DELTA AIR LINES INC /DE/
Form 10-Q
July 17, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 1-5424

DELTA AIR LINES, INC.

State of Incorporation: Delaware

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

Post Office Box 20706, Atlanta, Georgia 30320-6001

Telephone: (404) 715-2600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

Yes ¨ No þ

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

Yes þ No ¨

Number of shares outstanding by each class of common stock, as of June 30, 2008:

Common Stock, $0.0001 par value 303,892,307 shares outstanding

This document is also available through our website at http://www.delta.com.

Unless otherwise indicated, the terms Delta, the Company, 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. For examples of such risks and uncertainties, please see the cautionary statements contained in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Form 10-K) and Part II, Item 1A. Risk Factors in this Form 10-Q. 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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DELTA AIR LINES, INC.

Consolidated Balance Sheets

ASSETS

(in millions)	June 30, 2008 (Unaudited)	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,239	$ 2,648
Short-term investments	103	138
Restricted cash	517	520
Accounts receivable, net of allowance for uncollectible accounts of $28 and $26 at June 30, 2008 and December 31, 2007, respectively	1,418	1,066
Expendable parts and supplies inventories, net of allowance for obsolescence of $19 and $11 at June 30, 2008 and December 31, 2007, respectively	225	262
Deferred income taxes, net	196	142
Fuel hedge derivatives	879	53
Prepaid expenses and other	590	411
Total current assets	7,167	5,240
PROPERTY AND EQUIPMENT:		
Flight equipment	10,098	9,525
Accumulated depreciation	(525)	(299)
Flight equipment, net	9,573	9,226
Ground property and equipment	2,025	1,943
Accumulated depreciation	(418)	(246)
Ground property and equipment, net	1,607	1,697
Flight and ground equipment under capital leases	624	602
Accumulated amortization	(111)	(63)
Flight and ground equipment under capital leases, net	513	539
Advance payments for equipment	306	239
Total property and equipment, net	11,999	11,701
OTHER ASSETS:		
Goodwill	5,169	12,104
Identifiable intangibles, net of accumulated amortization of $254 and $147 at June 30, 2008 and December 31, 2007, respectively	2,342	2,806
Fuel hedge derivatives	350	
Other noncurrent assets	624	572
Total other assets	8,485	15,482

Total assets	$ 27,651	$ 32,423

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

DELTA AIR LINES, INC.

Consolidated Balance Sheets

LIABILITIES AND SHAREOWNERS EQUITY

(in millions, except share data)	June 30, 2008 (Unaudited)	December 31, 2007
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital leases	$ 796	$ 1,014
Air traffic liability	3,064	1,982
SkyMiles deferred revenue	1,096	1,055
Fuel hedge margin	973	
Accrued salaries and related benefits	547	734
Taxes payable	422	323
Accounts payable	347	363
Note payable		295
Other accrued liabilities	887	839
Total current liabilities	8,132	6,605
NONCURRENT LIABILITIES:		
Long-term debt and capital leases	8,338	7,986
Pension and related benefits	2,995	3,002
SkyMiles deferred revenue	2,123	2,276
Deferred income taxes, net	811	855
Postretirement benefits	856	865
Other noncurrent liabilities	675	721
Total noncurrent liabilities	15,798	15,705
COMMITMENTS AND CONTINGENCIES		
SHAREOWNERS EQUITY:		
Common stock at $0.0001 par value; 1,500,000,000 shares authorized, 311,321,385 and 299,464,669 shares issued at June 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital	9,541	9,512
(Accumulated deficit) retained earnings	(7,120)	314
Accumulated other comprehensive income	1,451	435
Stock held in treasury, at cost, 7,429,078 and 7,238,973 shares at June 30, 2008 and December 31, 2007, respectively	(151)	(148)
Total shareowners equity	3,721	10,113
Total liabilities and shareowners equity	$ 27,651	$ 32,423

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

DELTA AIR LINES, INC.

Consolidated Statements of Operations

(Unaudited)

	Successor		Predecessor	Successor		Predecessor
(in millions, except per share data)	**Three Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**One Month Ended April 30, 2007**	**Six Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**Four Months Ended April 30, 2007**
OPERATING REVENUE:						
Passenger:						
Mainline	$ 3,627	$ 2,338	$ 1,046	$ 6,688	$ 2,338	$ 3,829
Regional affiliates	1,143	760	349	2,182	760	1,296
Cargo	160	82	36	294	82	148
Other, net	569	268	124	1,101	268	523
Total operating revenue	5,499	3,448	1,555	10,265	3,448	5,796
OPERATING EXPENSE:						
Aircraft fuel and related taxes	1,678	790	322	3,100	790	1,270
Salaries and related costs	1,092	708	331	2,183	708	1,302
Contract carrier arrangements	931	530	239	1,827	530	956
Depreciation and amortization	302	193	95	599	193	386
Aircraft maintenance materials and outside repairs	295	165	82	563	165	320
Contracted services	257	160	83	511	160	326
Passenger commissions and other selling expenses	248	175	78	473	175	298
Landing fees and other rents	185	122	60	364	122	250
Passenger service	105	61	24	189	61	95
Aircraft rent	67	36	20	131	36	90
Impairment of goodwill	839			6,939		
Impairment of intangible assets	357			357		
Restructuring and related items	104			120		
Profit sharing		65	14		65	14
Other	126	98	62	257	98	189
Total operating expense	6,586	3,103	1,410	17,613	3,103	5,496
OPERATING (LOSS) INCOME	(1,087)	345	145	(7,348)	345	300
OTHER (EXPENSE) INCOME:						
Interest expense (contractual interest expense totaled $88 and $366 for the one month and four months ended April 30, 2007)	(141)	(120)	(62)	(288)	(120)	(262)
Interest income	25	33	4	52	33	14
Miscellaneous, net	40	9	(2)	31	9	27
Total other expense, net	(76)	(78)	(60)	(205)	(78)	(221)
(LOSS) INCOME BEFORE REORGANIZATION ITEMS, NET	(1,163)	267	85	(7,553)	267	79
REORGANIZATION ITEMS, NET			1,339			1,215
(LOSS) INCOME BEFORE INCOME TAXES	(1,163)	267	1,424	(7,553)	267	1,294
INCOME TAX BENEFIT (PROVISION)	119	(103)	4	119	(103)	4
NET (LOSS) INCOME	$ (1,044)	$ 164	$ 1,428	$ (7,434)	$ 164	$ 1,298

BASIC (LOSS) EARNINGS PER SHARE	$ (2.64)	$ 0.42	$ 7.24	$ (18.79)	$ 0.42	$ 6.58
DILUTED (LOSS) EARNINGS PER SHARE	$ (2.64)	$ 0.42	$ 5.19	$ (18.79)	$ 0.42	$ 4.63

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

DELTA AIR LINES, INC.

Condensed Consolidated Statements of Cash Flow

(Unaudited)

(in millions)	Successor Six Months Ended June 30, 2008	Successor Two Months Ended June 30, 2007	Predecessor Four Months Ended April 30, 2007
Net cash provided by (used in) operating activities	$ 1,272	$ (210)	$ 1,025
Cash Flows From Investing Activities:			
Property and equipment additions:			
Flight equipment, including advance payments	(793)	(89)	(167)
Ground property and equipment, including technology	(113)	(31)	(41)
Decrease in restricted cash	6	58	56
Proceeds from sales of flight equipment	83	6	21
Proceeds from sales of investments			34
Other, net	8		
Net cash used in investing activities	(809)	(56)	(97)
Cash Flows From Financing Activities:			
Payments on long-term debt and capital lease obligations	(712)	(74)	(166)
Proceeds from Exit Facilities			1,500
Proceeds from long-term obligations	848		
Payments on DIP Facility			(2,076)
Other, net	(8)		(50)
Net cash provided by (used in) financing activities	128	(74)	(792)
Net Increase (Decrease) in Cash and Cash Equivalents	591	(340)	136
Cash and cash equivalents at beginning of period	2,648	2,170	2,034
Cash and cash equivalents at end of period	$ 3,239	$ 1,830	$ 2,170
Supplemental disclosure of cash paid (refunded) for:			
Interest	$ 310	$ 77	$ 243
Interest received from the preservation of cash due to Chapter 11 filing			(50)
Non-cash transactions:			
Flight equipment	$	$	$ 135
Flight equipment incentive	54		
Flight equipment under capital leases	21	4	13
Ground equipment	4		

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

DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited)

1. BACKGROUND

General Information

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

On April 30, 2007 (the Effective Date), we and substantially all of our subsidiaries (collectively, the Debtors) emerged from bankruptcy as a competitive airline with a global network. Upon emergence from Chapter 11, we adopted fresh start reporting in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7). The adoption of fresh start reporting resulted in our becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 1, 2007 are not comparable to the Condensed Consolidated Financial Statements prior to that date.

