|--|-----------------------------|---------|-------------------------|---------------------------|---------|-------------------------|
|  | 2018                        | 2017    | Favorable (Unfavorable) | 2018                      | 2017    | Favorable (Unfavorable) |
| (in millions)                              |                             |         |                         |                           |         |                         |
| Interest expense, net                      | \$(89 )                     | \$(103) | \$ 14                   | \$(191)                   | \$(197) | \$ 6                    |
| Unrealized gain/(loss) on investments, net | (238 )                      | —       | (238 )                  | (220 )                    | —       | (220 )                  |
| Miscellaneous, net                         | 19                          | (48 )   | 67                      | (19 )                     | (104 )  | 85                      |
| Total non-operating expense, net           | \$(308)                     | \$(151) | \$ (157 )               | \$(430)                   | \$(301) | \$ (129 )               |

Interest expense, net decreased compared to the prior year periods as a result of lower interest rates on our debt.

Unrealized gain/(loss) on investments, net reflects the unrealized gains and losses on our equity investments in GOL, China Eastern and Air France-KLM. In 2017, before we adopted the new financial instruments standard, we recorded unrealized gains/(losses) on available-for-sale investments in AOCI.

Miscellaneous, net is primarily composed of our proportionate share of earnings from our equity investments in Virgin Atlantic and Grupo Aeroméxico, foreign exchange gains/losses, pension-related costs and charitable contributions. Our equity investment earnings and foreign exchange gains/losses vary and impact the comparability of miscellaneous, net from period to period. The favorable variance compared to the prior year periods primarily results from the current year net pension benefit compared to net pension cost in the prior year.

### *Income Taxes*

We project that our annual effective tax rate for 2018 will be approximately 23%. In certain interim periods, we may have adjustments to our net deferred tax assets as a result of changes in prior year estimates and tax laws enacted during the period, which will impact the effective tax rate for that interim period.

## Refinery Segment

The refinery primarily produces gasoline, diesel and jet fuel. Monroe exchanges the non-jet fuel products the refinery produces with third parties for jet fuel consumed in our airline operations. The jet fuel produced and procured through exchanging gasoline and diesel fuel produced by the refinery provides approximately 205,000 barrels per day for use in our airline operations. We believe that the jet fuel supply resulting from the refinery's operation contributes to reducing the market price of jet fuel, and thus lowered our cost of jet fuel compared to what it otherwise would have been.

The refinery recorded operating revenues of \$1.7 billion and \$3.2 billion in the three and six months ended June 30, 2018, compared to \$1.1 billion and \$2.3 billion in the three and six months ended June 30, 2017. Operating revenues in the three and six months ended June 30, 2018 were primarily composed of \$1.1 billion and \$2.0 billion of non-jet fuel products exchanged with third parties to procure jet fuel and \$275 million and \$537 million of sales of jet fuel to the airline segment. Refinery revenues increased compared to the prior year period due to higher costs of oil leading to higher pricing for associated refined products and higher refinery run rates.

The refinery recorded income of \$45 million and \$89 million in the three and six months ended June 30, 2018, respectively, compared to \$6 million and \$50 million in three and six months ended June 30, 2017. The refinery's income in the current period was primarily due to lower costs for renewable energy credits and higher refined product cracks for distillate products (jet fuel and diesel).

A refinery is subject to annual U.S. Environmental Protection Agency requirements to blend renewable fuels into the gasoline and on-road diesel fuel it produces. Alternatively, a refinery may purchase renewable energy credits, called Renewable Identification Numbers ("RINs"), from third parties in the secondary market. The refinery purchases the majority of its RINs requirement in the secondary market. We recognized a \$22 million gain in the three months ended June 30, 2018 resulting from an approximately 40% decline in the observable RINs prices. In the three months ended June 30, 2017 we recognized \$56 million of expense related to the RINs requirement.

For more information regarding the refinery's results, see Note 10 of the Notes to the Condensed Consolidated Financial Statements.

