

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

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 March 31, 2015

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

Number of shares outstanding by each class of common stock, as of March 31, 2015:

Common Stock, \$0.0001 par value - 816,296,778 shares outstanding

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

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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, 2014 (“Form 10-K”), other than risks that could apply to any issuer or offering. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Delta Air Lines, Inc.

We have reviewed the consolidated balance sheet of Delta Air Lines, Inc. (the Company) as of March 31, 2015, and the related condensed consolidated statements of operations and comprehensive income and cash flows for the three-month periods ended March 31, 2015 and 2014. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Delta Air Lines, Inc. as of December 31, 2014 and the related consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity (deficit) for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 10, 2015.

Atlanta, Georgia  
April 15, 2015

/s/ Ernst & Young LLP

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

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

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

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

## DELTA AIR LINES, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

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

|                      |       |       |
|----------------------|-------|-------|
| Comprehensive Income | \$763 | \$204 |
|----------------------|-------|-------|

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

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## DELTA AIR LINES, INC.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|                                                          | Three Months Ended<br>March 31, |          |
|----------------------------------------------------------|---------------------------------|----------|
| (in millions)                                            | 2015                            | 2014     |
| Net Cash Provided by Operating Activities                | \$ 1,636                        | \$ 951   |
| Cash Flows From Investing Activities:                    |                                 |          |
| Property and equipment additions:                        |                                 |          |
| Flight equipment, including advance payments             | (451)                           | (514)    |
| Ground property and equipment, including technology      | (135)                           | (100)    |
| Purchase of short-term investments                       | (344)                           | (240)    |
| Redemption of short-term investments                     | 115                             | 251      |
| Other, net                                               | 3                               | 40       |
| Net cash used in investing activities                    | (812)                           | (563)    |
| Cash Flows From Financing Activities:                    |                                 |          |
| Payments on long-term debt and capital lease obligations | (301)                           | (412)    |
| Repurchase of common stock                               | (425)                           | (125)    |
| Cash dividends                                           | (75)                            | (51)     |
| Proceeds from long-term obligations                      | 41                              | 59       |
| Other, net                                               | (30)                            | (4)      |
| Net cash used in financing activities                    | (790)                           | (533)    |
| Net Increase (Decrease) in Cash and Cash Equivalents     | 34                              | (145)    |
| Cash and cash equivalents at beginning of period         | 2,088                           | 2,844    |
| Cash and cash equivalents at end of period               | \$ 2,122                        | \$ 2,699 |
| Non-Cash Transactions:                                   |                                 |          |
| Flight equipment under capital leases                    | \$ 39                           | \$ 10    |

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

DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements  
(Unaudited)

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Form 10-K.

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

Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions and other factors, operating results for the three months ended March 31, 2015 are not necessarily indicative of operating results for the entire year.

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

### Recent Accounting Standards

#### Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." While the standard supersedes existing revenue recognition guidance, it closely aligns with current GAAP. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption.

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

#### Presentation of Debt Issuance Costs

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



## NOTE 2. SEGMENTS

## Refinery Operations

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

## Segment Reporting

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

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

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

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

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

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



## NOTE 3. FAIR VALUE MEASUREMENTS

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

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

  

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

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

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

Long-Term Investments. Our long-term investments that are measured at fair value primarily consist of equity investments in Grupo Aeroméxico, S.A.B. de C.V., the parent company of Aeroméxico, and GOL Linhas Aéreas Inteligentes, S.A., the parent company of VRG Linhas Aéreas (operating as GOL). Shares of the parent companies of Aeroméxico and GOL are traded on public exchanges and we have valued our investments based on quoted market prices. The investments are classified in other noncurrent assets.



**Hedge Derivatives.** Our derivative contracts are generally negotiated with counterparties without going through a public exchange. Accordingly, our fair value assessments give consideration to the risk of counterparty default (as well as our own credit risk).

**Fuel Contracts.** Our fuel hedge portfolio consists of options, swaps and futures. The hedge contracts include crude oil, diesel fuel and jet fuel, as these commodities are highly correlated with the price of jet fuel that we consume. Option contracts are valued under an income approach using option pricing models based on data either readily observable in public markets, derived from public markets or provided by counterparties who regularly trade in public markets. Volatilities used in these valuations ranged from 26% to 73% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap contracts are valued under an income approach using a discounted cash flow model based on data either readily observable or derived from public markets. Discount rates used in these valuations vary with the maturity dates of the respective contracts and are based on LIBOR. Futures contracts and options on futures contracts are traded on a public exchange and valued based on quoted market prices.

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

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

#### NOTE 4. INVESTMENTS

##### Short-Term Investments

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

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

#### NOTE 5. DERIVATIVES

Changes in aircraft fuel prices, interest rates and foreign currency exchange rates impact our results of operations. In an effort to manage our exposure to these risks, we enter into derivative contracts and adjust our derivative portfolio as market conditions change.

##### Aircraft Fuel Price Risk

Changes in aircraft fuel prices materially impact our results of operations. We actively manage our fuel price risk through a hedging program intended to reduce the financial impact from changes in the price of jet fuel. We utilize different contract and commodity types in this program and frequently test their economic effectiveness against our



financial targets. We rebalance the hedge portfolio from time to time according to market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates. During the three months ended March 31, 2015 and 2014, we recorded a \$411 million fuel hedge loss and a \$78 million fuel hedge gain, respectively.

