

DELTA AIR LINES INC /DE/

Form 10-Q

October 11, 2017

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

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

For the quarterly period ended September 30, 2017

Or

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

Commission File Number 001-5424

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

State of Incorporation: Delaware

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

Post Office Box 20706, Atlanta, Georgia 30320-6001

Telephone: (404) 715-2600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Number of shares outstanding by each class of common stock, as of September 30, 2017:

Common Stock, \$0.0001 par value - 712,973,139 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, 2016 ("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

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 September 30, 2017, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2017 and 2016. 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, 2016, and the related consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity 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 13, 2017.

/s/ Ernst & Young LLP

Atlanta, Georgia
October 11, 2017

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

(in millions, except share data)	September 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,478	\$ 2,762
Short-term investments	960	487
Accounts receivable, net of an allowance for uncollectible accounts of \$12 and \$15 at September 30, 2017 and December 31, 2016, respectively	2,399	2,064
Fuel inventory	720	519
Expendable parts and supplies inventories, net of an allowance for obsolescence of \$124 and \$110 at September 30, 2017 and December 31, 2016, respectively	416	372
Prepaid expenses and other	1,110	1,247
Total current assets	7,083	7,451
Property and Equipment, Net:		
Property and equipment, net of accumulated depreciation and amortization of \$13,766 and \$12,456 at September 30, 2017 and December 31, 2016, respectively	25,900	24,375
Other Assets:		
Goodwill	9,794	9,794
Identifiable intangibles, net of accumulated amortization of \$841 and \$828 at September 30, 2017 and December 31, 2016, respectively	4,851	4,844
Deferred income taxes, net	1,422	3,064
Other noncurrent assets	2,878	1,733
Total other assets	18,945	19,435
Total assets	\$ 51,928	\$ 51,261
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$ 1,224	\$ 1,131
Air traffic liability	5,528	4,626
Accounts payable	3,059	2,572
Accrued salaries and related benefits	2,683	2,924
Frequent flyer deferred revenue	1,759	1,648
Other accrued liabilities	2,243	2,338
Total current liabilities	16,496	15,239
Noncurrent Liabilities:		
Long-term debt and capital leases	7,584	6,201
Pension, postretirement and related benefits	9,565	13,378
Frequent flyer deferred revenue	2,281	2,278
Other noncurrent liabilities	2,001	1,878
Total noncurrent liabilities	21,431	23,735
Commitments and Contingencies		
Stockholders' Equity:		
Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 720,433,073 and 744,886,938 shares issued at September 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	12,133	12,294
Retained earnings	9,502	7,903
Accumulated other comprehensive loss	(7,476)	(7,636)
Treasury stock, at cost, 7,459,934 and 14,149,229 shares at September 30, 2017 and December 31, 2016, respectively	(158)	(274)
Total stockholders' equity	14,001	12,287
Total liabilities and stockholders' equity	\$ 51,928	\$ 51,261

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

3

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

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenue:				
Passenger:				
Mainline	\$ 7,924	\$ 7,615	\$ 22,027	\$ 21,530
Regional carriers	1,475	1,456	4,291	4,273
Total passenger revenue	9,399	9,071	26,318	25,803
Cargo	187	167	530	494
Other	1,474	1,245	4,151	3,884
Total operating revenue	11,060	10,483	30,999	30,181
Operating Expense:				
Salaries and related costs	2,715	2,463	7,804	7,165
Aircraft fuel and related taxes	1,519	1,422	4,207	3,877
Regional carriers expense	1,156	1,119	3,347	3,221
Depreciation and amortization	574	474	1,649	1,430
Contracted services	561	520	1,627	1,480
Aircraft maintenance materials and outside repairs	503	462	1,496	1,357
Passenger commissions and other selling expenses	482	466	1,344	1,291
Landing fees and other rents	400	399	1,144	1,123
Passenger service	315	264	806	674
Profit sharing	314	326	803	922
Aircraft rent	89	72	259	204
Other	593	527	1,593	1,505
Total operating expense	9,221	8,514	26,079	24,249
Operating Income	1,839	1,969	4,920	5,932
Non-Operating Expense:				
Interest expense, net	(100)	(95)	(297)	(295)
Miscellaneous, net	66	26	(12)	47
Total non-operating expense, net	(34)	(69)	(309)	(248)
Income Before Income Taxes	1,805	1,900	4,611	5,684
Income Tax Provision	(627)	(641)	(1,606)	(1,933)
Net Income	\$ 1,178	\$ 1,259	\$ 3,005	\$ 3,751
Basic Earnings Per Share	\$ 1.64	\$ 1.70	\$ 4.15	\$ 4.95
Diluted Earnings Per Share	\$ 1.64	\$ 1.69	\$ 4.13	\$ 4.92
Cash Dividends Declared Per Share	\$ 0.31	\$ 0.20	\$ 0.71	\$ 0.47
Comprehensive Income	\$ 1,251	\$ 1,326	\$ 3,165	\$ 3,814