References in this Form 10-Q to Successor refer to Delta on or after May 1, 2007, after giving effect to (1) the cancellation of Delta common stock issued prior to the Effective Date; (2) the issuance of new Delta common stock and certain debt securities in accordance with the Debtors Joint Plan of Reorganization (the Plan of Reorganization); and (3) the application of fresh start reporting. References to Predecessor refer to Delta prior to May 1, 2007.

Effectiveness of Plan of Reorganization. Under the Plan of Reorganization, most holders of allowed general, unsecured claims against the Debtors received or will receive new common stock in satisfaction of their claims. Holders of de minimis allowed general, unsecured claims received cash in satisfaction of their claims.

The Plan of Reorganization contemplates the distribution of 400 million shares of common stock, consisting of (1) 386 million shares to holders of allowed general, unsecured claims (including our pilots) and (2) up to 14 million shares to our approximately 39,000 eligible non-contract, non-management employees. As of June 30, 2008, we have made the following distributions of common stock in accordance with the Plan of Reorganization:

- 288 million shares of common stock to holders of $13 billion of allowed general, unsecured claims. We have reserved 98 million shares of common stock for future distributions to holders of allowed general, unsecured claims when disputed claims are resolved.

- Approximately 14 million shares of common stock to eligible non-contract, non-management employees.

The U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) also authorized the distribution of equity awards to our approximately 1,200 officers, director level employees and other management personnel. For additional information about these awards, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.

As permitted under the bankruptcy process, many of the Debtors creditors filed proofs of claim with the Bankruptcy Court. Through the claims resolution process, many claims were disallowed by the Bankruptcy Court because they were duplicative, amended or superseded by later filed claims, were without merit, or were otherwise overstated. Throughout the Chapter 11 proceedings, the Debtors also resolved many claims through settlements or by Bankruptcy Court orders following the filing of an objection. The Debtors will continue to settle claims and file additional objections with the Bankruptcy Court.

We believe there will be no further material impact to the Consolidated Statements of Operations of the Successor from the settlement of unresolved allowed general, unsecured claims against the Debtors because the holders of such claims will receive under the Plan of Reorganization only their pro rata share of the new common stock of the Successor.

The Plan of Reorganization provides that administrative and priority claims will be satisfied with cash. Certain administrative and priority claims remain unpaid, and we will continue to settle claims and file objections with the Bankruptcy Court with respect to such claims as appropriate. All of these claims have been accrued by the Successor based upon the best available estimates of amounts to be paid.

In light of the substantial number and amount of claims filed, we expect the claims resolution process will take considerable time to complete. Accordingly, we do not presently know either the ultimate number and amount of, or the exact recovery with respect to, allowed claims.

Reorganization Items, net

The following table summarizes the components of reorganization items, net on our Consolidated Statements of Operations for the one month and four months ended April 30, 2007:

	Predecessor	
(in millions)	**One Month Ended April 30, 2007**	**Four Months Ended April 30, 2007**
Discharge of claims and liabilities[1]	$ 4,424	$ 4,424
Revaluation of frequent flyer obligation[2]	(2,586)	(2,586)
Revaluation of other assets and liabilities[3]	238	238
Aircraft financing renegotiations and rejections[4]	(438)	(440)
Contract carrier agreements[5]		(163)
Emergence compensation[6]	(162)	(162)
Professional fees	(51)	(88)
Pilot collective bargaining agreement[7]		(83)
Interest income[8]	12	50
Facility leases[9]	(81)	43
Vendor waived pre-petition debt	5	29
Retiree healthcare claims[10]		(26)
Other	(22)	(21)
Total reorganization items, net	$ 1,339	$ 1,215

(1) The discharge of claims and liabilities primarily relates to allowed general, unsecured claims in our Chapter 11 proceedings, such as (a) the Air Line Pilots Association s (ALPA) claim under our comprehensive agreement reducing pilot labor costs; (b) the Pension Benefit Guaranty Corporation s claim relating to the termination of our qualified defined benefit pension plan for pilots; (c) claims relating to changes in postretirement healthcare benefits and the rejection of our non-qualified retirement plans; (d) claims associated with debt and certain municipal bond obligations based upon their rejection; (e) claims relating to the restructuring of financing arrangements or the rejection of leases for aircraft; and (f) other claims due to the rejection or modification of certain executory contracts, unexpired leases and contract carrier agreements.

In accordance with the Plan of Reorganization, we discharged our obligations to holders of allowed general, unsecured claims in exchange for the distribution of 386 million newly issued shares of common stock and the issuance of certain debt securities and obligations. Accordingly, in discharging our liabilities subject to compromise, we recognized a reorganization gain of $4.4 billion as follows:

(in millions)	
Liabilities subject to compromise	$ 19,345
Reorganization equity value	(9,400)
Liabilities reinstated	(4,429)
Issuance of new debt securities and obligations, net of discounts of $22	(938)
Other	(154)
Discharge of claims and liabilities	$ 4,424

(2) We revalued our SkyMiles frequent flyer obligation at fair value as a result of fresh start reporting, which resulted in a $2.6 billion reorganization charge. For information about a change in our accounting policy for the SkyMiles program, see Note 2 of the Notes to the Consolidated Financial Statements in our Form 10-K.

(3) We revalued our assets and liabilities at estimated fair value as a result of fresh start reporting. This resulted in a $238 million gain, primarily reflecting the fair value of newly recognized intangible assets, which was partially offset by reductions in the fair value of tangible property and equipment.

(4) Estimated claims for the one month ended April 30, 2007 relate to the restructuring of the financing arrangements for 127 aircraft, the rejection of two aircraft leases and adjustments to prior claims estimates. Estimated claims for the four months ended April 30, 2007 relate to the restructuring of the financing arrangements for 143 aircraft, the rejection of two aircraft leases and adjustments to prior claims estimates.

(5) In connection with amendments to our contract carrier agreements with Chautauqua Airlines, Inc. (Chautauqua) and Shuttle America Corporation (Shuttle America), both subsidiaries of Republic Airways Holdings, Inc. (Republic Holdings), which, among other things, reduced the rates we pay those carriers, we recorded (a) a $91 million allowed general, unsecured claim and (b) a $37 million net charge related to our surrender of warrants to purchase up to 3.5 million shares of Republic Holdings common stock. Additionally, in connection with an amendment to our contract carrier agreement with Freedom Airlines, Inc. (Freedom), a subsidiary of Mesa Air Group, Inc., which, among other things, reduced the rates we pay that carrier, we recorded a $35 million allowed general, unsecured claim.

(6) In accordance with the Plan of Reorganization, we made $130 million in lump-sum cash payments to approximately 39,000 eligible non-contract, non-management employees. We also recorded an additional charge of $32 million related to our portion of payroll related taxes associated with the issuance, as contemplated by the Plan of Reorganization, of approximately 14 million shares of common stock to these employees. For additional information regarding the stock grants, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.

(7) Allowed general, unsecured claims of $83 million for the four months ended April 30, 2007 in connection with Comair s comprehensive agreement with ALPA reducing pilot labor costs.

(8) Reflects interest earned due to the preservation of cash during our Chapter 11 proceedings.

(9) For the one month ended April 30, 2007, this item primarily reflects a net $80 million charge from an allowed general, unsecured claim under our settlement agreement relating to the restructuring of certain of our lease and other obligations at the Cincinnati-Northern Kentucky International Airport (the Cincinnati Airport Settlement Agreement). For the four months ended April 30, 2007, we recorded a net $43 million gain, primarily reflecting a $126 million net gain in connection with our settlement agreement with the Massachusetts Port Authority (Massport), which was partially offset by the aforementioned $80 million charge. For additional information regarding the Cincinnati Airport Settlement Agreement and our settlement agreement with Massport, see Notes 6 and 8 of the Notes to the Consolidated Financial Statements in our Form 10-K.

(10) Allowed general, unsecured claims in connection with agreements reached with committees representing pilot and non-pilot retired employees reducing their postretirement healthcare benefits.

2. ACCOUNTING AND REPORTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (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.

In preparing the Condensed Consolidated Financial Statements for the Predecessor, we applied SOP 90-7, which requires that the financial statements for periods subsequent to the Chapter 11 filing distinguish transactions and events that were directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that were realized or incurred in the bankruptcy proceedings were recorded in reorganization items, net on the accompanying Consolidated Statements of Operations.