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

## Hedge Position as of March 31, 2015

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

## Hedge Position as of December 31, 2014

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

## Offsetting Assets and Liabilities

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

| (in millions) | Hedge<br>Derivatives | Other<br>Noncurrent | Hedge<br>Derivatives | Other<br>Noncurrent | Hedge<br>Derivatives, |
|---------------|----------------------|---------------------|----------------------|---------------------|-----------------------|
|---------------|----------------------|---------------------|----------------------|---------------------|-----------------------|

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

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## Designated Hedge Gains (Losses)

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

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

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

## Credit Risk

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

Our hedge contracts contain margin funding requirements. The margin funding requirements may cause us to post margin to counterparties or may cause counterparties to post margin to us as market prices in the underlying hedged items change. Due to the fair value position of our hedge contracts, we posted margin of \$383 million and \$925 million as of March 31, 2015 and December 31, 2014, respectively.

## NOTE 6. LONG-TERM DEBT

## Fair Value of Debt

Market risk associated with our fixed- and variable-rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates. In the table below, the aggregate fair value of debt is based primarily on reported market values, recently completed market transactions and estimates based on interest rates, maturities, credit risk and underlying collateral and is classified primarily as Level 2 within the fair value hierarchy.

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

## Covenants

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



## NOTE 7. EMPLOYEE BENEFIT PLANS

The following table shows the components of net periodic cost:

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

## NOTE 8. COMMITMENTS AND CONTINGENCIES

## Aircraft Purchase and Lease Commitments

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

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

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

## Venezuelan Currency Devaluation

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

## Legal Contingencies

We are involved in various legal proceedings related to employment practices, environmental issues, antitrust matters and other matters concerning our business. We record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount of loss can be reasonably estimated. We cannot reasonably estimate the potential loss for certain legal proceedings because, for example, the

litigation is in its early stages or the plaintiff does not specify the damages being sought. Although the outcome of the legal proceedings in which we are involved cannot be predicted with certainty, management believes that the resolution of these matters will not have a material adverse effect on our Condensed Consolidated Financial Statements.

## Other Contingencies

### General Indemnifications

We are the lessee under many commercial real estate leases. It is common in these transactions for us, as the lessee, to agree to indemnify the lessor and the lessor's related parties for tort, environmental and other liabilities that arise out of or relate to our use or occupancy of the leased premises. This type of indemnity would typically make us responsible to indemnified parties for liabilities arising out of the conduct of, among others, contractors, licensees and invitees at, or in connection with, the use or occupancy of the leased premises. This indemnity often extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by either their sole or gross negligence or their willful misconduct.

Our aircraft and other equipment lease and financing agreements typically contain provisions requiring us, as the lessee or obligor, to indemnify the other parties to those agreements, including certain of those parties' related persons, against virtually any liabilities that might arise from the use or operation of the aircraft or other equipment.

We believe that our insurance would cover most of our exposure to liabilities and related indemnities associated with the commercial real estate leases and aircraft and other equipment lease and financing agreements described above. While our insurance does not typically cover environmental liabilities, we have certain insurance policies in place as required by applicable environmental laws.

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

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

### Employees Under Collective Bargaining Agreements

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

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

### Other

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





## NOTE 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

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

Amounts reclassified from AOCI for pension and other benefits liabilities are recorded in salaries and related costs in the Condensed Consolidated Statements of Operations and Comprehensive Income.

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

Amounts reclassified from AOCI for investments are recorded in interest expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Income.

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

## NOTE 10. RESTRUCTURING AND OTHER ITEMS

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

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

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



## NOTE 11. EARNINGS PER SHARE

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

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

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

### March 2015 Quarter Financial Highlights

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

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

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

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

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

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

## Operating Revenue

| (in millions)           | Three Months Ended March 31, |         | Increase<br>(Decrease) | % Increase<br>(Decrease) |    |
|-------------------------|------------------------------|---------|------------------------|--------------------------|----|
|                         | 2015                         | 2014    |                        |                          |    |
| Passenger:              |                              |         |                        |                          |    |
| Mainline                | \$6,549                      | \$6,224 | \$325                  | 5                        | %  |
| Regional carriers       | 1,374                        | 1,453   | (79)                   | (5)                      | )% |
| Total passenger revenue | 7,923                        | 7,677   | 246                    | 3                        | %  |
| Cargo                   | 217                          | 217     | —                      | —                        | %  |
| Other                   | 1,248                        | 1,022   | 226                    | 22                       | %  |
| Total operating revenue | \$9,388                      | \$8,916 | \$472                  | 5                        | %  |