## Operating Statistics

|   | Three Months Ended |         |                       | Six Months Ended June |         |                       |
|---|--------------------|---------|-----------------------|-----------------------|---------|-----------------------|
|   | June 30, 2018      | 2017    | % Increase (Decrease) | 30, 2018              | 2017    | % Increase (Decrease) |
| <b>Consolidated<sup>(1)</sup></b>                         |                    |         |                       |                       |         |                       |
| Revenue passenger miles (in millions)                     | 59,406             | 57,575  | 3.2 %                 | 108,682               | 105,527 | 3.0 %                 |
| Available seat miles (in millions)                        | 68,514             | 66,227  | 3.5 %                 | 127,967               | 124,098 | 3.1 %                 |
| Passenger mile yield                                      | 17.75 ¢            | 16.97 ¢ | 4.6 %                 | 17.77 ¢               | 17.01 ¢ | 4.5 %                 |
| PRASM   | 15.39 ¢            | 14.75 ¢ | 4.4 %                 | 15.09 ¢               | 14.46 ¢ | 4.4 %                 |
| TRASM   | 17.19 ¢            | 16.23 ¢ | 5.9 %                 | 16.99 ¢               | 15.99 ¢ | 6.3 %                 |
| TRASM, adjusted <sup>(2)</sup>                            | 16.87 ¢            | 16.13 ¢ | 4.6 %                 | 16.66 ¢               | 15.89 ¢ | 4.8 %                 |
| CASM  | 14.73 ¢            | 13.23 ¢ | 11.3 %                | 15.02 ¢               | 13.59 ¢ | 10.5 %                |
| CASM-Ex <sup>(2)</sup>                                    | 10.02 ¢            | 9.73 ¢  | 2.9 %                 | 10.52 ¢               | 10.17 ¢ | 3.4 %                 |
| Passenger load factor                                     | 86.7 %             | 86.9 %  | (0.2) %               | 84.9 %                | 85.0 %  | (0.1) %               |
| Fuel gallons consumed (in millions)                       | 1,067              | 1,047   | 2.0 %                 | 2,003                 | 1,965   | 1.9 %                 |
| Average price per fuel gallon <sup>(3)</sup>              | \$2.19             | \$1.61  | 36.0 %                | \$2.10                | \$1.61  | 30.4 %                |
| Average price per fuel gallon, adjusted <sup>(3)(4)</sup> | \$2.17             | \$1.66  | 30.7 %                | \$2.10                | \$1.68  | 24.7 %                |

<sup>(1)</sup> Includes the operations of our regional carriers under capacity purchase agreements.

<sup>(2)</sup> Non-GAAP financial measure defined and reconciled to TRASM and CASM, respectively, in "Supplemental Information" below.

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(3) Includes the impact of fuel hedge activity and refinery segment results.

(4) Non-GAAP financial measure defined and reconciled to average fuel price per gallon in "Results of Operations" for the three and six months ended June 30, 2018 and 2017.



## Fleet Information

Our operating aircraft fleet and commitments at June 30, 2018 are summarized in the following table:

| Aircraft Type                    | Current Fleet <sup>(1)</sup> |               |                 | Commitments <sup>(1)</sup> |             |           |         |
|----------------------------------|------------------------------|---------------|-----------------|----------------------------|-------------|-----------|---------|
|                                  | Owned                        | Capital Lease | Operating Lease | Total                      | Average Age | Purchases | Options |
| B-717-200                        | 3                            | 14            | 74              | 91                         | 16.8        | —         | —       |
| B-737-700                        | 10                           | —             | —               | 10                         | 9.4         | —         | —       |
| B-737-800                        | 73                           | 4             | —               | 77                         | 16.8        | —         | —       |
| B-737-900ER                      | 63                           | —             | 37              | 100                        | 2.5         | 30        | —       |
| B-757-200                        | 89                           | 8             | 3               | 100                        | 20.9        | —         | —       |
| B-757-300                        | 16                           | —             | —               | 16                         | 15.4        | —         | —       |
| B-767-300                        | 2                            | —             | —               | 2                          | 25.0        | —         | —       |
| B-767-300ER                      | 54                           | 2             | —               | 56                         | 22.1        | —         | —       |
| B-767-400ER                      | 21                           | —             | —               | 21                         | 17.5        | —         | —       |
| B-777-200ER                      | 8                            | —             | —               | 8                          | 18.6        | —         | —       |
| B-777-200LR                      | 10                           | —             | —               | 10                         | 9.3         | —         | —       |
| A220-100 (formerly called CS100) | —                            | —             | —               | —                          | —           | 75        | 50      |
| A319-100                         | 55                           | —             | 2               | 57                         | 16.3        | —         | —       |
| A320-200                         | 55                           | 3             | 4               | 62                         | 22.9        | —         | —       |
| A321-200                         | 29                           | —             | 27              | 56                         | 0.9         | 71        | —       |
| A321-200neo                      | —                            | —             | —               | —                          | —           | 100       | 100     |
| A330-200                         | 11                           | —             | —               | 11                         | 13.3        | —         | —       |
| A330-300                         | 28                           | —             | 3               | 31                         | 9.5         | —         | —       |
| A330-900neo                      | —                            | —             | —               | —                          | —           | 25        | —       |
| A350-900                         | 11                           | —             | —               | 11                         | 0.5         | 14        | —       |
| MD-88                            | 90                           | 14            | —               | 104                        | 27.7        | —         | —       |
| MD-90                            | 53                           | —             | —               | 53                         | 21.3        | —         | —       |
| Total                            | 681                          | 45            | 150             | 876                        | 16.3        | 315       | 150     |