Management believes that the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including adjustments required by fresh start reporting, normal recurring items, restructuring and related items and reorganization 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, 2008 are not necessarily indicative of operating results for the entire year.

Short-Term Investments

At June 30, 2008 and December 31, 2007, our short-term investments were primarily comprised of auction rate securities. In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, we record these investments as trading securities at fair value on our Consolidated Balance Sheets.

At June 30, 2008 and December 31, 2007, the fair value of our insured auction rate securities was $103 million and $107 million, respectively. The cost of these investments was $110 million. Fair value was determined using a discounted cash flow model as recent auctions of these securities were not successful, resulting in our continuing to hold these securities and issuers paying interest at the maximum contractual rate. This valuation technique considers the creditworthiness of the underlying debt issuer and insurance provider. Depending on future market conditions, there may be future fair market adjustments of our insured auction rate securities. For additional information regarding the valuation of our short-term investments, see Note 3.

Restricted Cash

Restricted cash included in current assets on our Consolidated Balance Sheets totaled $517 million and $520 million at June 30, 2008 and December 31, 2007, respectively. Restricted cash recorded in other noncurrent assets on our Consolidated Balance Sheets totaled $15 million at each of June 30, 2008 and December 31, 2007. Restricted cash is recorded at cost, which approximates fair value.

At June 30, 2008, our restricted cash balance primarily relates to fuel hedge margin received from a counterparty and cash held to meet certain projected self-insurance obligations. At December 31, 2007, our restricted cash balance primarily related to $295 million held in a grantor trust for the benefit of Delta pilots to fund the then remaining balance of an obligation we had under our comprehensive agreement with ALPA to reduce pilot labor costs. The amount in the grantor trust was classified as restricted cash with a corresponding note payable on our Consolidated

Balance Sheet until it was distributed in January 2008.

Goodwill and Other Intangible Assets

Goodwill reflects the excess of the reorganization value of the Successor over the fair value of tangible and identifiable intangible assets, reduced by liabilities, from the adoption of fresh start reporting, adjusted for impairment. The following table reflects the change in the carrying amount of goodwill at June 30, 2008:

(in millions)	**Total**
Balance at December 31, 2007	$ 12,104
Impairment charge	(6,939)
Adjustment to pre-emergence deferred tax assets and reserves	4
Balance at June 30, 2008	5,169

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), we apply a fair value-based impairment test to the net book value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairment of goodwill requires a two-step process. The first step is the estimation of fair value. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

During the three months ended March 31, 2008, we experienced a significant decline in market capitalization driven primarily by record fuel prices and overall airline industry conditions. In addition, the announcement of our intention to merge with Northwest Airlines Corporation (Northwest) established a stock exchange ratio based on the relative valuation of Delta and Northwest (see Note 11). We determined that these factors combined with further increases in fuel prices were an indicator that a goodwill impairment test was required pursuant to SFAS 142. As a result, we estimated fair value based on a discounted projection of future cash flows, supported with a market-based valuation. We determined that goodwill was impaired and recorded a non-cash charge of $6.1 billion based on a preliminary assessment. We finalized the second step of the impairment test during the June 2008 quarter and recorded an additional non-cash charge of $839 million due to the net increase in the fair value of our other assets and liabilities for a total impairment charge to $6.9 billion. In estimating fair value under this second step, we based our estimates and assumptions on the same valuation techniques employed and levels of inputs used to estimate the fair value of goodwill upon adoption of fresh start reporting.

In accordance with SOP 90-7, a reduction in the valuation allowance associated with the realization of pre-emergence deferred tax assets will sequentially reduce the value of recorded goodwill followed by other indefinite-lived intangible assets until the net carrying cost of these assets is zero. During the six months ended June 30, 2008, we increased goodwill by $4 million associated with adjustments to pre-emergence deferred tax assets and reserves.

In addition to the goodwill impairment charge, we recorded a non-cash charge of $357 million ($238 million after tax) to reduce the carrying value of certain intangible assets based on their revised estimated fair values. This charge was recorded to impairment of intangible assets on our Consolidated Statement of Operations for the three and six months ended June 30, 2008. The following tables reflect the changes in the carrying amount of intangible assets at June 30, 2008:

Indefinite-Lived Intangible Assets

(in millions)	**Carrying Amount December 31, 2007**	**Impairment**	**Carrying Amount June 30, 2008**
Trade name	$ 880	$ (30)	$ 850
Takeoff and arrival slots	635	(85)	550
SkyTeam alliance	480	(199)	281
Other	2		2
Total	$ 1,997	$ (314)	$ 1,683

Definite-Lived Intangible Assets

(in millions)	Net Carrying Amount December 31, 2007	Amortization	Impairment	Net Carrying Amount June 30, 2008
Marketing agreements	$ 581	(97)		$ 484
Contracts	195	(8)	(12)	175
Customer relationships	33	(2)	(31)	
Total	$ 809	$ (107)	$ (43)	$ 659

Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years. Factors which could cause impairment include, but are not limited to, (1) long-term negative trends in our market capitalization, (2) continued high fuel prices, (3) declining passenger mile yields, (4) lower demand as a result of the weakening U.S. economy, (5) interruption to our operations due to an employee strike, terrorist attack, or other reasons and (6) consolidation of competitors within the industry. For additional information about our accounting policy for goodwill and other intangible assets, see Notes 2 and 5 of the Notes to the Consolidated Financial Statements in our Form 10-K.

Reclassifications

We reclassified certain prior period amounts in our Condensed Consolidated Financial Statements to be consistent with our current period presentation.

3. FAIR VALUE MEASUREMENTS

SFAS No. 157, Fair Value Measurements (SFAS 157), among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in millions)	June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 3,093	$ 3,093	$	$
Short-term investments	103			103
Fuel hedge derivatives	1,229		234	995

Our fuel hedge option contracts are valued under the income approach using option-pricing models. During the June 2008 quarter, we reevaluated the valuation inputs used for our option contracts. As a result, we reclassified these contracts from Level 2 to Level 3 within SFAS 157 s three-tier fair value hierarchy since valuation at December 31, 2007.

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

(in millions)	Short-term Investments	Fuel Hedging Derivatives
Balance at December 31, 2007	$ 107	$
Transfers to Level 3		53
Change in fair value included in earnings	(4)	231
Change in fair value included in other comprehensive income		789
Purchases and settlements		(78)
Balance at June 30, 2008	$ 103	$ 995
(Losses) gains included in earnings attributable to the change in unrealized (losses) gains relating to assets still held at June 30, 2008	$ (4)	$ 14

Gains (losses) included in earnings (above) for the six months ended June 30, 2008 are recorded on our Consolidated Statement of Operations as follows:

(in millions)	Fuel Expense and Related Taxes	Other (Expense) Income
Total gains (losses) included in earnings	$ 225	$ (8)
Change in unrealized gains relating to assets still held at June 30, 2008	$	$ 10

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

(in millions)	June 30, 2008	Significant Unobservable Inputs (Level 3)	Total Impairment
Goodwill	$ 5,169	$ 5,169	$ 6,939
Indefinite-lived intangible assets	1,683	1,683	314
Definite-lived intangible assets	659	659	43

At December 31, 2007, we had goodwill of $12.1 billion, indefinite-lived intangible assets of $2.0 billion and definite-lived intangible assets of $809 million. During the six months ended June 30, 2008, we recorded non-cash impairment charges of $6.9 billion for goodwill, $314 million for indefinite-lived intangible assets and $43 million for definite-lived intangible assets. For additional information regarding these impairments, see Note 2.

We did not record any other fair value adjustments for assets and liabilities measured at fair value on a nonrecurring basis during the six months ended June 30, 2008.

4. DERIVATIVE INSTRUMENTS

Fuel Hedging Program

Our results of operations are materially impacted by changes in the price of aircraft fuel. In an effort to manage our exposure to changes in aircraft fuel prices, we periodically enter into derivative contracts comprised of crude oil, heating oil and jet fuel swap, collar and call option contracts to hedge a portion of our projected aircraft fuel requirements, including those of our contract carriers under capacity purchase agreements. As of June 30, 2008, our open fuel hedge contracts had an estimated fair value gain of $1.2 billion, which is recorded in fuel hedge derivatives within both current and other assets on our Consolidated Balance Sheet.

In accordance with our fuel hedge agreements, (1) we may require counterparties to fund the margin associated with our gain position on fuel hedge contracts, and (2) counterparties may require us to fund the margin associated with our loss position on these contracts. The amount of the margin, if any, is periodically adjusted based on the fair value of the fuel hedge contracts. The margin requirements are intended to mitigate a party s exposure to market volatility and the associated contracting party risk.