| (in millions)      | Three Months<br>Ended<br>March 31, 2015 | Increase (Decrease)<br>vs. Three Months Ended March 31, 2014 |                                  |                                   |                            |                      |                |          |
|--------------------|-----------------------------------------|--------------------------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------|----------------|----------|
|                    |                                         | Passenger<br>Revenue                                         | RPMs <sup>(1)</sup><br>(Traffic) | ASMs <sup>(2)</sup><br>(Capacity) | Passenger<br>Mile<br>Yield | PRASM <sup>(3)</sup> | Load<br>Factor |          |
| Domestic           | \$4,080                                 | 9                                                            | % 6.7                            | % 7.0                             | % 2.4                      | % 2.1                | %(0.3          | )<br>pts |
| Atlantic           | 1,018                                   | 1                                                            | %(0.3                            | )%4.1                             | % 1.4                      | %(2.9                | )% (3.3        | )<br>pts |
| Pacific            | 740                                     | (11                                                          | )% (2.5                          | )% (1.4                           | )% (8.2                    | )% (9.2              | )% (0.9        | )<br>pts |
| Latin America      | 711                                     | 8                                                            | % 9.8                            | % 13.2                            | % (1.2                     | )% (4.2              | )% (2.6        | )<br>pts |
| Total Mainline     | 6,549                                   | 5                                                            | % 4.4                            | % 5.9                             | % 0.8                      | %(0.7                | )% (1.2        | )<br>pts |
| Regional carriers  | 1,374                                   | (5                                                           | )% (2.3                          | )% (1.8                           | )% (3.1                    | )% (3.7              | )% (0.4        | )<br>pts |
| Total Consolidated | \$7,923                                 | 3                                                            | % 3.6                            | % 5.0                             | %(0.4                      | )% (1.7              | )% (1.0        | ) pt     |

<sup>(1)</sup> Revenue passenger miles (“RPMs”)

<sup>(2)</sup> Available seat miles (“ASMs”)

<sup>(3)</sup> Passenger revenue per ASM (“PRASM”)

Passenger revenue increased \$246 million, or 3%, compared to the March 2014 quarter. PRASM decreased 1.7% and passenger mile yield was flat on 5.0% higher capacity. Load factor was 1.0 point lower than the prior year quarter at 81.7%.

Unit revenues of the mainline domestic region increased 2.1% on 7.0% capacity growth led by strong improvements in our hubs in Seattle and New York-JFK. Our strength at JFK was primarily driven by long-haul markets, especially transcontinental flights.

Revenues related to our international regions decreased 1% year-over-year primarily due to foreign currency weakness versus the dollar and international surcharge declines. Atlantic unit revenue decreased 2.9% as a result of foreign currency weakness on a 4.1% increase in capacity. Our joint venture with Virgin Atlantic and corporate revenues contributed to a 1.4% increase in Atlantic yields. Our Pacific region experienced a 9.2% decline in unit revenues

driven by lower yield, primarily due to the effects of the weakening of the Japanese yen. Latin America capacity grew 13.2% as a result of our efforts to improve connections with GOL and Aeroméxico. GOL and Aeroméxico contributed a significant portion of the traffic between the U.S. and Brazil and key Mexican markets, respectively. Despite these contributions, Latin America unit revenues declined 4.2% as a result of foreign currency weakness and ongoing economic concerns in Venezuela.

Other Revenue. Other revenue increased \$226 million, or 22%, primarily due to loyalty program revenues and sales of non-jet fuel products to third parties by our oil refinery.

| Operating Expense<br>(in millions)                 | Three Months Ended<br>March 31, |         | Increase<br>(Decrease) | % Increase<br>(Decrease) |   |
|----------------------------------------------------|---------------------------------|---------|------------------------|--------------------------|---|
|                                                    | 2015                            | 2014    |                        |                          |   |
| Salaries and related costs                         | \$2,092                         | \$1,969 | \$123                  | 6                        | % |
| Aircraft fuel and related taxes                    | 1,835                           | 2,226   | (391)                  | (18)                     | % |
| Regional carrier expense                           | 1,053                           | 1,319   | (266)                  | (20)                     | % |
| Depreciation and amortization                      | 470                             | 442     | 28                     | 6                        | % |
| Aircraft maintenance materials and outside repairs | 452                             | 448     | 4                      | 1                        | % |
| Contracted services                                | 441                             | 427     | 14                     | 3                        | % |
| Passenger commissions and other selling expenses   | 386                             | 373     | 13                     | 3                        | % |
| Landing fees and other rents                       | 373                             | 341     | 32                     | 9                        | % |
| Passenger service                                  | 190                             | 173     | 17                     | 10                       | % |
| Profit sharing                                     | 136                             | 99      | 37                     | 37                       | % |
| Aircraft rent                                      | 60                              | 51      | 9                      | 18                       | % |
| Restructuring and other items                      | 10                              | 49      | (39)                   | NM <sup>(1)</sup>        |   |
| Other                                              | 492                             | 379     | 113                    | 30                       | % |
| Total operating expense                            | \$7,990                         | \$8,296 | \$(306)                | (4)                      | % |

Due to the nature of amounts recorded within restructuring and other items, a year-over-year comparison is not meaningful. For a discussion of charges recorded in restructuring and other items, see Note 10 of the Notes to the Condensed Consolidated Financial Statements.

**Salaries and Related Costs.** The increase in salaries and related costs is primarily due to pay rate increases and an increase in pilot and flight attendant block hours.