<sup>(1)</sup> Excludes certain aircraft we own, lease or have committed to purchase that are operated by regional carriers on our behalf shown in the table below.

The following table summarizes the aircraft fleet operated by regional carriers on our behalf at June 30, 2018:

| Carrier                                  | Fleet Type |         |                        |             |             |       |
|--|------------|---------|------------------------|-------------|-------------|-------|
|  | CRJ-200    | CRJ-700 | CRJ-900 <sup>(3)</sup> | Embraer 170 | Embraer 175 | Total |
| Endeavor Air, Inc. <sup>(1)</sup>        | 43         | 3       | 109                    | —           | —           | 155   |
| ExpressJet Airlines, Inc. <sup>(2)</sup> | —          | 21      | —                      | —           | —           | 21    |
| SkyWest Airlines, Inc.                   | 85         | 27      | 36                     | —           | 28          | 176   |
| Compass Airlines, Inc.                   | —          | —       | —                      | —           | 36          | 36    |
| Republic Airline, Inc.                   | —          | —       | —                      | 20          | 16          | 36    |
| GoJet Airlines, LLC                      | —          | 22      | 7                      | —           | —           | 29    |
| Total                                    | 128        | 73      | 152                    | 20          | 80          | 453   |

<sup>(1)</sup> Endeavor Air, Inc. is a wholly owned subsidiary of Delta.

<sup>(2)</sup> During 2017, we and ExpressJet Airlines, Inc. agreed to terminate our relationship by the end of 2018.

In June 2018, we signed an agreement with Bombardier Commercial Aircraft to purchase 20 CRJ-900 aircraft, which are not included in the table above. These

<sup>(3)</sup> aircraft will be operated by a Delta Connection carrier, and will replace older dual-class aircraft that they own or lease. The new aircraft will be delivered beginning in late 2018 with the last delivery to occur in 2020.

## Financial Condition and Liquidity

We expect to meet our cash needs for the next 12 months with cash flows from operations, cash and cash equivalents, short-term investments and financing arrangements. As of June 30, 2018, we had \$5.5 billion in unrestricted liquidity, consisting of \$2.4 billion in cash and cash equivalents and short-term investments and \$3.1 billion in undrawn revolving credit facilities. During the six months ended June 30, 2018, we used existing cash and cash generated from operating activities to fund capital expenditures of \$2.8 billion and return \$1.4 billion to shareholders.

### *Sources of Liquidity*

#### *Operating Activities*

Cash flows from operating activities continue to provide our primary source of liquidity. We generated positive cash flows from operations of \$4.2 billion and \$1.5 billion in the six months ended June 30, 2018 and 2017, respectively. We had lower operating cash flows during the first half of 2017 primarily due to incremental pension plan contributions, as discussed below. We expect to continue generating positive cash flows from operations during the remainder of 2018.

Our operating cash flows are impacted by the following factors:

*Seasonality of Advance Ticket Sales.* We sell tickets for air travel in advance of the customer's travel date. When we receive a cash payment at the time of sale, we record the cash received on advance sales as deferred revenue in air traffic liability. The air traffic liability increases during the winter and spring as advanced ticket sales grow prior to the summer peak travel season and decreases during the summer and fall months.

*Fuel.* Fuel expense represented approximately 22% of our total operating expenses for the six months ended June 30, 2018. The market price for jet fuel is volatile, which can impact the comparability of our periodic cash flows from operations.

*Pension Contributions.* We have no minimum funding requirements in 2018. However, we voluntarily contributed \$500 million to our qualified defined benefit pension plans during the first three months of 2018. Using the net proceeds from an unsecured debt offering in 2017 and existing cash, we contributed \$3.2 billion to our qualified defined benefit pension plans during the six months ended June 30, 2017. We also contributed shares of our common stock from treasury with a value of \$350 million during the March 2017 quarter.