The fuel hedge margin we receive from counterparties is recorded, as appropriate, in cash and cash equivalents or restricted cash, with the offsetting obligation in fuel hedge margin on our Consolidated Balance Sheet. The margin we provide to counterparties is recorded in restricted cash on our Consolidated Balance Sheet. All cash flows associated with purchasing and selling fuel hedge contracts are classified as operating cash flows on our Condensed Consolidated Statement of Cash Flows.

At June 30, 2008, we held $973 million of fuel hedge margin from counterparties, $671 million of which is recorded in cash and cash equivalents and $302 million of which is recorded in restricted cash on our Consolidated Balance Sheet. At June 30, 2008, we were not required to fund any fuel hedge margin with counterparties.

For option contracts entered into during 2008, we assess effectiveness based on the total changes in an option s cash flows (the measurement includes the option s total change in fair value, not just the change in intrinsic value). Ineffectiveness is measured as the excess, if any, of the cumulative change in fair value of the option over the cumulative change in fair value of a perfectly effective hypothetical derivative, which acts as a proxy for the fair value of the cumulative change in expected cash flows from the purchase of aircraft fuel.

For option contracts entered into prior to 2008, ineffectiveness is measured based on the intrinsic value of the derivative. The difference between the fair value and intrinsic value represents the time value of the option contract. Time value is excluded from the calculation of ineffectiveness and amortized to other (expense) income on our Consolidated Statements of Operations.

As of June 30, 2008, our fuel hedging position for the six months ending December 31, 2008 and the years ending December 31, 2009 and 2010 is as follows:

(in millions, unless otherwise stated)	**Percentage of Projected Fuel Requirements Hedged**	**Contract Fair Value at June 30, 2008**
Six months ending December 31, 2008	44%	$ 628
2009	22	455
2010	5	146
Total	20%	$ 1,229

Gains (losses) recorded on our Consolidated Statements of Operations for the three months ended June 30, 2008, the two months ended June 30, 2007 and the one month ended April 30, 2007 related to our fuel hedge contracts are as follows:

	Aircraft fuel and related taxes			**Other (expense) income**		
	Successor		**Predecessor**	**Successor**		**Predecessor**
(in millions)	**Three Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**One Month Ended April 30, 2007**	**Three Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**One Month Ended April 30, 2007**
Open fuel hedge contracts	$	$	$	$ 23	$ 2	$ (7)
Settled fuel hedge contracts	313	4	10	8		(2)
Total	$ 313	$ 4	$ 10	$ 31	$ 2	$ (9)

Gains (losses) recorded on our Consolidated Statements of Operations for the six months ended June 30, 2008, the two months ended June 30, 2007 and the four months ended April 30, 2007 related to our fuel hedge contracts are as follows:

	Aircraft fuel and related taxes			**Other (expense) income**		
	Successor		**Predecessor**	**Successor**		**Predecessor**
(in millions)	**Six Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**Four Months Ended April 30, 2007**	**Six Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**Four Months Ended April 30, 2007**
Open fuel hedge contracts	$	$	$	$ 6	$ 2	$ 15
Settled fuel hedge contracts	354	4	(8)	8		(1)
Total	$ 354	$ 4	$ (8)	$ 14	$ 2	$ 14

For additional information about our fuel hedging program, see Note 2 of the Notes to the Consolidated Financial Statements in our Form 10-K.

Interest Rate Swaps

From time to time, we may enter into interest rate swap agreements. We record interest rate swap agreements that qualify as fair value hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) at their fair value on our Consolidated Balance Sheets and adjust these amounts and the related debt to reflect changes in their fair values. We record net periodic interest rate swap settlements as adjustments to interest expense in other income (expense) on our Consolidated Statements of Operations. During June 2008, we entered into interest rate swap agreements converting our interest rate exposure on a portion of our debt portfolio from a fixed rate to a floating rate. The interest rate swap agreements have an aggregate notional amount of $1 billion maturing September 2011 through July 2012. The floating rates are based on three month LIBOR plus a margin.

At June 30, 2008, our interest rate swap agreements had a fair value of $3 million, which was recorded in other noncurrent assets on our Consolidated Balance Sheet. In accordance with fair value hedge accounting, the carrying value of our long-term debt at June 30, 2008 included $3 million of adjustments to debt.

5. DEBT

Aircraft Financing

During the March 2008 quarter, we entered into a facility to refinance debt that matured in January 2008 and to finance two B-777-200LR aircraft deliveries. Borrowings under this facility are secured by certain aircraft, including the two B-777-200LR aircraft described above, that we own. At June 30, 2008, total borrowings under this facility were $518 million. Our obligations under this facility will be paid in installments through February 20, 2020 and bear interest at a floating rate based on LIBOR plus a margin.

Pre-Delivery Deposits Financing

In December 2007, we entered into a facility to borrow up to $233 million to finance certain pre-delivery payments payable by us to The Boeing Company (Boeing) for future deliveries of 10 B-737-700 aircraft and eight B-777-200LR aircraft.

The facility consists of 18 separate loans, one loan for each covered aircraft. The separate loan for each covered aircraft matures upon the delivery of that aircraft to us by Boeing. The loans under the facility have various maturity dates, beginning in February 2008 through August 2009, and bear interest at a floating rate based on LIBOR plus a margin.

During the six months ended June 30, 2008, we borrowed $47 million under this facility, net of repayments by us, upon the delivery of covered aircraft. As of June 30, 2008, $203 million of borrowings were outstanding under this facility.

For additional information regarding this facility, see Note 6 of the Notes to the Consolidated Financial Statements in our Form 10-K.

CRJ-900 Financing

In September 2007, we and our wholly owned subsidiary, Comair, each entered into separate agreements to borrow up to $290 million with respect to future deliveries of CRJ-900 aircraft. We guarantee payment on behalf of Comair. Our obligations under these debt agreements are secured by the underlying aircraft.

A separate loan for each CRJ-900 aircraft is issued upon delivery of that aircraft to us. Our obligations under these agreements will be paid in installments over 15-years after delivery. The loans under these agreements will have various maturity dates and bear interest at a floating rate based on LIBOR plus a margin.

As of June 30, 2008, a total of $397 million of borrowings were outstanding under these agreements.

Other Aircraft Financing Arrangements

In July 2008, we received a commitment from a third party to finance, on a secured basis at the time of acquisition, a substantial portion of the purchase price for the future deliveries of all then-outstanding firm orders of Mainline aircraft (including options for two B-777-200LR aircraft we exercised in July 2008, but excluding orders for 32 B-773-800 aircraft that we have definitive agreements to sell to third parties immediately following delivery to us by the manufacturer). Borrowings under this commitment (1) will be due in monthly installments for 12 years after the date of borrowing and (2) bear interest at LIBOR plus a margin.

Covenants

We were in compliance with all debt and aircraft lease financing agreement covenants at June 30, 2008.

6. PURCHASE COMMITMENTS AND CONTINGENCIES

Aircraft Order Commitments

Future commitments for aircraft on firm order as of June 30, 2008 approximate $2.6 billion. The following table shows the timing of these commitments:

Year Ending December 31, (in millions)	**Amount**
Six months ending December 31, 2008	$ 590
2009	1,310
2010	710
Total	$ 2,610

Our aircraft order commitments as of June 30, 2008 consist of firm orders to purchase six B-777-200LR aircraft, 10 B-737-700 aircraft, 34 B-737-800 aircraft and 15 CRJ-900 aircraft as discussed below. Our firm orders to purchase 34 B-737-800 aircraft include 32 B-737-800 aircraft, which we have entered into definitive agreements to sell to third parties immediately following delivery of these aircraft to us by the manufacturer. These sales will reduce our future commitments by approximately $1.3 billion during the period from 2008 through 2010 ($80 million, $590 million and $650 million for 2008, 2009 and 2010, respectively). We have received long-term, secured financing commitments from a third party for a substantial portion of the purchase price for our firm orders for Mainline aircraft, as discussed in Note 5.