**Aircraft Fuel and Related Taxes.** Including our regional carriers, fuel expense decreased \$600 million compared to the prior year quarter due to a 45% decrease in the market price per gallon of fuel and an increase in Monroe's profitability, partially offset by fuel hedge losses and a 4% increase in consumption. The table below presents fuel expense, gallons consumed and average price per gallon:

| (in millions, except per gallon data)                                    | Three Months Ended<br>March 31, |         | Increase<br>(Decrease) | % Increase<br>(Decrease) |   |
|--------------------------------------------------------------------------|---------------------------------|---------|------------------------|--------------------------|---|
|                                                                          | 2015                            | 2014    |                        |                          |   |
| Aircraft fuel and related taxes <sup>(1)</sup>                           | \$1,835                         | \$2,226 | \$(391)                |                          |   |
| Aircraft fuel and related taxes included within regional carrier expense | 264                             | 473     | (209)                  |                          |   |
| Total fuel expense                                                       | \$2,099                         | \$2,699 | \$(600)                | (22)                     | % |
| Total fuel consumption (gallons)                                         | 918                             | 881     | 37                     | 4                        | % |
| Average price per gallon                                                 | \$2.29                          | \$3.06  | \$(0.77)               | (25)                     | % |

<sup>(1)</sup> Includes the impact of fuel hedging and refinery results described further in the table below.

The table below shows the impact of hedging and the refinery on fuel expense and average price per gallon, adjusted:

| (in millions, except per gallon data)                    | Three Months Ended<br>March 31, |         |           | Average Price Per Gallon<br>Three Months Ended |        |           |
|----------------------------------------------------------|---------------------------------|---------|-----------|------------------------------------------------|--------|-----------|
|                                                          | Change                          |         | March 31, | Change                                         |        | March 31, |
|                                                          | 2015                            | 2014    |           | 2015                                           | 2014   |           |
| Fuel purchase cost                                       | \$1,718                         | \$2,731 | \$(1,013) | \$1.87                                         | \$3.09 | \$(1.22)  |
| Airline segment fuel hedge losses (gains) <sup>(1)</sup> | 467                             | (73)    | \$540     | 0.51                                           | (0.08) | \$0.59    |



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|                                        |         |         |        |         |        |         |   |
|----------------------------------------|---------|---------|--------|---------|--------|---------|---|
| Refinery segment impact <sup>(1)</sup> | (86     | )41     | (127   | )(0.09  | )0.05  | (0.14   | ) |
| Total fuel expense                     | \$2,099 | \$2,699 | \$(600 | )\$2.29 | \$3.06 | \$(0.77 | ) |
| MTM adjustments and settlements        | 589     | (34     | )623   | 0.64    | (0.03  | )0.67   |   |
| Total fuel expense, adjusted           | \$2,688 | \$2,665 | \$23   | \$2.93  | \$3.03 | \$(0.10 | ) |

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

**Fuel Purchase Cost.** Fuel purchase cost is based on the market price for jet fuel at airport locations.

**Airline Segment Fuel Hedge Impact.** During the March 2015 quarter, our airline segment recorded a fuel hedge loss of \$467 million.

**Refinery Segment Impact.** The refinery results include the impact on fuel expense of self-supply from the production of the refinery and from refined products exchanged with third parties. To the extent that we account for exchanges of refined products as nonmonetary transactions, we include the results of those transactions within fuel expense. For additional information regarding the refinery segment impact, see "Refinery Segment" below.

**Mark-to-Market ("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 settling during the period. These items adjust fuel expense to show the economic impact of hedging, including cash received or paid on hedge contracts during the period. During the March 2015 quarter, we paid \$302 million to early settle contracts that were originally scheduled to expire in the second half of 2015.

We adjust fuel expense for the items noted above to arrive at an economic fuel cost. Our average price per gallon, adjusted (a non-GAAP financial measure) was \$2.93 for the three months ended March 31, 2015.

**Regional Carrier Expense.** The reduction in regional carrier expense is primarily due to lower fuel cost from a decrease in the cost of fuel per gallon, a contract settlement gain and lower block hours. During the March 2015 quarter, we removed seventeen 50-seat regional aircraft from our fleet as part of our strategy to restructure our domestic fleet.

**Depreciation and Amortization.** Depreciation and amortization expense increased year-over-year primarily due to investments in new B-737-900ER and CRJ-900 aircraft and aircraft modifications that upgraded aircraft interiors and enhanced our product offering.

**Landing Fees and Other Rents.** Landing fees and other rents increased primarily due to rent escalations and increased departures.

**Passenger Service.** Passenger service expense includes the costs for onboard food and beverage, cleaning and supplies. This expense increased year-over-year primarily due to costs associated with the 4.4% increase in mainline traffic.

**Profit Sharing.** The increase in profit sharing is driven by an increase in the projected full year pre-tax income compared to the prior year. 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 special items, such as MTM adjustments and settlements and restructuring and other. Our profit sharing program pays 10% to employees for the first \$2.5 billion of annual profits and 20% of annual profits above \$2.5 billion.

**Aircraft Rent.** Aircraft rent increased year-over-year due primarily to the addition of leased B-717-200 and B-737-900ER aircraft delivered during the preceding twelve months, partially offset by the retirement of B-747-400 aircraft.

Other. Other operating expense increased primarily due to costs associated with sales of non-jet fuel products to third parties by the oil refinery.

| Non-Operating Results<br><br>(in millions) | Three Months Ended<br>March 31, |          |                            |
|--------------------------------------------|---------------------------------|----------|----------------------------|
|                                            | 2015                            | 2014     | Favorable<br>(Unfavorable) |
| Interest expense, net                      | \$(131                          | ) \$(186 | ) \$ 55                    |
| Loss on extinguishment of debt             | —                               | (18      | ) 18                       |
| Miscellaneous, net                         | (81                             | ) (81    | ) —                        |
| Total other expense, net                   | \$(212                          | ) \$(285 | ) \$ 73                    |

The decline in interest expense, net results from reduced levels of debt and the refinancing of debt obligations at lower interest rates. Our principal amount of debt and capital leases has declined from \$11.4 billion at March 31, 2014 to \$9.6 billion at March 31, 2015.