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

4

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

(in millions)	Nine Months Ended September 30, 2017 2016	
Net Cash Provided by Operating Activities	\$3,230	\$6,080
Cash Flows from Investing Activities:		
Property and equipment additions:		
Flight equipment, including advance payments	(1,905)	(2,149)
Ground property and equipment, including technology	(826)	(448)
Purchase of equity investments	(795)	—
Purchase of short-term investments	(868)	(1,480)
Redemption of short-term investments	395	1,436
Other, net	(35)	41
Net cash used in investing activities	(4,034)	(2,600)
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	(819)	(1,403)
Repurchase of common stock	(1,350)	(2,301)
Cash dividends	(516)	(360)
Fuel card obligation	341	(14)
Proceeds from long-term obligations	2,004	450
Other, net	(140)	(186)
Net cash used in financing activities	(480)	(3,814)
Net Decrease in Cash and Cash Equivalents	(1,284)	(334)
Cash and cash equivalents at beginning of period	2,762	1,972
Cash and cash equivalents at end of period	\$1,478	\$1,638
Non-Cash Transactions:		
Treasury stock contributed to our qualified defined benefit pension plans	\$350	\$350
Flight and ground equipment acquired under capital leases	249	55

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

DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Form 10-K for the year ended December 31, 2016.

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

Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices and other factors, operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of operating results for the entire year.

We reclassified certain prior period amounts to conform to the current period presentation. Unless otherwise noted, all amounts disclosed are stated before consideration of income taxes.

Recent Accounting Standards

Standards Effective in Future Years

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 (Topic 606)." The standard is effective for interim and annual reporting periods beginning after December 15, 2017. Under this ASU and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. We expect to use the full retrospective transition method and will adopt the standard effective January 1, 2018.

While we believe the adoption will not have a significant effect on earnings, certain revenues that are currently classified in other revenue will be reclassified to passenger revenue. These include baggage fees, administrative charges and other travel-related fees, which may be deemed part of the single performance obligation of providing passenger transportation. We expect that these revenues, which are approximately \$2 billion annually, will be reclassified from the current presentation in other revenue to passenger revenue after adoption.

In addition, we expect that the adoption will increase the rate used to account for frequent flyer miles. We currently analyze our standalone sales of mileage credits to other airlines and customers to establish the accounting value for frequent flyer miles. Considering the guidance in the new standard, we expect to change our valuation of a mileage credit to an analysis of the award redemption value. The new valuation will consider the quantitative value a passenger receives by redeeming miles rather than paying cash for an award ticket. We expect this change to significantly increase our frequent flyer liability. The mileage deferral and redemption rates would be approximately

the same; therefore, assuming stable volume, we do not expect there would be a significant change in revenue recognized from the program. We continue to evaluate this and the other impacts to the financial statements due to the adoption of the new standard.

Leases. In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018.