During 2007, we entered into agreements with Bombardier Inc. (Bombardier) to purchase 44 CRJ-900 aircraft for delivery between August 2007 and February 2010. These aircraft will be delivered in two-class, 76 seat configuration. We have available to us long-term, secured financing commitments to fund a substantial portion of the aircraft purchase price for these orders. We expect these CRJ-900 aircraft will be operated by regional air carriers under our capacity purchase agreements. Our agreements with Bombardier permit us to assign to other carriers our CRJ-900 aircraft orders and related support provisions. In April 2007, we assigned to Pinnacle Airlines, Inc. (Pinnacle) our orders to purchase 16 CRJ-900 aircraft (the CRJ-900 Assigned Aircraft). The remaining 28 CRJ-900 aircraft are scheduled for delivery through May 2009. As of June 30, 2008, we had accepted delivery of 20 of these 28 CRJ-900 aircraft, seven of which are being leased to a contract carrier.

The above table includes the potential commitment by us for the CRJ-900 Assigned Aircraft. Pinnacle is required to purchase and make the related payments for those aircraft. We are required to cure any default by Pinnacle of its purchase obligation, and have certain indemnification rights against it for costs incurred in effecting such a cure. As of June 30, 2008, Pinnacle has accepted delivery of nine of the 16 CRJ-900 Assigned Aircraft, and we have received no notice that Pinnacle has defaulted on its purchase obligation.

In July 2008, we exercised options to purchase two additional B-777-200LR aircraft for delivery in 2010. These orders are covered by the third party financing commitment discussed above in Note 5.

Contract Carrier Agreements

Capacity Purchase Agreements. During the six months ended June 30, 2008, seven regional air carriers (in addition to Comair) operated for us pursuant to capacity purchase agreements. Under these agreements, the regional air carriers operate some or all of their aircraft under our flight code, and we schedule those aircraft, sell the seats on those flights and retain the related revenues. We pay those airlines an amount, as defined in the applicable agreement, which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services.

The following table shows the estimated payments under these capacity purchase agreements. The payments set forth in the table assume certain levels of flying by the contract carriers, but this flying is subject to change in accordance with the terms of the agreements between us and the contract carriers and other factors. The payments also reflect assumptions regarding certain costs such as fuel, labor, maintenance, insurance, catering, property tax and landing fees. Accordingly, our actual payments under these agreements could differ materially from the estimated payments set forth in the table.

Year Ending December 31,

(in millions)	**Amount[1][2][3]**
Six months ending December 31, 2008	$ 1,520
2009	3,030
2010	3,100
2011	3,160
2012	3,010
Thereafter	17,350
Total	$ 31,170

[1] These amounts represent estimated payments based on certain assumptions under our capacity purchase agreements with Atlantic Southeast Airlines, Inc., Chautauqua, ExpressJet Airlines, Inc. (Express Jet), Freedom, Pinnacle, Shuttle America and SkyWest Airlines, Inc. (excluding contract carrier lease payments accounted for as operating leases, which are described in Note 7 of the Notes to the Consolidated Financial Statements in our Form 10-K). Our capacity purchase agreement with ExpressJet will terminate by mutual agreement as of September 1, 2008.

(2) In March 2008, we issued a notice to Freedom to terminate, effective June 30, 2008, their ERJ-145 capacity purchase agreement due to Freedom s failure to meet certain minimum operational performance requirements under the agreement. Freedom filed a lawsuit against us in the U.S. District Court for the Northern District of Georgia alleging, among other things, that our termination of the agreement was wrongful. In May 2008, the District Court granted Freedom s request for a preliminary injunction, temporarily enjoining us from terminating Freedom s ERJ-145 capacity purchase agreement. We have appealed this ruling to the U.S. Court of Appeals for the Eleventh Circuit.

(3) In June 2008, we issued a notice to Pinnacle of our intent to terminate its capacity purchase agreement due to Pinnacle s failure to meet certain minimum operational performance requirements under the agreement. Pinnacle has advised us that it believes we do not have the right to terminate the agreement. We have agreed for Pinnacle to continue as a connection carrier through September 2008 and are in discussions with Pinnacle regarding whether the matters underlying the termination notice can be resolved through mutual agreement. As a result of these matters, the table above does not include any payment we would have made to Pinnacle after September 2008.

Contingencies Related to Termination of Contract Carrier Agreements

We may terminate the Chautauqua and Shuttle America agreements without cause at any time after May 2010 and July 2015, respectively, by providing certain advance notice. If we terminate either the Chautauqua or Shuttle America agreements without cause, Chautauqua or Shuttle America, respectively, has the right to (1) assign to us leased aircraft that the airline operates for us, provided we are able to continue the leases on the same terms the airline had prior to the assignment and (2) require us to purchase or lease any of the aircraft that the airline owns and operates for us at the time of the termination. If we are required to purchase aircraft owned by Chautauqua or Shuttle America, the purchase price would be equal to the amount necessary to (1) reimburse Chautauqua or Shuttle America for the equity it provided to purchase the aircraft and (2) repay in full any debt outstanding at such time that is not being assumed in connection with such purchase. If we are required to lease aircraft owned by Chautauqua or Shuttle America, the lease would have (1) a rate equal to the debt payments of Chautauqua or Shuttle America for the debt financing of the aircraft calculated as if 90% of the aircraft was debt financed by Chautauqua or Shuttle America and (2) other specified terms and conditions.

We estimate that the total fair values, determined as of June 30, 2008, of the aircraft that Chautauqua or Shuttle America could assign to us or require that we purchase if we terminate without cause our contract carrier agreements with those airlines (the Put Right) are approximately $470 million and $360 million, respectively. The actual amount that we may be required to pay in these circumstances may be materially different from these estimates. If the Chautauqua or Shuttle America Put Right is exercised, we must also pay to the exercising carrier 10% interest (compounded monthly) on the equity the carrier provided when it purchased the put aircraft. These equity amounts for Chautauqua and Shuttle America total $56 million and $34 million, respectively.

Legal Contingencies

We are involved in various legal proceedings relating to employment practices, environmental issues and other matters concerning our business. We cannot reasonably estimate the potential loss for certain legal proceedings because, for example, the litigation is in its early stages or the plaintiff does not specify the damages being sought.

Comair Flight 5191

On August 27, 2006, Comair Flight 5191 crashed shortly after take-off in a field near the Blue Grass Airport in Lexington, Kentucky. All 47 passengers and two members of the flight crew died in the accident. The third crew member survived with severe injuries. Lawsuits arising out of this accident have been filed against our wholly owned subsidiary, Comair, on behalf of 44 passengers. A number of lawsuits also name Delta, the Federal Aviation Administration (the FAA) and the third crew member, as a defendant. The lawsuits generally assert claims for wrongful death and related personal injuries, and seek unspecified damages, including punitive damages in most cases. As of July 8, 2008, settlements have been reached with the families of 17 of the 47 passengers. All the remaining passenger lawsuits are currently pending in the U.S. District Court for the Eastern District of Kentucky and have been consolidated as In Re Air Crash at Lexington, Kentucky, August 27, 2006, Master File No. 5:06-CV-316.

On July 8, 2008, the District Court granted Delta s motion to dismiss all claims against Delta in the pending lawsuits. Comair continues to pursue settlement negotiations with the plaintiffs in these lawsuits. The settled cases have been dismissed with prejudice.

Comair has filed direct actions in the U.S. District Court for the Eastern District of Kentucky against the U.S. (based on the actions of the FAA), and in state court in Fayette County, Kentucky, against the Lexington Airport Board and certain other Lexington airport defendants. Comair has also filed third party complaints against these same parties in each of the pending passenger lawsuits. These actions seek to apportion liability for damages arising from this accident among all responsible parties.

During 2006, we recorded a long-term liability with a corresponding long-term receivable from our insurance carriers in other noncurrent liabilities and assets, respectively, on our Consolidated Balance Sheet relating to the Comair Flight 5191 accident. These amounts may be revised as additional information becomes available and as settlements are finalized. We carry aviation risk liability insurance and believe that this insurance is sufficient to cover any liability likely to arise from this accident.

Cincinnati Airport Settlement

On April 24, 2007, the Bankruptcy Court approved the Cincinnati Airport Settlement Agreement with the Kenton County Airport Board (KCAB) and UMB Bank, N.A., the trustee (the Bond Trustee) for the Series 1992 Bonds (as defined below), to restructure certain of our lease and other obligations at the Cincinnati-Northern Kentucky International Airport (the Cincinnati Airport). The Series 1992 Bonds include: (1) the $419 million Kenton County Airport Board Special Facilities Revenue Bonds, 1992 Series A (Delta Air Lines, Inc. Project), $397 million of which were then outstanding and (2) the $19 million Kenton County Airport Board Special Facilities Revenue Bonds, 1992 Series B (Delta Air Lines, Inc. Project), $16 million of which were then outstanding.