During the March 2014 quarter, we recorded a loss of \$18 million on extinguishment of debt primarily related to unamortized debt discounts resulting from fair value adjustments recorded in the 2008 purchase accounting of Northwest Airlines.

#### Income Taxes

We project that our annual effective tax rate for 2015 will be approximately 38%. 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. At March 31, 2015, we had approximately \$12 billion of U.S. federal pre-tax net operating loss carryforwards, which do not begin to expire until 2024. Accordingly, we believe we will not pay federal income taxes during the next few years.

#### Refinery Segment

The refinery primarily produces gasoline, diesel and jet fuel. Under multi-year agreements, 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 provided approximately 164,000 barrels (approximately seven million gallons) per day for use in airline operations during the March 2015 quarter. We believe that the increase in jet fuel supply due to the refinery's operation has reduced the overall market price of jet fuel, and thus lowered our cost of jet fuel.

A refinery is subject to U.S. Environmental Protection Agency ("EPA") requirements that are established each year to blend renewable fuels into the gasoline and on-road diesel fuel it produces. Alternatively, a refinery may purchase renewable energy credits, called RINs, from third parties in the secondary market. Because the refinery operated by Monroe does not blend renewable fuels, it must purchase its entire RINs requirement in the secondary market or obtain a waiver from the EPA. We recognized \$28 million and \$34 million of expense related to the RINs requirement in the March 2015 and 2014 quarters, respectively. We are in possession of the RINs needed to satisfy our 2013 obligation and a portion of our 2014 obligation.

The refinery recorded a profit of \$86 million in the March 2015 quarter, compared to a loss of \$41 million in the March 2014 quarter.

#### Operating Statistics

The following table sets forth our operating statistics:

| Consolidated <sup>(1)</sup>                          | Three Months Ended March 31, |         |   |
|------------------------------------------------------|------------------------------|---------|---|
|                                                      | 2015                         | 2014    |   |
| Revenue passenger miles (millions)                   | 46,221                       | 44,601  |   |
| Available seat miles (millions)                      | 56,597                       | 53,904  |   |
| Passenger mile yield                                 | 17.14                        | ¢ 17.21 | ¢ |
| Passenger revenue per available seat mile            | 14.00                        | ¢ 14.24 | ¢ |
| Operating cost per available seat mile (CASM)        | 14.12                        | ¢ 15.39 | ¢ |
| CASM-Ex <sup>(2)</sup>                               | 9.64                         | ¢ 9.77  | ¢ |
| Passenger load factor                                | 81.7                         | % 82.7  | % |
| Fuel gallons consumed (millions)                     | 918                          | 881     |   |
| Average price per gallon <sup>(3)</sup>              | \$2.29                       | \$3.06  |   |
| Average price per gallon, adjusted <sup>(3)(4)</sup> | \$2.93                       | \$3.03  |   |
| Full-time equivalent employees, end of period        | 81,055                       | 78,870  |   |

(1) Includes the operations of our regional carriers. Full-time equivalent employees exclude employees of regional carriers that we do not own.

(2) Non-GAAP financial measure defined in "March 2015 Quarter Financial Highlights" above. See reconciliation to CASM in "Supplemental Information" below.

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

(4) Non-GAAP financial measure defined and reconciled in the "Operating Expense" section of "Results of Operations" for the three months ended March 31, 2015 and 2014.

## Fleet Information

Our operating aircraft fleet, commitments and options at March 31, 2015 are summarized in the following tables:

| Aircraft Type | Current Fleet <sup>(1)</sup> |               |                 | Total | Average Age | Commitments             |       |                        |
|---------------|------------------------------|---------------|-----------------|-------|-------------|-------------------------|-------|------------------------|
|               | Owned                        | Capital Lease | Operating Lease |       |             | Purchase <sup>(2)</sup> | Lease | Options <sup>(2)</sup> |
| B-717-200     | —                            | 8             | 53              | 61    | 13.3        | 3                       | 27    | —                      |
| B-737-700     | 10                           | —             | —               | 10    | 6.2         | —                       | —     | —                      |
| B-737-800     | 73                           | —             | —               | 73    | 14.2        | —                       | —     | —                      |
| B-737-900ER   | 27                           | —             | 10              | 37    | 0.9         | 63                      | —     | 30                     |
| B-747-400     | 8                            | 5             | —               | 13    | 22.9        | —                       | —     | —                      |
| B-757-200     | 89                           | 18            | 16              | 123   | 20.1        | 5                       | —     | —                      |
| B-757-300     | 16                           | —             | —               | 16    | 12.2        | —                       | —     | —                      |
| B-767-300     | 14                           | —             | 2               | 16    | 24.2        | —                       | —     | —                      |
| B-767-300ER   | 51                           | 5             | 2               | 58    | 19.0        | —                       | —     | 1                      |
| B-767-400ER   | 21                           | —             | —               | 21    | 14.1        | —                       | —     | 1                      |
| B-777-200ER   | 8                            | —             | —               | 8     | 15.2        | —                       | —     | —                      |
| B-777-200LR   | 10                           | —             | —               | 10    | 6.0         | —                       | —     | 2                      |
| B-787-8       | —                            | —             | —               | —     | —           | 18                      | —     | —                      |
| A319-100      | 55                           | —             | 2               | 57    | 13.2        | —                       | —     | —                      |
| A320-200      | 52                           | —             | 17              | 69    | 20.1        | —                       | —     | —                      |
| A321-200      | —                            | —             | —               | —     | —           | 45                      | —     | —                      |
| A330-200      | 11                           | —             | —               | 11    | 10.0        | —                       | —     | —                      |
| A330-300      | 21                           | —             | —               | 21    | 9.6         | 10                      | —     | —                      |
| A330-900neo   | —                            | —             | —               | —     | —           | 25                      | —     | —                      |
| A350-900      | —                            | —             | —               | —     | —           | 25                      | —     | —                      |
| MD-88         | 76                           | 41            | —               | 117   | 24.7        | —                       | —     | —                      |
| MD-90         | 57                           | 8             | —               | 65    | 18.1        | —                       | —     | —                      |
| Total         | 599                          | 85            | 102             | 786   | 17.0        | 194                     | 27    | 34                     |