*Profit Sharing.* Our broad-based employee profit sharing program provides that for each year in which we have an annual pre-tax profit, as defined by the terms of the program, we will pay a specified portion of that profit to employees. In determining the amount of profit sharing, the program defines profit as pre-tax profit adjusted for profit sharing and certain other items.

Effective October 1, 2017, we aligned our profit sharing plans under a single formula. Under this formula, our profit sharing program pays 10% to all eligible employees for the first \$2.5 billion of annual profit and 20% of annual profit above \$2.5 billion. Prior to October 1, 2017, the profit sharing program for merit, ground and flight attendant employees paid 10% of annual profit (as defined by the terms of the program) and, if we exceeded our prior-year results, the program paid 20% of the year-over-year increase in profit to eligible employees. During the six months ended June 30, 2018, we accrued \$583 million in profit sharing expense based on the year-to-date performance and current expectations for 2018 profit.

We paid \$1.1 billion in profit sharing in February 2018 related to our 2017 pre-tax profit in recognition of our employees' contributions toward meeting our financial goals.



### *Investing Activities*

*Capital Expenditures.* Our capital expenditures were \$2.8 billion and \$1.8 billion for the six months ended June 30, 2018 and 2017, respectively. Our capital expenditures during the six months ended June 30, 2018 were primarily related to the purchases of B-737-900ER, A321-200 and A350-900 aircraft, advanced deposit payments on future aircraft order commitments and seat density projects for our domestic fleet.

We have committed to future aircraft purchases that will require significant capital investment and have obtained, but are under no obligation to use, long-term financing commitments for a substantial portion of the purchase price of a significant number of these aircraft. Our expected 2018 investments of \$4.5 billion will be primarily for (1) aircraft, including deliveries of B-737-900ERs, A321-200s, A350-900s, A220-100s and CRJ-900s, along with advance deposit payments for these and A321-200neos and A330-900neos, as well as (2) aircraft modifications, the majority of which relate to increasing the seat density and enhancing the cabins on our domestic fleet.

*Los Angeles International Airport Construction.* During 2016, we executed a modified lease agreement with Los Angeles World Airports ("LAWA"), which owns and operates LAX, and announced plans to modernize, upgrade and connect Terminals 2 and 3 at LAX over the next seven years. Based on the lease agreement, we are designing and managing the construction of the initial investment of \$350 million to renovate gate areas, support space and other amenities for passengers, upgrade the baggage handling systems in the terminals and facilitate the relocation of those airlines located in Terminals 2 and 3 to Terminals 5 and 6 and Tom Bradley International Terminal ("TBIT"). The relocation was completed during the June 2017 quarter. We will also design and manage the construction of an expansion of the project, which is expected to cost an additional \$1.5 billion, of which \$1.3 billion has been approved by LAWA. The expanded project will include (1) redevelopment of Terminal 3 and enhancement of Terminal 2, (2) rebuild of the ticketing and arrival halls and security checkpoint, (3) construction of infrastructure for the planned airport people mover, (4) ramp improvements and (5) construction of a secure connector to the north side of TBIT.

A substantial majority of the project costs will be funded through the Regional Airports Improvement Corporation ("RAIC"), a California public benefit corporation, using an \$800 million revolving credit facility provided by a group of lenders. The credit facility was executed during 2017. Loans made under the credit facility will be repaid with the proceeds from LAWA's purchase of completed project assets. We have guaranteed the obligations of the RAIC under the credit facility. Using funding provided by the credit agreement and/or cash flows from operations, we expect to spend approximately \$230 million on this project during 2018, of which \$131 million was incurred in the six months ended June 30, 2018.

*New York-LaGuardia Redevelopment.* As part of the terminal redevelopment project at LaGuardia Airport, we are partnering with the Port Authority of New York and New Jersey (the "Port Authority") to replace Terminals C and D with a new state-of-the-art terminal facility consisting of 37 gates across four concourses connected to a central headhouse. The terminal will feature a new, larger Delta Sky Club, wider concourses, more gate seating and 30 percent more concessions space than the existing terminals. The facility will also offer direct access between the parking garage and terminal and improved roadways and drop-off/pick-up areas. The design of the new terminal will integrate sustainable technologies and improvements in energy efficiency. Construction will be phased to limit passenger inconvenience and is expected to be completed by 2026.