We have not completed our assessment, but the adoption of this standard will have a significant impact on our Consolidated Balance Sheets. However, we do not expect the adoption to have a significant impact on the recognition, measurement or presentation of lease expenses within the Consolidated Statements of Operations or the Consolidated Statements of Cash Flows. Information about our undiscounted future lease payments and the timing of those payments is in Note 7, "Lease Obligations," in our Form 10-K. We will adopt this standard effective January 1, 2019.

Statement of Cash Flows. In 2016, the FASB issued ASU Nos. 2016-15 and 2016-18 related to the classification of certain cash receipts and cash payments and the presentation of restricted cash within an entity's statement of cash flows, respectively. These standards are effective for interim and annual reporting periods beginning after December 15, 2017. We will adopt these standards effective January 1, 2018. We do not expect these standards to have a material impact on our Consolidated Statements of Cash Flows.

Financial Instruments. In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10)." This standard makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. It is effective for interim and annual periods beginning after December 15, 2017. We will adopt this standard effective January 1, 2018.

Our investments in GOL Linhas Aéreas Inteligentes, the parent company of VRG Linhas Aéreas (operating as GOL), and China Eastern are currently accounted for as available-for-sale with changes in fair value recognized in other comprehensive income. At the time of adoption, any amounts in accumulated other comprehensive income/(loss) ("AOCI") related to equity investments would be reclassified to retained earnings. As of September 30, 2017, an unrealized gain of \$49 million related to these investments is recorded in AOCI.

Retirement Benefits. In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)." This standard requires an entity to report the service cost component in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017. We will adopt the standard effective January 1, 2018. The components of the net (benefit) cost are shown in Note 6, "Employee Benefit Plans."

Recently Adopted Standards

Equity Method Investments. In March 2016, the FASB issued ASU No. 2016-07, "Investments—Equity Method and Joint Ventures (Topic 323)." This standard eliminates a previous requirement that an investor must restate its historical financial statements when an existing cost method investment qualifies for use of the equity method as if the equity method had been used since the investment was acquired. Under the new guidance, at the point an investment qualifies for the equity method, any unrealized gain or loss in AOCI will be recognized through earnings. We adopted this standard in 2016 and converted our investment in Group Aeroméxico to the equity method upon completion of the tender offer for additional capital stock during the March 2017 quarter.

NOTE 2. FAIR VALUE MEASUREMENTS***Assets (Liabilities) Measured at Fair Value on a Recurring Basis***

(in millions)	September 30, 2017	Level 1	Level 2
Cash equivalents	\$ 169	\$169	\$ —
Short-term investments			
U.S. government and agency securities	152	142	10
Asset- and mortgage-backed securities	188	—	188
Corporate obligations	519	—	519
Other fixed income securities	101	—	101
Restricted cash equivalents and investments	39	39	—
Long-term investments	399	371	28
Hedge derivatives, net			
Fuel hedge contracts	(139)	(31)	(108)
Interest rate contract	(4)	—	(4)
Foreign currency exchange contracts	(22)	—	(22)
(in millions)	December 31, 2016	Level 1	Level 2
Cash equivalents	\$ 2,279	\$2,279	\$ —
Short-term investments			
U.S. government and agency securities	112	86	26
Asset- and mortgage-backed securities	68	—	68
Corporate obligations	295	—	295
Other fixed income securities	12	—	12
Restricted cash equivalents and investments	61	61	—
Long-term investments	139	115	24
Hedge derivatives, net			
Fuel hedge contracts	(324)	(26)	(298)
Interest rate contract	6	—	6
Foreign currency exchange contracts	27	—	27

Cash Equivalents and Restricted Cash Equivalents and Investments. Cash equivalents generally consist of money market funds. Restricted cash equivalents and investments generally consist of money market funds and time deposits, which primarily support letters of credit that relate to certain projected self-insurance obligations and airport commitments. 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 have historically been measured at fair value primarily consist of equity investments in Grupo Aeroméxico, the parent company of Aeroméxico, and the parent company of GOL. During the March 2017 quarter, we completed a tender offer for additional shares of Grupo Aeroméxico. With the completion of the tender offer, our investment is accounted for under the equity method and is no longer measured at fair value on a recurring basis. As of September 30, 2017, our long-term investments include our shares in China Eastern and the parent company of GOL. Our investments are valued based on market prices and are classified in other noncurrent assets.