(1) Excludes certain aircraft we own or lease, which are operated by regional carriers on our behalf shown in the table below.

(2) Our purchase commitment for 18 B-787-8 aircraft and option agreements for B-767-300ER, B-767-400ER and B-777-200LR aircraft provide for certain aircraft substitution rights.

The following table summarizes the aircraft fleet operated by our regional carriers on our behalf at March 31, 2015:

| Carrier                           | Fleet Type |         |         | Embraer 145 | Embraer 170 | Embraer 175 | Total |
|-----------------------------------|------------|---------|---------|-------------|-------------|-------------|-------|
|                                   | CRJ-200    | CRJ-700 | CRJ-900 |             |             |             |       |
| Endeavor Air, Inc. <sup>(1)</sup> | 45         | —       | 81      | —           | —           | —           | 126   |
| ExpressJet Airlines, Inc.         | 50         | 41      | 28      | —           | —           | —           | 119   |
| SkyWest Airlines, Inc.            | 53         | 19      | 32      | —           | —           | —           | 104   |
| Compass Airlines, Inc.            | —          | —       | —       | —           | 6           | 36          | 42    |
| Shuttle America Corporation       | —          | —       | —       | 41          | 14          | 16          | 71    |
| GoJet Airlines, LLC               | —          | 22      | —       | —           | —           | —           | 22    |
| Total                             | 148        | 82      | 141     | 41          | 20          | 52          | 484   |

(1) Endeavor Air, Inc. is a wholly-owned subsidiary.



## 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 March 31, 2015, we had \$5.5 billion in unrestricted liquidity, consisting of \$3.6 billion in cash and cash equivalents and short-term investments and \$1.9 billion in undrawn revolving credit facilities. During the three months ended March 31, 2015, we generated \$1.6 billion in cash from operating activities, which we used, along with existing cash, to reduce the principal on our debt and capital lease obligations by \$260 million, fund capital expenditures of \$586 million and return \$500 million to shareholders, while maintaining a sufficient liquidity position.

### Sources of Liquidity

#### Operating Activities

Cash flows from operating activities provide our primary source of liquidity. We generated positive cash flows from operations of \$1.6 billion and \$951 million in the three months ended March 31, 2015 and 2014, respectively. We also expect to generate positive cash flows from operations for the remainder of 2015.

Our operating cash flows can be 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 we have increased sales in advance of the summer peak travel season and decreases during the summer and fall months.

**Fuel and Fuel Hedge Margins.** Including our regional carriers, fuel expense represented approximately 26% of our total operating expenses for the March 2015 quarter. The market price for jet fuel is highly volatile, which can impact the comparability of our cash flows from operations from period to period.

As part of our fuel hedging program, we may be required to post margin to counterparties when our portfolio is in a loss position. Conversely, if our portfolio with counterparties is in a gain position, we may receive margin. Our future cash flows are impacted by the nature of our derivative contracts and the market price of the commodities underlying our derivative contracts. Our hedge contracts were in a net loss position at March 31, 2015, resulting in \$383 million of margin postings to counterparties. Additionally, during the March 2015 quarter we paid \$302 million to early settle contracts that were originally scheduled to expire in the second half of 2015.

**Timing of SkyMiles Sales.** In December 2011, we amended our American Express agreements and agreed to sell \$675 million of unrestricted SkyMiles to American Express in each December from 2011 through 2014. Pursuant to the December 2011 amendment, American Express purchased \$675 million of unrestricted SkyMiles in each of those years with the final payment in 2014. The SkyMiles purchased in December 2014 are expected to be utilized by American Express in 2015.

**Pension Contributions.** We sponsor defined benefit pension plans for eligible employees and retirees. These plans are closed to new entrants and are frozen for future benefit accruals. Our funding obligations for these plans are governed by the Employee Retirement Income Security Act, as modified by The Pension Protection Act of 2006. We contributed \$904 million to our qualified defined benefit pension plans during the March 2015 quarter and contributed an additional \$296 million in April 2015. As a result of these contributions, we satisfied, on an accelerated basis, our required contributions for our defined benefit plans for 2015 including nearly \$600 million above the minimum funding requirements. During the March 2014 quarter, we contributed \$605 million to our qualified defined benefit pension plans.





**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 special items, such as MTM adjustments and settlements and restructuring and other items. Our profit sharing program pays 10% to employees on the first \$2.5 billion of annual profits and 20% of annual profits above \$2.5 billion.