In connection with the redevelopment, during 2017, we entered into an amended and restated terminal lease with the Port Authority with a term through 2050. Pursuant to the lease agreement we will (1) fund (through debt issuance and existing cash) and undertake the design, management and construction of the terminal and certain off-premises supporting facilities, (2) receive a Port Authority contribution of \$600 million to facilitate construction of the terminal and other supporting infrastructure, (3) be responsible for all operations and maintenance during the term of the lease and (4) have preferential rights to all gates in the terminal subject to Port Authority requirements with respect to accommodation of designated carriers. We currently expect our costs for the project to be approximately \$3.3 billion

and we bear the risks of project construction, including if the project's actual costs exceed the projected costs. Using funding provided by cash flows from operations and/or financing arrangements, we expect to spend approximately \$550 million on this project during 2018, of which \$99 million was incurred in the six months ended June 30, 2018.

### *Financing Activities*

*Debt and Capital Leases.* During the June 2018 quarter, we issued \$1.6 billion in aggregate principal amount of unsecured notes, consisting of \$600 million of 3.4% Notes due 2021, \$500 million of 3.8% Notes due 2023 and \$500 million of 4.375% Notes due 2028. We used the net proceeds from the offering of the Notes to repay borrowings outstanding under our secured Pacific term loan B-1 facility and 2015 term loan facility and for general corporate purposes.

Concurrent with the unsecured debt offering, we entered into a \$2.65 billion unsecured revolving credit facility, up to \$500 million of which may be used for the issuance of letters of credit (the "Revolving Credit Facility"). The Revolving Credit Facility was undrawn at the time we entered into it and remains undrawn. The Revolving Credit Facility replaces the undrawn secured Pacific revolving credit facility and the 2015 revolving credit facility, both of which were terminated in conjunction with the repayment of the term loans described above.

The Revolving Credit Facility is split evenly into a \$1.325 billion three-year facility and a \$1.325 billion five-year facility. Borrowings on both facilities bear interest at a variable rate equal to LIBOR, or another index rate, in each case plus a specified margin.

Also during the June 2018 quarter, the New York Transportation Development Corporation ("NYTDC") issued Special Facilities Revenue Bonds, Series 2018 (the "2018 Bonds") in the aggregate principal amount of \$1.4 billion. We entered into loan agreements with the NYTDC to use the proceeds from the 2018 Bonds to finance a portion of the construction costs for the new terminal facilities at the LaGuardia Airport. The proceeds from the 2018 Bonds are recorded in cash restricted for airport construction on the Consolidated Balance Sheet.

Despite the recent debt issuances, since December 31, 2009, we have reduced our principal amount of debt and capital leases by \$8.3 billion. The principal amount of debt and capital leases was \$9.9 billion at June 30, 2018.

*Capital Return to Shareholders.* During the six months ended June 30, 2018, we repurchased and retired 17 million shares of our common stock at a cost of \$925 million.

In the June 2018 quarter, the Board of Directors approved and we paid a quarterly dividend of \$0.305 per share, for total cash dividends of \$213 million.

### *Undrawn Lines of Credit*

We have \$3.1 billion available in undrawn revolving lines of credit. These credit facilities include covenants customary for financing of this type. If we are not in compliance with these covenants, we may be required to repay amounts borrowed under the credit facilities or we may not be able to draw on them. We currently have a substantial amount of unencumbered assets available to pledge as collateral.

### *Covenants*

We were in compliance with the covenants in our financings at June 30, 2018.

### **Critical Accounting Policies and Estimates**

Except as set forth below, 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.

*Frequent Flyer Program*

Our frequent flyer program (the "SkyMiles program") generates customer loyalty by rewarding customers with incentives to travel on Delta. This program allows customers to earn mileage credits by flying on Delta, Delta Connection and other airlines that participate in the SkyMiles program. When traveling, customers earn redeemable mileage credits based on the passenger's loyalty program status and travel fare paid. Customers can also earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies. To facilitate transactions with participating companies, we sell mileage credits to non-airline businesses, customers and other airlines. Mileage credits are redeemable by customers in future periods for air travel on Delta and other participating airlines, membership in our Sky Club and other program awards.

To reflect the mileage credits earned, the SkyMiles program includes two types of transactions that are considered revenue arrangements with multiple performance obligations: (1) mileage credit earned with travel and (2) mileage credit sold to participating companies.