Hedge Derivatives. A portion of our derivative contracts are negotiated over-the-counter with counterparties without going through a public exchange. Accordingly, our fair value assessments give consideration to the risk of counterparty default (as well as our own credit risk). Such contracts are classified as Level 2 within the fair value hierarchy. The remainder of our hedge contracts are comprised of futures contracts, which are traded on a public exchange. These contracts are classified within Level 1 of the fair value hierarchy.

Fuel Contracts. Our fuel hedge portfolio consists of options, swaps and futures. The hedge contracts include crude oil, 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 21% to 35% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap contracts are valued under an income approach using a discounted cash flow model based on data either readily observable or provided by counterparties who regularly trade in public markets. Discount rates used in these valuations vary with the maturity dates of the respective contracts and are based on the London interbank offered rate ("LIBOR"). Futures contracts and options on futures contracts are traded on a public exchange and valued based on quoted market prices.

Interest Rate 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 3. INVESTMENTS

Short-Term Investments

The estimated fair values of short-term investments, which approximate cost at September 30, 2017, are shown below by contractual maturity. Actual maturities may differ from contractual maturities because issuers of the securities may have the right to retire our investments without prepayment penalties. Investments with maturities beyond one year when purchased may be classified as short-term investments if they are expected to be available to support our short-term liquidity needs.

(in Available-For-Sale millions)

Due
in
one
\$ 412
year
or
less
Due
after
one
~~40~~
through
three
years
37

Due
after
three
years
through
five
years
Due
after
20
five
years
Total

9

Long-Term Investments

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

Equity Method Investments

Aeroméxico. During the March 2017 quarter, we completed a \$622 million tender offer for additional capital stock of Grupo Aeroméxico. Subsequently, during the September 2017 quarter, we settled for \$173 million derivative contracts for additional shares of Grupo Aeroméxico, bringing our non-controlling equity investment in Grupo Aeroméxico to 49%. As a result of these increases in our ownership, we account for the investment under the equity method of accounting and recognize our portion of their results in non-operating expense in our Condensed Consolidated Statements of Operations and Comprehensive Income.

Virgin Atlantic. We have a non-controlling 49% equity stake in Virgin Atlantic Limited, the parent company of Virgin Atlantic Airways. We recognize our portion of Virgin Atlantic's financial results in non-operating expense in our Condensed Consolidated Statements of Operations and Comprehensive Income.

Available-for-Sale Investments

GOL. Through our investment in preferred shares of GOL's parent company, we own 9% of GOL's outstanding capital stock. Driven by an improved outlook for the Brazilian economy and the financial performance of the company, GOL's stock price has more than doubled since December 31, 2016 and exceeds the original cost of our investment. This unrealized gain of \$50 million is recorded in AOCI.

Additionally, GOL has a \$300 million five-year term loan facility with third parties, which we have guaranteed. Our entire guaranty is secured by GOL's ownership interest in Smiles, GOL's publicly traded loyalty program. Because GOL remains in compliance with the terms of its loan facility, we have not recorded a liability on our Consolidated Balance Sheet as of September 30, 2017.

China Eastern. We have a 3% equity interest in China Eastern. Because the investment agreement with China Eastern restricts our sale or transfer of these shares through the September 2018 quarter, we had previously recorded this investment at cost. As we are now within one year of the lapse of these restrictions, we began accounting for the investment during the September 2017 quarter as available-for-sale with changes in fair value recorded in AOCI.

Cost Method Investments

Air France-KLM. Subsequent to the September 2017 quarter, we acquired 10% of the outstanding shares of our joint venture partner, Air France-KLM, for \$448 million. Because our investment agreement restricts the sale or transfer of these shares for five years, we will account for this investment at cost. In addition, we are working to develop a combined long-term joint venture with Air France-KLM and Virgin Atlantic.