After making an advanced profit sharing payment of more than \$300 million in October 2014, we paid an additional \$756 million in profit sharing in February 2015 related to our 2014 pre-tax profit in recognition of our employees' contributions toward meeting our financial goals. We paid \$506 million in profit sharing in February 2014 related to our 2013 pre-tax profit. During the three months ended March 31, 2015, we accrued \$136 million in profit sharing expense based on current expectations for 2015 pre-tax profit.

### Investing Activities

**Capital Expenditures.** Our capital expenditures were \$586 million and \$614 million in the three months ended March 31, 2015 and 2014, respectively. Our capital expenditures during the March 2015 quarter were primarily for aircraft modifications and the purchase of B-737-900ER aircraft to replace a portion of our older B-757s.

We have committed to future aircraft purchases that will require significant capital investment, and have obtained long-term financing commitments for a substantial portion of the purchase price of these aircraft. We expect that we will invest approximately \$2.8 billion in 2015 primarily for (1) aircraft, including deliveries of B-737-900ERs and A330-300s, along with advance deposit payments for these and our A321-200, A330-900neo and A350-900 orders, as well as for (2) aircraft modifications, the majority of which relate to increasing the seat density on our domestic fleet and enhancing the cabins on both our domestic and international fleets. We expect that the 2015 investments will be funded through cash flows from operations.

### Financing Activities

**Debt and Capital Leases.** Our principal amount of debt and capital leases has declined from \$9.9 billion at December 31, 2014 to \$9.6 billion at March 31, 2015. Since December 31, 2009, we have reduced our principal amount of debt and capital leases by \$8.7 billion. We have focused on reducing our total debt in recent years as part of our strategy to strengthen our balance sheet. In addition, we have refinanced debt to reduce our total future interest expense.

**Capital Return to Shareholders.** In May 2014, we announced the second phase of capital returns to shareholders. The Board of Directors approved a program to increase the quarterly dividend by 50% to \$0.09 per share beginning in the September 2014 quarter and authorized a new \$2 billion share repurchase program to be completed no later than December 31, 2016. During the March 2015 quarter, we repurchased and retired 9.3 million shares at a cost of \$425 million bringing the total under this program to 30.6 million shares at a cost of \$1.3 billion.

On February 6, 2015, the Board of Directors declared a \$0.09 per share dividend for shareholders of record as of February 20, 2015. This dividend was paid in March 2015 and totaled \$75 million.

### Undrawn Lines of Credit

We have available \$1.9 billion in undrawn revolving lines of credit. Our credit facilities have covenants, including minimum collateral coverage ratios. 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 financing agreements at March 31, 2015.

## Critical Accounting Policies and Estimates

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.

## Recent Accounting Standards

### Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." While the standard supersedes existing revenue recognition guidance, it closely aligns with current GAAP. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption.

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

### Presentation of Debt Issuance Costs

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

## Supplemental Information

We sometimes use information (“non-GAAP financial measures”) that is derived from the 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.

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 the following items to determine pre-tax income, adjusted for special items for the reasons described below:

**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 settling during the period. These items adjust fuel expense to show the economic impact of hedging, including cash received or paid on hedge contracts during the period. Adjusting for these items allows investors to better understand and analyze our core operational performance in the periods shown.

**Restructuring and other.** Because of the variability in restructuring and other, the adjustment for this item is helpful to investors to analyze our recurring core operational performance in the periods shown.

**Loss on extinguishment of debt.** Because of the variability in loss on extinguishment of debt, the adjustment for this item is helpful to investors to analyze our recurring core operational performance in the periods shown.

**Virgin Atlantic MTM adjustments.** We record our proportionate share of earnings from our equity investment in Virgin Atlantic in other expense. We adjust for Virgin Atlantic's MTM adjustments to allow investors to better understand and analyze our financial performance in the periods shown.

| (in millions)                              | Three Months Ended March 31, |                     |
|--------------------------------------------|------------------------------|---------------------|
|                                            | 2015                         | 2014                |
| Pre-tax income                             | \$1,186                      | \$335               |
| Adjusted for:                              |                              |                     |
| MTM adjustments and settlements            | (589                         | ) <sup>(1)</sup> 34 |
| Restructuring and other                    | 10                           | 49                  |
| Loss on extinguishment of debt             | —                            | 18                  |
| Virgin Atlantic MTM adjustments            | (13                          | ) 8                 |
| Pre-tax income, adjusted for special items | \$594                        | \$444               |

(1) Includes \$302 million to early settle contracts that were in a loss position and originally scheduled to expire in the second half of 2015.

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 (including our regional carriers) allows investors to better understand and analyze our non-fuel costs and year-over-year financial performance.

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.

Restructuring and other. Because of the variability in restructuring and other, the adjustment for this item is helpful to investors to analyze our recurring core operational performance in the periods shown.