*Passenger ticket sales earning mileage credits.* Passenger ticket sales earning mileage credits under our SkyMiles program provide customers with (1) mileage credits earned and (2) air transportation. We value each performance obligation on a standalone basis. To value the mileage credits earned, we consider the quantitative value a passenger receives by redeeming miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ("ETV").

We defer revenue for the mileage credits when earned and recognize loyalty travel awards in passenger revenue as the miles are redeemed and services are provided. We record the air transportation portion of the passenger ticket sales in air traffic liability and recognize passenger revenue when we provide transportation or if the ticket goes unused. A hypothetical 10% increase in our estimate of the ETV of a mileage credit would decrease annual passenger revenue by approximately \$100 million, as a result of an increase in the amount of revenue deferred from the mileage component of passenger ticket sales.

*Sale of mileage credits.* Customers may earn mileage credits based on their spending with participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have multiple performance obligations. During the six months ended June 30, 2018 and 2017, total cash sales from marketing agreements were \$1.7 billion and \$1.5 billion, respectively, which are allocated to travel and other performance obligations, as discussed below.

Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. Our agreements with American Express provide for joint marketing, grant certain benefits to Delta-American Express co-branded credit card holders ("Cardholders") and American Express Membership Rewards program participants, and allow American Express to market using our customer database. Cardholders earn mileage credits for making purchases using co-branded cards, may check their first bag for free, are granted discounted access to Delta Sky Club lounges and receive other benefits while traveling on Delta. Additionally, participants in the American Express Membership Rewards program may exchange their points for mileage credits under the SkyMiles program. We sell mileage credits at agreed-upon rates to American Express which are then provided to their customers under the co-brand credit card program and the Membership Rewards program.

We account for marketing agreements, including American Express, consistent with the accounting method that allocates the consideration received to the individual products and services delivered. We allocate the value based on the relative selling prices of those products and services, which generally consist of award travel, baggage fee waivers, lounge access and the use of our brand. We determined our best estimate of the selling prices by considering discounted cash flow analysis using multiple inputs and assumptions, including: (1) the expected number of miles awarded and number of miles redeemed, (2) ETV for the award travel obligation, (3) published rates on our website for baggage fees, discounted access to Delta Sky Club lounges and other benefits while traveling on Delta and (4) brand value.

We defer the amount for award travel obligation as part of frequent flyer deferred revenue and recognize loyalty travel awards in passenger revenue as the mileage credits are used for travel. Revenue allocated to services performed in conjunction with a passenger's flight, such as baggage fee waivers, is recognized as travel-related services in passenger revenue when the related service is performed. Revenue allocated to access Delta Sky Club lounges is recognized as miscellaneous in other revenue as access is provided. Revenue allocated to the remaining performance obligations, primarily brand value, is recorded as loyalty program in other revenue over time as miles are delivered.



*Mileage breakage.* For mileage credits that we estimate are not likely to be redeemed ("breakage"), we recognize the associated value proportionally during the period in which the remaining mileage credits are expected to be redeemed. Management uses statistical models to estimate breakage based on historical redemption patterns. A change in assumptions as to the period over which mileage credits are expected to be redeemed, the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on our revenue in the year in which the change occurs and in future years. At June 30, 2018, the aggregate deferred revenue balance associated with the SkyMiles program was \$6.5 billion. A hypothetical 10% change in the number of outstanding miles estimated to be redeemed would result in an approximately \$200 million impact on annual revenue recognized.

***Recent Accounting Standards***

*Comprehensive Income.* In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)." This standard provides an option to reclassify stranded tax effects within AOCI to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We have not completed our assessment, but the adoption of the standard may impact tax amounts stranded in AOCI related to our pension plans. We will adopt this standard effective January 1, 2019.

## Supplemental Information

We sometimes use information ("non-GAAP financial measures") that is derived from the Condensed Consolidated Financial Statements, but that is not presented in accordance with GAAP. Under the U.S. Securities and Exchange Commission rules, non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. Reconciliations below may not calculate due to rounding.

The following table shows a reconciliation of pre-tax income (a GAAP measure) to pre-tax income, adjusted for special items (a non-GAAP financial measure). We adjust pre-tax income for mark-to-market ("MTM") adjustments and settlements on fuel hedge contracts, the MTM adjustments recorded by our equity method investees, Virgin Atlantic and Aeroméxico, and unrealized gains/losses on our investments in GOL, China Eastern and Air France-KLM, to determine pre-tax income, adjusted for special items.