NOTE 4. DERIVATIVES AND RISK MANAGEMENT

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 have recently managed our fuel price risk through a hedging program intended to reduce the financial impact from changes in the price of jet fuel as jet fuel prices are subject to potential volatility.

In response to this volatility, during the March 2015 quarter, we entered into transactions that effectively deferred settlement of a portion of our hedge portfolio. These deferral transactions, excluding market movements from the date of inception, provided approximately \$300 million in cash receipts during the second half of 2015 and required approximately \$300 million in cash payments in 2016. We early terminated certain of the March 2015 quarter deferral transactions in the second half of 2015.

During the March 2016 quarter, we entered into transactions to further defer settlement of a portion of our hedge portfolio until 2017. These deferral transactions, excluding market movements from the date of inception, provided approximately \$300 million in cash receipts during the second half of 2016 and require approximately \$300 million in cash payments in 2017.

Subsequently, to better participate in the low fuel price environment, we entered into derivatives designed to offset and effectively neutralize our existing airline segment hedge positions, which include the deferral transactions discussed above. As a result, we locked in the amount of the net hedge settlements for the remainder of 2016 and 2017. During the June 2016 quarter, we early settled \$455 million of our airline segment's 2016 positions.

During the three and nine months ended September 30, 2017, we recorded fuel hedge losses of \$100 million and \$3 million, respectively. During the three and nine months ended September 30, 2016, we recorded fuel hedge losses of \$11 million and \$326 million, respectively.

Cash flows associated with the deferral transactions are reported as cash flows from financing activities within our Condensed Consolidated Statements of Cash Flows.

Hedge Position as of September 30, 2017

(in millions)	Volume	Final Maturity Date	Prepaid Expenses and Other	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives net
<i>Designated as hedges</i>							
Interest rate contract (fair value hedge)	320 U.S. dollars	August 2022	\$ —	\$ —	\$ —	\$ (4)	\$ (4)
Foreign currency exchange contracts	29,396 Japanese yen 563 Canadian dollars	November 2019 May 2020	3	1	(17)	(9)	(22)
<i>Not designated as hedges</i>							
Fuel hedge contracts ⁽¹⁾	288 gallons - crude oil, diesel and jet fuel	December 2018	210	3	(335)	(17)	(139)
Total derivative contracts			\$ 213	\$ 4	\$ (352)	\$ (30)	\$ (165)

⁽¹⁾ As discussed above, during 2016, we entered into fuel hedges designed to offset and effectively neutralize our 2017 airline segment hedge positions. The dollar amounts shown above primarily represent the offsetting derivatives that were used to neutralize the 2017 airline segment hedge portfolio.

Hedge Position as of December 31, 2016

(in millions)	Volume	Final Maturity Date	Prepaid Expenses and Other	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges							
Interest rate contract (fair value hedge)	349 U.S. dollars	August 2022	\$ 2	\$ 4	\$ —	\$ —	\$ 6
Foreign currency exchange contracts	54,853 Japanese yen 335 Canadian dollars	February 2019 January 2019	31	3	(4)	(3)	27
Not designated as hedges							
Fuel hedge contracts ⁽¹⁾	197 gallons - crude oil, diesel and jet fuel	January 2018	360	—	(684)	—	(324)
Total derivative contracts			\$ 393	\$ 7	\$ (688)	\$ (3)	\$ (291)

As discussed above, we early settled \$455 million of our airline segment's 2016 fuel hedge positions and entered into hedges designed to offset and effectively neutralize our 2017 airline segment hedge positions. The dollar amounts shown above primarily represent the offsetting derivatives that were used to neutralize the 2016 and 2017 airline segment hedge portfolio.

Offsetting Assets and Liabilities

We have master netting arrangements with our counterparties giving us the right to offset hedge assets and liabilities. However, we have elected not to offset the fair value positions recorded on our Consolidated Balance Sheets. The following table shows the net fair value positions by counterparty had we elected to offset.