The Cincinnati Airport Settlement Agreement, among other things:

- provides for agreements under which we will continue to use certain facilities at the Cincinnati Airport at substantially reduced costs;

settles all disputes among us, the KCAB, the Bond Trustee and the former, present and future holders of the 1992 Bonds (the 1992 Bondholders);

gives the Bond Trustee, on behalf of the 1992 Bondholders, a $260 million allowed general, unsecured claim in our bankruptcy proceedings; and

provides for our issuance of $66 million principal amount of senior unsecured notes to the Bond Trustee on behalf of the 1992 Bondholders.

On May 3, 2007, the parties to the Cincinnati Airport Settlement Agreement implemented that agreement in accordance with its terms. A small group of bondholders (the Objecting Bondholders) challenged the settlement in the U.S. District Court for the Southern District of New York. In August 2007, the District Court affirmed the Bankruptcy Court s order approving the settlement. The Objecting Bondholders have appealed to the U.S. Court of Appeals for the Second Circuit.

Credit Card Processing Agreements

Visa/MasterCard Processing Agreement

In June 2007, we entered into an amended and restated Visa/MasterCard credit card processing agreement (the Amended Processing Agreement) that, among other things, resulted in the release by the credit card processor (Processor) of the Reserve (defined below) under the agreement and extended the term of the agreement to October 31, 2008.

The Amended Processing Agreement provides that no future cash reserve of an amount (Reserve) equal to the Processor s potential liability for tickets purchased with Visa or MasterCard that had not yet been used for travel is required except in certain circumstances, including events that in the reasonable determination of the Processor would have a material adverse effect on us.

Further, if either we or the Processor determines not to extend the term of the Amended Processing Agreement beyond October 31, 2008, then the Processor may maintain a Reserve, if we do not maintain a certain amount of cash, during the period of 90 days before the expiration date of the agreement. The Reserve would equal approximately 100% of the value of tickets for which we had received payment under the Amended Processing Agreement, but which have not been used for travel. Such a Reserve would be released to us following termination of the Amended Processing Agreement as tickets are used for travel. There was no Reserve as of June 30, 2008.

American Express

Our American Express credit card processing agreement, entered into in 2004 and amended in 2005, provides that American Express is permitted to withhold our receivables in certain circumstances. These circumstances include a material increase in the risk that we will be unable to meet our obligations under the agreement or that our business undergoes a material adverse change that materially increases American Express risk of loss. No amounts were withheld as of June 30, 2008.

Other Contingencies

Regional Airports Improvement Corporation (RAIC)

We have obligations under a facilities agreement with the RAIC to pay the bond trustee amounts sufficient to pay the debt service on $47 million in Facilities Sublease Refunding Revenue Bonds. These bonds were issued in 1996 to refinance bonds that financed the construction of certain airport and terminal facilities we use at Los Angeles International Airport. We also provide a guarantee to the bond trustee covering payment of the debt service.

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 and 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 condition, use or operation of the aircraft or such other equipment.

We believe that our insurance would cover most of our exposure to such liabilities and related indemnities associated with the types of lease and financing agreements described above, including real estate leases. However, our insurance does not typically cover environmental liabilities, although we have certain policies in place to meet the requirements of applicable environmental laws.

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

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

Employees Under Collective Bargaining Agreements

At June 30, 2008, we had a total of 55,397 full-time equivalent employees. Approximately 17% of these employees, including all of our pilots, are represented by labor unions. The following table presents certain information concerning the union representation of our active domestic employees as of June 30, 2008.

Employee Group	Approximate Number of Employees Represented	Union	Date on which Collective Bargaining Agreement Becomes Amendable
Delta Pilots	6,590	ALPA	December 31, 2009
Delta Flight Superintendents	182	PAFCA(1)	January 1, 2010
Comair Pilots	1,434	ALPA	March 2, 2011
Comair Maintenance Employees	528	IAM(2)	December 31, 2010
Comair Flight Attendants	945	IBT(3)	December 31, 2010

The table above was not subject to the review procedures of our Independent Registered Public Accounting Firm.

(1) PAFCA Professional Airline Flight Controllers Association

(2) IAM International Association of Machinists and Aerospace Workers

(3) IBT International Brotherhood of Teamsters

In March 2008, the National Mediation Board authorized an election to determine whether to certify the Association of Flight Attendants/Communication Workers of America (AFA) as the collective bargaining representative for Delta s over 13,000 flight attendants. In May 2008, the National Mediation Board announced that a substantial majority of eligible flight attendants rejected AFA representation.

War-Risk Insurance Contingency

As a result of the terrorist attacks on September 11, 2001, aviation insurers significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons (other than employees or passengers) for claims resulting from acts of terrorism, war or similar events. At the same time, aviation insurers significantly increased the premiums for such coverage and for aviation insurance in general. Since September 24, 2001, the U.S. government has been providing U.S. airlines with war-risk insurance to cover losses, including those resulting from terrorism, to passengers, third parties (ground damage) and the aircraft hull. The coverage currently extends through December 31, 2008. The withdrawal of government support of airline war-risk insurance would require us to obtain war-risk insurance coverage commercially, if available. Such commercial insurance could have substantially less desirable coverage than currently provided by the U.S. government, may not be adequate to protect our risk of loss from future acts of terrorism, may result in a material increase to our operating expenses or may not be obtainable at all, resulting in an interruption to our operations.

Fuel Inventory Supply Agreement

We have an agreement with J. Aron & Company (Aron), an affiliate of Goldman Sachs & Co., pursuant to which Aron is the exclusive jet fuel supplier for our operations at the Atlanta airport, the Cincinnati airport and the three major airports in the New York City area.

In August 2007, we and Aron amended and restated the agreement effective as of September 15, 2007. As amended, the agreement with Aron is effective through September 30, 2008 and automatically renews for a one year term thereafter unless terminated by either party thirty days prior to September 30, 2008. Upon termination of the agreement, we will be required to purchase, at market prices at the time of termination, all jet fuel inventory that Aron is holding in the storage facilities that support our operations at the Atlanta and Cincinnati airports and all jet fuel inventory that is in transit to these airports as well as to the three major New York City area airports. Our cost to purchase such inventory may be material. At termination of the agreement, Aron will return to us our rights to use the storage facilities in Atlanta and Cincinnati and our allocations in pipeline systems.

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.

7. EMPLOYEE BENEFIT PLANS

Net Periodic Cost

Net periodic cost for the three and six months ended June 30, 2008, the two months ended June 30, 2007 and the one month and four months ended April 30, 2007 includes the following components:

	Pension Benefits					
	Successor		Predecessor	Successor		Predecessor
(in millions)	Three Months Ended June 30, 2008	Two Months Ended June 30, 2007	One Month Ended April 30, 2007	Six Months Ended June 30, 2008	Two Months Ended June 30, 2007	Four Months Ended April 30, 2007
Service cost	$	$	$	$	$	$
Interest cost	114	74	36	228	74	145
Expected return on plan assets	(106)	(70)	(32)	(211)	(70)	(129)
Amortization of prior service cost						
Recognized net actuarial loss			5			19
Settlement gain on termination			(30)			(30)
Revaluation of liability			(143)			(143)
Net periodic (benefit) cost	$ 8	$ 4	$ (164)	$ 17	$ 4	$ (138)

	Other Postretirement Benefits					
	Successor		Predecessor	Successor		Predecessor
(in millions)	Three Months Ended June 30, 2008	Two Months Ended June 30, 2007	One Month Ended April 30, 2007	Six Months Ended June 30, 2008	Two Months Ended June 30, 2007	Four Months Ended April 30, 2007
Service cost	$ 2	$ 2	$ 1	$ 4	$ 2	$ 4
Interest cost	14	10	5	29	10	21
Amortization of prior service benefit			(8)			(31)
Recognized net actuarial loss	(1)		2	(3)		8
Revaluation of liability			49			49
Net periodic cost	$ 15	$ 12	$ 49	$ 30	$ 12	$ 51

	Other Postemployment Benefits					
	Successor		Predecessor	Successor		Predecessor
(in millions)	Three Months Ended June 30, 2008	Two Months Ended June 30, 2007	One Month Ended April 30, 2007	Six Months Ended June 30, 2008	Two Months Ended June 30, 2007	Four Months Ended April 30, 2007
Service cost	$ 7	$ 5	$ 3	$ 14	$ 5	$ 8
Interest cost	32	21	10	63	21	41
Expected return on plan assets	(38)	(26)	(13)	(75)	(26)	(51)
Amortization of prior service benefit						(2)
Recognized net actuarial loss			1			5
Revaluation of liability			(273)			(273)
Net periodic (benefit) cost	$ 1	$	$ (272)	$ 2	$	$ (272)

For additional information about our benefit plans, see Note 10 of the Notes to the Consolidated Financial Statements in our Form 10-K.

8. COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income primarily includes (1) our reported net (loss) income, (2) changes in our unrecognized pension, postretirement and postemployment benefit liabilities, (3) changes in the effective portion of our open fuel hedge contracts which qualify for hedge accounting and (4) changes in our deferred tax asset valuation allowance as a result of items (2) and (3) above.

The following table shows our comprehensive (loss) income for the three and six months ended June 30, 2008, the two months ended June 30, 2007 and the one month and four months ended April 30, 2007:

	Successor		Predecessor	Successor		Predecessor
(in millions)	**Three Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**One Month Ended April 30, 2007**	**Six Months Ended June 30, 2008**	**Two Months Ended June 30, 2007**	**Four Months Ended April 30, 2007**
Net (loss) income	$ (1,044)	$ 164	$ 1,428	$ (7,434)	$ 164	$ 1,298
Gains on effective portion of our open fuel hedge contracts, net of tax effect	497	5	(8)	621	5	69
Deferred tax asset valuation allowance	305	3		396	3	
Other	(1)		6	(1)		6
Comprehensive (loss) income	$ (243)	$ 172	$ 1,426	$ (6,418)	$ 172	$ 1,373

9. RESTRUCTURING AND OTHER RESERVES

In March 2008, we announced two voluntary workforce reduction programs for U.S. non-pilot employees with the intent of reducing planned workforce levels by approximately 2,000 positions. Approximately 4,200 employees elected to participate in these programs, which have been accounted for in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits an amendment of Financial Accounting Standards Board Statements No. 5 and 43, and SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. We recorded $96 million and $112 million in restructuring and related items on our Consolidated Statement of Operations for the three and six months ended June 30, 2008 in connection with the workforce reduction programs. We expect any additional charges to be incurred in connection with the workforce reduction programs will be immaterial.

The following table shows charges recorded for restructuring and related items for the three and six months ended June 30, 2008 related to (1) severance and related costs under our 2008 voluntary workforce reduction program and (2) facility closures and other costs:

(in millions)	**Three Months Ended June 30, 2008**	**Six Months Ended June 30, 2008**
Severance and related costs	$ 96	$ 112
Facilities and other	6	6
Total	$ 102	$ 118

The following table shows our restructuring and related items balances as of June 30, 2008, and the activity for the six months then ended related to (1) severance and related costs under our 2008 voluntary workforce reduction programs and (2) facility closures and other costs:

(in millions)	**Balance at December 31, 2007**	**Additional Costs and Expenses**	**Payments**	**Balance at June 30, 2008**

Severance and related costs	$	$ 112	$ (11)	$ 101
Facilities and other[1]	3	6	(1)	8
Total	$ 3	$ 118	$ (12)	$ 109

(1) The facilities and other balance includes costs related primarily to (1) future lease payments on closed facilities and (2) contract termination fees. During the six months ended June 30, 2008, we recorded a $6 million charge related primarily to the closure of certain facilities.

10. (LOSS) EARNINGS PER SHARE

We calculate basic (loss) earnings per share by dividing the net (loss) earnings attributable to common shareowners by the weighted average number of common shares outstanding. In accordance with SFAS No. 128, Earnings per Share, shares issuable upon the satisfaction of certain conditions pursuant to a contingent stock agreement, such as those contemplated by the Plan of Reorganization, are considered outstanding common shares and included in the computation of basic earnings per share. Accordingly, all 386 million shares contemplated by the Plan of Reorganization to be distributed to holders of allowed general, unsecured claims are included in the calculation of basic (loss) earnings per share for the three and six months ended June 30, 2008 and the two months ended June 30, 2007.

Diluted (loss) earnings per share includes the dilutive effects of stock options and restricted stock. To the extent stock options and restricted stock are anti-dilutive, they are excluded from the calculation of earnings per share. For the three and six months ended June 30, 2008, we excluded from our earnings per share calculations all common stock equivalents because their effect on earnings per share was anti-dilutive. For additional information regarding these shares, see Note 16 of the Notes to the Consolidated Financial Statements in our Form 10-K.

The following table shows our computation of basic and diluted (loss) earnings per share for the three and six months ended June 30, 2008, the two months ended June 30, 2007 and the one month and four months ended April 30, 2007:

(in millions, except per share data)	Successor		Predecessor	Successor		Predecessor
	Three Months Ended June 30, 2008	Two Months Ended June 30, 2007	One Month Ended April 30, 2007	Six Months Ended June 30, 2008	Two Months Ended June 30, 2007	Four Months Ended April 30, 2007
Basic:						
Net (loss) income	$ (1,044)	$ 164	$ 1,428	$ (7,434)	$ 164	$ 1,298
Basic weighted average shares outstanding	395.7	393.6	197.3	395.7	393.6	197.3
Basic (loss) earnings per share	$ (2.64)	$ 0.42	$ 7.24	$ (18.79)	$ 0.42	$ 6.58
Diluted:						
Net (loss) income	$ (1,044)	$ 164	$ 1,428	$ (7,434)	$ 164	$ 1,298
Gain recognized on the forgiveness of convertible debt			(216)			(216)
Net (loss) income assuming conversion	$ (1,044)	$ 164	$ 1,212	$ (7,434)	$ 164	$ 1,082
Basic weighted average shares outstanding	395.7	393.6	197.3	395.7	393.6	197.3
Additional shares assuming:						
Restricted shares		0.2			0.2	
Conversion of 8.0% Convertible Senior Notes			12.5			12.5
Conversion of 2 $^{7}/8$% Convertible Senior Notes			23.9			23.9
Weighted average shares outstanding, as adjusted	395.7	393.8	233.7	395.7	393.8	233.7
Dilutive (loss) earnings per share	$ (2.64)	$ 0.42	$ 5.19	$ (18.79)	$ 0.42	$ 4.63

11. MERGER AND RELATED MATTERS

On April 14, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Northwest whereby Northwest will become a wholly owned subsidiary of Delta. The merger has been approved by the Board of Directors of each company.

Under the terms of the Merger Agreement, each outstanding share of Northwest common stock (including those shares issuable pursuant to Northwest s plan of reorganization under Chapter 11) will be exchanged for 1.25 shares of Delta common stock. Northwest stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to Delta common stock, after giving effect to the exchange ratio. In addition, we have agreed to issue common stock equal to 3.5% of our fully-diluted outstanding shares for Delta pilots and 2.38% of our fully-diluted outstanding shares for Northwest pilots (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to ratification by Delta and Northwest pilots of the tentative combined collective bargaining agreement, described below, and approval by Delta stockholders of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan. We have also announced our intention to issue to U.S. based non-pilot employees of Delta and Northwest shares of our common stock equal to 4% of our fully-diluted outstanding shares (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to shareholder approval of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan.

Completion of the merger is subject to customary conditions, including approval by holders of common stock of Northwest and Delta and regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the applicable merger control laws of the European Commission. The Merger Agreement contains certain termination rights for both Delta and Northwest. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, Northwest may be required to pay to Delta, or Delta may be required to pay to Northwest, a termination fee of $165 million. We currently target the merger to close by the end of 2008.

Certain contracts, employee benefit arrangements and debt instruments of Delta and Northwest contain change in control provisions that may be triggered by the merger, resulting in changes to the terms or settlement amounts of the contracts, arrangements or instruments.

We have also reached a tentative combined collective bargaining agreement that would cover Delta s pilots and Northwest s pilots upon the closing of the merger. The tentative combined agreement is subject to separate ratification by Delta and Northwest pilots, would become effective on the closing of the merger and would become amendable on December 31, 2012. We cannot predict the outcome of the separate ratification votes by Delta or Northwest pilots. The Delta Master Executive Council (the Delta MEC), the governing body of the Delta unit of ALPA, the Northwest Master Executive Council (the Northwest MEC), the governing body of the Northwest Airlines, Inc. unit of ALPA, and ALPA have also agreed to adopt and be bound by a Process Agreement relating to the determination of an integrated seniority list, which would become effective upon the closing of the merger, for the combined Delta and Northwest pilot groups. The parties to the Process Agreement may not revise, waive any material right under, or terminate the Process Agreement without our consent.