*MTM adjustments and settlements.* MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. Settlements represent cash received or paid on hedge contracts settled during the period.

*Equity investment MTM adjustments.* We record our proportionate share of earnings/loss from our equity investments in Virgin Atlantic and Aeroméxico in non-operating expense. We adjust for our equity method investees' hedge portfolio MTM adjustments to allow investors to better understand and analyze our core operational performance in the periods shown.

*Unrealized gain/loss on investments.* We record the unrealized gains/losses on our investments in GOL, China Eastern and Air France-KLM in non-operating expense. Adjusting for these gains/losses allows investors to better understand and analyze our core operational performance in the periods shown.

| (in millions)                              | Three Months Ended<br>June 30, |         |
|--|--------------------------------|---------|
|  | 2018                           | 2017    |
| Pre-tax income                             | \$1,372                        | \$1,831 |
| Adjusted for:                              |                                |         |
| MTM adjustments and settlements            | 24                             | (52 )   |
| Equity investment MTM adjustments          | (22                            | )15     |
| Unrealized gain/loss on investments        | 238                            | —       |
| Pre-tax income, adjusted for special items | \$1,612                        | \$1,795 |

The following table shows a reconciliation of TRASM (a GAAP measure) to TRASM, adjusted (a non-GAAP financial measure).

- *Third-party refinery sales.* We adjust TRASM for refinery sales to third parties to determine TRASM, adjusted because these revenues are not related to our airline segment. TRASM, adjusted therefore provides a more meaningful comparison of revenue from our airline operations to the rest of the airline industry.

|               | Three Months<br>Ended June 30, |        | Six Months Ended<br>June 30, |        |
|---------------|--------------------------------|--------|------------------------------|--------|
|               | 2018                           | 2017   | 2018                         | 2017   |
| TRASM         | 17.19¢                         | 16.23¢ | 16.99¢                       | 15.99¢ |
| Adjusted for: |                                |        |                              |        |

|                            |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| Third-party refinery sales | (0.32 ) | (0.10 ) | (0.33 ) | (0.11 ) |
| TRASM, adjusted            | 16.87 ¢ | 16.13 ¢ | 16.66 ¢ | 15.89 ¢ |

The following table shows a reconciliation of CASM (a GAAP measure) to CASM-Ex (a non-GAAP financial measure). We adjust CASM for the following items to determine CASM-Ex, for the reasons described below:

*Aircraft fuel and related taxes.* The volatility in fuel prices impacts the comparability of year-over-year financial performance. The adjustment for aircraft fuel and related taxes allows investors to better understand and analyze our non-fuel costs and year-over-year financial performance.

*Ancillary businesses and refinery.* These expenses include aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations and refinery cost of sales to third parties. Because these businesses are not related to the generation of a seat mile, we adjust for the costs related to these sales to provide a more meaningful comparison of the costs of our airline operations to the rest of the airline industry.

*Profit sharing.* We adjust for profit sharing because this adjustment allows investors to better understand and analyze our recurring cost performance and provides a more meaningful comparison of our core operating costs to the airline industry.

|                                   | Three Months<br>Ended June 30, |         | Six Months Ended<br>June 30, |         |
|-----------------------------------|--------------------------------|---------|------------------------------|---------|
|                                   | 2018                           | 2017    | 2018                         | 2017    |
| CASM                              | 14.73 ¢                        | 13.23 ¢ | 15.02 ¢                      | 13.59 ¢ |
| Adjusted for:                     |                                |         |                              |         |
| Aircraft fuel and related taxes   | (3.41 )                        | (2.55 ) | (3.28 )                      | (2.55 ) |
| Ancillary businesses and refinery | (0.72 )                        | (0.44 ) | (0.76 )                      | (0.48 ) |
| Profit sharing                    | (0.58 )                        | (0.51 ) | (0.46 )                      | (0.39 ) |
| CASM-Ex                           | 10.02 ¢                        | 9.73 ¢  | 10.52 ¢                      | 10.17 ¢ |

### **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.

### **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 June 30, 2018 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 three months ended June 30, 2018, 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.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

"Item 3. Legal Proceedings" of our Form 10-K includes a discussion of our legal proceedings. Except as presented below, there have been no material changes from the legal proceedings described in our Form 10-K. The legal proceeding described below has been described previously, including in our Form 10-K. The matter is described in this Form 10-Q to include developments in the case since we filed our Form 10-K.