(in millions)	Prepaid Expenses and Other	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
September 30, 2017					
Net derivative contracts	\$ 1	\$ —	\$(140)	\$(26)	\$(165)
December 31, 2016					
Net derivative contracts	\$ 31	\$ 6	\$(326)	\$(2)	\$(291)

Designated Hedge Gains (Losses)

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

(in millions)	Effective Portion		Effective Portion	
	Reclassified from AOCI to Earnings	2017	Reclassified from AOCI to Earnings	2016
Three Months Ended September 30,				
Foreign currency exchange contracts	\$—	\$(2)	\$(15)	\$(2)
Nine Months Ended September 30,				
Foreign currency exchange contracts	\$11	\$34	\$(48)	\$(147)

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.

NOTE 5. 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. The fair value of debt, shown below, is principally based on reported market values, recently completed market transactions and estimates based on interest rates, maturities, credit risk and underlying collateral. Long-term debt is classified as Level 2 within the fair value hierarchy.

(in millions)	September 30, December 31,	
	2017	2016
Total debt at par value	\$ 8,473	\$ 7,112
Unamortized discount and debt issue cost, net	(97	) (104
Net carrying amount	\$ 8,376	\$ 7,008
Fair value	\$ 8,700	\$ 7,300

Unsecured Debt Offering

During the March 2017 quarter, we issued \$2.0 billion in aggregate principal amount of unsecured notes, consisting of \$1.0 billion of 2.875% Notes due 2020 and \$1.0 billion of 3.625% Notes due 2022 (collectively, the "Notes"). The Notes are equal in right of payment with all of our other unsubordinated indebtedness and senior in right of payment to all of our future subordinated debt.

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

If we experience certain changes of control and a ratings decline of either series of Notes by two of the ratings agencies to a rating below investment grade within a certain period of time following a change of control or public notice of the occurrence of a change of control, we must offer to repurchase such series.

Using the net proceeds from the \$2.0 billion debt issuance and existing cash, we contributed \$3.2 billion to our qualified defined benefit pension plans during the six months ended June 30, 2017. We also contributed shares of our common stock from treasury with a value of \$350 million during the March 2017 quarter.

Covenants

We were in compliance with the covenants in our financings at September 30, 2017.

NOTE 6. EMPLOYEE BENEFIT PLANS

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

(in millions)	Pension Benefits		Other Postretirement and Postemployment Benefits	
	2017	2016	2017	2016
Three Months Ended September 30,				
Service cost	\$—	\$—	\$22	\$17
Interest cost	213	229	35	37
Expected return on plan assets	(286)	(226)	(17)	(18)
Amortization of prior service credit	—	—	(7)	(7)
Recognized net actuarial loss	66	59	8	6
Net (benefit) cost	\$(7)	\$62	\$41	\$35
Nine Months Ended September 30,				
Service cost	\$—	\$—	\$66	\$51
Interest cost	639	687	105	111
Expected return on plan assets	(858)	(678)	(51)	(54)
Amortization of prior service credit	—	—	(21)	(21)
Recognized net actuarial loss	198	177	24	18
Net (benefit) cost	\$(21)	\$186	\$123	\$105

NOTE 7. COMMITMENTS AND CONTINGENCIES***Aircraft Purchase and Lease Commitments***

Our future aircraft purchase commitments totaled approximately \$13.1 billion at September 30, 2017:

(in millions)	Total
Three months ending December 31, 2017	\$920
2018	3,480
2019	3,090
2020	2,160
2021	2,090
Thereafter	1,330
Total	\$13,070

Our future aircraft purchase commitments included the following aircraft at September 30, 2017:

Aircraft Type	Purchase Commitments
B-737-900ER	46
A321-200	96
A330-900neo	25
A350-900	23
CS100	75
Total	265

During the June 2017 quarter, we entered into agreements with Airbus SE to place an expanded A321-200 order for 40 firm additional aircraft and to defer 10 of our 25 A350-900 aircraft deliveries set for 2019-2020 by two to three years.