• Other expenses. Other 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.

|                                 | Three Months Ended<br>March 31, |         |   |
|---------------------------------|---------------------------------|---------|---|
|                                 | 2015                            | 2014    |   |
| CASM                            | 14.12                           | ¢ 15.39 | ¢ |
| Adjusted for:                   |                                 |         |   |
| Aircraft fuel and related taxes | (3.71                           | ) (5.01 | ) |
| Profit sharing                  | (0.24                           | ) (0.18 | ) |
| Restructuring and other         | (0.02                           | ) (0.09 | ) |
| Other expenses                  | (0.51                           | ) (0.34 | ) |
| CASM-Ex                         | 9.64                            | ¢ 9.77  | ¢ |

## 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, other than those discussed below.

The following sensitivity analysis does not consider the effects of a change in demand for air travel, the economy as a whole or actions we may take to seek to mitigate our exposure to a particular risk. For these and other reasons, the actual results of changes in these prices or rates may differ materially from the following hypothetical results.

## Aircraft Fuel Price Risk

Changes in aircraft fuel prices materially impact our results of operations. We actively manage our fuel price risk through a hedging program intended to reduce the financial impact from changes in the price of jet fuel. We utilize different contract and commodity types in this program and frequently test their economic effectiveness against our financial targets. We rebalance the hedge portfolio from time to time according to market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates.

Our fuel hedge portfolio consists of options, swaps and futures. The hedge contracts include crude oil, diesel fuel and jet fuel, as these commodities are highly correlated with the price of jet fuel and crude oil that we consume. Our hedge contracts contain margin funding requirements. The margin funding requirements may cause us to post margin to counterparties or may cause counterparties to post margin to us as market prices in the underlying hedged items change. If fuel prices change significantly from the levels existing at the time we enter into fuel hedge contracts, we may be required to post a significant amount of margin. We may adjust our hedge portfolio from time to time in response to margin posting requirements.

For the three months ended March 31, 2015, aircraft fuel and related taxes, including our regional carriers, accounted for \$2.1 billion, or 26%, of our total operating expense. We recognized \$411 million of fuel hedge losses during the three months ended March 31, 2015.

The following table shows the projected cash impact to fuel cost assuming 20% and 40% increases or decreases in fuel prices. The hedge gain (loss) reflects the change in the projected cash settlement value of our open fuel hedge contracts at March 31, 2015 based on their contract settlement dates, assuming the same 20% and 40% changes.

|       | (in millions)                                  |                            |            |                               |
|-------|------------------------------------------------|----------------------------|------------|-------------------------------|
|       | Period from April 1, 2015 to December 31, 2016 |                            |            |                               |
|       | (Increase)                                     |                            |            | Fuel Hedge                    |
|       | Decrease to                                    | Hedge                      | Net Impact | Margin Received               |
|       | Unhedged Fuel                                  | Gain (Loss) <sup>(2)</sup> |            | from (Posted to)              |
|       | Cost <sup>(1)</sup>                            |                            |            | Counterparties <sup>(3)</sup> |
| + 40% | \$(4,930 )                                     | \$950                      | \$(3,980 ) | \$420                         |
| + 20% | (2,470 )                                       | 540                        | (1,930 )   | 320                           |
| - 20% | 2,470                                          | (360 )                     | 2,110      | (540 )                        |
| - 40% | 4,930                                          | (1,050 )                   | 3,880      | (1,160 )                      |

Projections based upon the (increase) decrease to unhedged fuel cost as compared to the jet fuel price per gallon of

(1) \$1.62, excluding transportation costs and taxes, at March 31, 2015 and estimated fuel consumption of 7.0 billion gallons for the period from April 1, 2015 to December 31, 2016.

(2) Projections based on average futures prices by contract settlement month compared to futures prices at March 31, 2015.

(3)

Projections represent margin estimates for the entire fuel hedge portfolio at March 31, 2015, including contracts settling in 2016.



#### 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 March 31, 2015 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 March 31, 2015, 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. There have been no material changes from the legal proceedings described in our Form 10-K.

## ITEM 1A. RISK FACTORS

“Item 1A. Risk Factors” of our Form 10-K includes a discussion of our risk factors. There have been no material changes from the risk factors described in our Form 10-K.

## 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 March 2015 quarter. The total number of shares purchased includes shares repurchased pursuant to our \$2.0 billion share repurchase program, which was publicly announced on May 6, 2014 ("the 2014 Repurchase Program"). The 2014 Repurchase Program will terminate no later than December 2016. Some purchases made in March 2015 under the 2014 Repurchase Program 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. 2007 Performance Compensation Plan (the "2007 Plan"). The 2007 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 of<br>Shares Purchased | Average Price<br>Paid Per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | Approximate Dollar Value<br>(in millions) of Shares That<br>May Yet Be Purchased<br>Under the Plan or Programs |
|---------------|-------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| January 2015  | —                                   | \$—                             | —                                                                                            | \$1,150                                                                                                        |
| February 2015 | 4,904,799                           | \$46.09                         | 4,904,799                                                                                    | \$924                                                                                                          |
| March 2015    | 4,352,139                           | \$45.74                         | 4,352,139                                                                                    | \$725                                                                                                          |
| Total         | 9,256,938                           |                                 | 9,256,938                                                                                    |                                                                                                                |

ITEM 6. EXHIBITS

(a) Exhibits

10.1 Second Amendment to the Delta Air Lines, Inc. 2007 Performance Compensation Plan

10.2 Model Award Agreement for the Delta Air Lines, Inc. 2015 Long-Term Incentive Plan

15 Letter from Ernst & Young LLP regarding unaudited interim financial information

31.1 Certification by Delta's Chief Executive Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015

31.2 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 March 31, 2015

Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief  
32 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 March 31, 2015

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEFBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Labels Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

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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)

April 15, 2015