#### ***First Bag Fee Antitrust Litigation***

In May-July 2009, a number of purported class action antitrust lawsuits were filed against Delta and AirTran Airways ("AirTran"), alleging that Delta and AirTran engaged in collusive behavior in violation of Section 1 of the Sherman Act in November 2008 based upon certain public statements made in October 2008 by AirTran's CEO at an analyst conference concerning fees for the first checked bag, Delta's imposition of a fee for the first checked bag on November 4, 2008 and AirTran's imposition of a similar fee on November 12, 2008. The plaintiffs sought to assert claims on behalf of an alleged class consisting of passengers who paid the first bag fee after December 5, 2008 and seek injunctive relief and unspecified treble damages. All of these cases were consolidated for pre-trial proceedings in the Northern District of Georgia. On March 29, 2017, the District Court granted the defendants' motions for summary judgment. On March 9, 2018, the U.S. Court of Appeals for the Eleventh Circuit affirmed this final judgment. On June 8, 2018, the Eleventh Circuit denied the plaintiffs' petition for rehearing en banc. The time period for the plaintiffs to file a petition for a writ of certiorari at the U.S. Supreme Court has not yet expired.

### **ITEM 1A. RISK FACTORS**

"Item 1A. Risk Factors" of our Form 10-K and of our Form 10-Q for the quarterly period ended March 31, 2018, include a discussion of our risk factors. There have been no material changes from the risk factors described in our Form 10-K and the referenced Form 10-Q.



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

The following table presents information with respect to purchases of common stock we made during the June 2018 quarter. The total number of shares purchased includes shares repurchased pursuant to our \$5 billion share repurchase program, which was publicly announced on May 11, 2017 and will terminate no later than December 31, 2020. Some purchases made in the June 2018 quarter were made pursuant to a trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

In addition, the table includes shares withheld from employees to satisfy certain tax obligations due in connection with grants of stock under the Delta Air Lines, Inc. Performance Compensation Plan (the "Plan"). The 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. The shares of common stock withheld to satisfy tax withholding obligations may be deemed to be "issuer purchases" of shares that are required to be disclosed pursuant to this Item.

| Period     | Total Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Approximate   |   |
|------------|--|---------------------------------------|---|---|
|            |  |                                       | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Dollar Value<br>(in millions)<br>of Shares<br>That May<br>Yet be<br>Purchased<br>Under the<br>Plan or<br>Programs |
| April 2018 | 2,148,886                              | \$54.38                               | 2,148,886   | \$ 4,225  |
| May 2018   | 3,956,438                              | \$52.96                               | 3,956,438   | \$ 4,025  |
| June 2018  | 5,120,490                              | \$53.78                               | 5,120,490   | \$ 3,750  |
| Total      | 11,225,814                             |                                       | 11,225,814  |   |



**ITEM 6. EXHIBITS**

(a) Exhibits

- Credit Agreement, dated as of April 19, 2018, among Delta Air Lines, Inc., as Borrower and The Lenders and JP Morgan Chase Bank, N.A., as Administrative Agent, Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Inc., Compass Bank, Credit Suisse AG, Cayman Islands Branch, Deutsche Bank Securities Inc., Fifth Third Bank, Goldman Sachs Bank USA, Industrial and Commercial Bank of China Limited, New York Branch, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc., PNC Bank, National Association, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation, U.S. Bank National Association and Wells Fargo Bank, N.A., as Co-Syndication Agents, and JP Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Inc., Compass Bank, Credit Suisse AG, Cayman Islands Branch, Deutsche Bank Securities Inc., Fifth Third Bank, Goldman Sachs Bank USA, Industrial and Commercial Bank of China Limited, New York Branch, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc., PNC Capital Markets LLC, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation, U.S. Bank National Association, Wells Fargo Bank, N.A., Credit Agricole Corporate and Investment Bank and Natixis, New York Branch, as Joint Lead Arrangers and Joint Bookrunners
- 10.1 Terms of 2018 Restricted Stock Award for Non-Employee Directors
- 10.2 Letter from Ernst & Young LLP regarding unaudited interim financial information
- 15 Certification by Delta's Chief Executive Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018
- 31.1 Certification by Delta's Executive Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018
- 31.2 Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief Executive Officer and Executive Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018
- 32 XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 101.INS
- 101.SCHXBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LABXBRL Taxonomy Extension Labels Linkbase Document
- 101.PREXBRL Taxonomy Extension Presentation Linkbase Document

**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/ Craig M. Meynard  
Craig M. Meynard  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

July 12, 2018