If the stockholders of Delta do not approve an amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan, the Delta MEC and the Northwest MEC will separately have the ability, prior to the closing of the merger, to terminate the transaction framework agreement that we have entered into with the Delta MEC, the Northwest MEC and ALPA. Such a termination would cause the transaction framework agreement and the combined collective bargaining agreement to become void. If those agreements become void, we cannot assure you when or whether we could reach new agreements with the pilot groups.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Background

We are a major air carrier that provides scheduled air transportation for passengers and cargo throughout the United States (U.S.) and around the world. We offer service, including Delta Connection carrier service, to 327 destinations in 62 countries in July 2008. We are a founding member of SkyTeam, a global airline alliance that provides customers with extensive worldwide destinations, flights and services. Including our SkyTeam and worldwide codeshare partners, we offer flights to 499 worldwide destinations in 105 countries in July 2008.

On April 30, 2007 (the Effective Date), we and substantially all of our subsidiaries (collectively, the Debtors) emerged from bankruptcy as a competitive airline with a global network. Upon emergence from Chapter 11, we adopted fresh start reporting in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7). The adoption of fresh start reporting resulted in our becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 1, 2007 are not comparable to the Condensed Consolidated Financial Statements prior to that date.

References in this Form 10-Q to Successor refer to Delta on or after May 1, 2007, after giving effect to (1) the cancellation of Delta common stock issued prior to the Effective Date, (2) the issuance of new Delta common stock and certain debt securities in accordance with the Debtors Joint Plan of Reorganization (the Plan of Reorganization) and (3) the application of fresh start reporting. References to Predecessor refer to Delta prior to May 1, 2007.

Combined Quarterly Financial Results of the Predecessor and Successor

Due to our adoption of fresh start reporting on April 30, 2007, the accompanying Consolidated Statements of Operations include the results of operations for (1) the one month and four months ended April 30, 2007 of the Predecessor and (2) the two months ended June 30, 2007 of the Successor.

For purposes of management s discussion and analysis of the results of operations in this Form 10-Q, we combined the results of operations for (1) the one month ended April 30, 2007 of the Predecessor with the two months ended June 30, 2007 of the Successor and (2) the four months April 30, 2007 of the Predecessor with the two months ended June 30, 2007 of the Successor. We then compare the combined results of operations for the three and six months ended June 30, 2007 with the corresponding periods in the current year.

We believe the combined results of operations for the three and six months ended June 30, 2007 provide management and investors with a more meaningful perspective on Delta s financial and operational performance than if we did not combine the results of operations of the Predecessor and the Successor in this manner. Similarly, we combine the financial results of the Predecessor and the Successor when discussing our sources and uses of cash for the six months ended June 30, 2007.

Recent Developments

Merger

On April 14, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Northwest Airlines Corporation (Northwest) whereby Northwest will become a wholly owned subsidiary of Delta. The merger better positions us to manage through economic cycles and volatile fuel prices, to invest in our fleet and to improve services for customers. We believe the merger will generate approximately $2 billion in annual revenue and cost synergies by 2012 from more effective aircraft utilization, a more comprehensive and diversified route system and cost synergies from reduced overhead and improved operational efficiency. The merger has been approved by the Board of Directors of each company.

Under the terms of the Merger Agreement, each outstanding share of Northwest common stock (including those shares issuable pursuant to Northwest s plan of reorganization under Chapter 11) will be exchanged for 1.25 shares of Delta common stock. Northwest stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to Delta common stock, after giving effect to the exchange ratio. In addition, we have agreed to issue common stock equal to 3.5% of our fully-diluted outstanding shares for Delta pilots and 2.38% of our fully-diluted outstanding shares for Northwest pilots (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to ratification by Delta and Northwest pilots of the tentative combined collective bargaining agreement, described below, and approval by Delta stockholders of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan. We have also announced our intention to issue to U.S. based non-pilot employees of Delta and Northwest shares of our common stock equal to 4% of our fully-diluted shares (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to stockholder approval of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan.

Completion of the merger is subject to customary conditions, including approval by holders of common stock of Northwest and Delta and regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the applicable merger control laws of the European Commission. The Merger Agreement contains certain termination rights for both Delta and Northwest. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, Northwest may be required to pay to Delta, or Delta may be required to pay to Northwest, a termination fee of $165 million. We currently target the merger to close by the end of 2008.

ALPA Matters

In connection with the Merger Agreement, we reached an agreement with the Air Line Pilots Association, International (ALPA) to modify the existing collective bargaining agreement covering Delta s pilots, which was ratified by Delta pilots. Subsequently, we reached a tentative combined collective bargaining agreement that would cover Delta s pilots and Northwest s pilots upon the closing of the merger. The tentative combined agreement is subject to separate ratification by Delta and Northwest pilots, would become effective on the closing of the merger and would become amendable on December 31, 2012. The Delta Master Executive Council (the Delta MEC), the governing body of the Delta unit of ALPA, and the Northwest Master Executive Council (the Northwest MEC), the governing body of the Northwest Airlines, Inc. unit of ALPA, have each agreed to recommend that Delta and Northwest pilots, respectively, ratify the tentative combined agreement and use their reasonable best efforts to cause a ratification vote by August 25, 2008. We cannot predict the outcome of the ratification vote by Delta or Northwest pilots. The Delta MEC, the Northwest MEC and ALPA have also agreed to adopt and be bound by a Process Agreement relating to the determination of an integrated seniority list, which would become effective upon the closing of the merger, for the combined Delta and Northwest pilot groups. The parties to the Process Agreement may not revise, waive any material right under, or terminate the Process Agreement without our consent.

If the stockholders of Delta do not approve an amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan, the Delta MEC and the Northwest MEC will separately have the ability, prior to the closing of the merger, to terminate the transaction framework agreement that we have entered into with the Delta MEC, the Northwest MEC and ALPA. Such a termination would cause the transaction framework agreement and the combined collective bargaining agreement to become void. If those agreements become void, we cannot assure you when or whether we could reach new agreements with the pilot groups.

Antitrust Immunity

On May 23, 2008, the U.S. Department of Transportation issued a final order granting antitrust immunity for alliance agreements allowing coordination of pricing, schedules, sales and other marketing activities in transatlantic markets between Delta, Northwest, Air France, KLM, Alitalia and CSA Czech Airlines. The order, effectively combines the preexisting antitrust immunity between (1) Northwest and KLM and (2) Delta, Air France, Alitalia, and CSA Czech Airlines in the transatlantic markets. The grant of immunity is subject to a number of conditions, including the implementation of a planned four-way transatlantic joint venture between Delta, Air France, Northwest and KLM, within 18 months of the date of the final order.

Overview of June 2008 Quarter Results

In the June 2008 quarter, we recorded a consolidated net loss of $1.0 billion, which includes a $1.2 billion non-cash charge ($1.1 billion after tax) from an impairment of goodwill and other intangible assets.

Business Initiatives

The rapid increase in fuel costs to record high levels (crude oil prices have increased from an average of $68 per barrel in June 2007 to an average of $134 per barrel in June 2008) and the weakening U.S. economy continue to place significant pressure on the airline industry and our business. Fuel prices for the June 2008 quarter, including those of our contract carriers, accounted for over $1.0 billion of the increase in total operating expense (offset by $313 million in effective fuel hedges) as compared to the June 2007 quarter.

In March 2008, we announced we had recalibrated our 2008 business plan with a focus on preserving liquidity in light of the significant increase in crude oil prices. During the June 2008 quarter, as fuel prices continued to rise, we reevaluated our flight schedule, targeting additional reductions in capacity. We now expect system capacity for the second half of 2008 to be down 4% compared to 2007, with domestic capacity down 13% and international capacity up 14%. We have also implemented revenue and productivity initiatives as well as continued to build our fuel hedging portfolio to help address high fuel costs. As a result of our actions, we mitigated nearly 80% of the impact of higher fuel prices during the June 2008 quarter.

Results of Operations June 2008 and 2007 Quarters

Net (Loss) Income

We had a consolidated net loss of $1.0 billion for the June 2008 quarter and consolidated net income of $1.6 billion for the June 2007 quarter. The results for the June 2008 quarter reflect (1) a $1.2 billion non-cash charge ($1.1 billion after tax) from an impairment of goodwill and other intangible assets, (2) the impact of increased jet fuel prices to record high levels and (3) a weakening domestic economy. The June 2007 quarter results include a $1.3 billion gain to reorganization items, net, primarily reflecting a $2.1 billion gain in connection with our emergence from bankruptcy.

Operating Revenue

(in millions)	Successor Three Months Ended June 30, 2008	Combined Three Months Ended June 30, 2007	Increase (Decrease)	% Increase (Decrease)
Operating Revenue:				
Passenger:				
Mainline	$ 3,627	$ 3,384	$ 243	7%
Regional affiliates	1,143	1,109	34	3%
Total passenger revenue				