The Boeing Company recently filed a petition with the U.S. government alleging Bombardier has agreed to sell aircraft below cost and asking the government to impose duties on all U.S. imports of 100- to 150-seat Large Civil Aircraft from Canada. This includes the CS100 aircraft under our purchase agreement with Bombardier. Although certain preliminary determinations have been issued in favor of Boeing, the government's review of this matter is ongoing, with final decisions expected during 2018. Delta is not a party to the petition, but believes the petition is without merit.

Legal Contingencies

We are involved in various legal proceedings related to employment practices, environmental issues, antitrust matters and other matters concerning our business. We record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount of loss can be reasonably estimated. Although the outcome of the legal proceedings in which we are involved cannot be predicted with certainty, we believe that the resolution of these matters will not have a material adverse effect on our Condensed Consolidated Financial Statements.

Other Contingencies

General Indemnifications

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

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

We believe that our insurance would cover most of our exposure to liabilities and related indemnities associated with the commercial real estate leases and aircraft and other equipment lease and financing agreements described above. While our insurance does not typically cover environmental liabilities, we have 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 law or regulations. In certain of these financing transactions, we also bear the risk of certain changes in tax laws that would subject payments to non-U.S. lenders to withholding taxes.

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

Other

During the September 2016 quarter, we announced plans to modernize, upgrade and connect Terminals 2 and 3 at Los Angeles International Airport (“LAX”) over the next seven years. A substantial majority of the project costs will be funded through the Regional Airports Improvement Corporation (“RAIC”), a California public benefit corporation, using a revolving credit facility provided by a group of lenders, whose aggregate commitments total \$800 million. The credit facility was executed during the September 2017 quarter. We have guaranteed the obligations of the RAIC under the credit facility. Because the RAIC remains in compliance with the terms of its credit facility, we have not recorded a liability on our Consolidated Balance Sheet as of September 30, 2017.

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 8. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

(in millions)	Pension and Other Benefits Liabilities ⁽²⁾	Derivative Contracts	Investments	Total
Balance at January 1, 2017 (net of tax effect of \$1,458)	\$(7,714)	\$ 97	\$ (19)	\$(7,636)
Changes in value (net of tax effect of \$4)	—	(23)	76	53
Reclassifications into earnings (net of tax effect of \$63) ⁽¹⁾	122	(7)	(8)	107
Balance at September 30, 2017 (net of tax effect of \$1,391)	\$(7,592)	\$ 67	\$ 49	\$(7,476)
Balance at January 1, 2016 (net of tax effect of \$1,222)	\$(7,354)	\$140	\$(61)	\$(7,275)
Changes in value (net of tax effect of \$43)	—	(72)	46	(26)
Reclassifications into earnings (net of tax effect of \$51) ⁽¹⁾	111	(22)	—	89
Balance at September 30, 2016 (net of tax effect of \$1,214)	\$(7,243)	\$46	\$(15)	\$(7,212)

Amounts reclassified from AOCI for pension and other benefits liabilities and derivative contracts designated as foreign currency cash flow hedges are recorded in salaries and related costs and in passenger revenue, respectively, in the Condensed Consolidated Statements of Operations and Comprehensive

⁽¹⁾ Income. The reclassification into earnings for investments relates to our investment in Grupo Aeroméxico during the March 2017 quarter with the conversion to accounting under the equity method. The reclassification of the unrealized gain was recorded to non-operating expense in our Condensed Consolidated Statements of Operations and Comprehensive Income.

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. We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations.

NOTE 9. SEGMENTS***Refinery Operations***

Our refinery segment operates for the benefit of the airline segment by providing jet fuel to the airline segment from its own production and through jet fuel obtained through agreements with third parties. The refinery's production consists of jet fuel, as well as 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 and nine months ended September 30, 2017 was \$910 million and \$2.4 billion, respectively, compared to \$734 million and \$2.0 billion during the three and nine months ended September 30, 2016.

Segment Reporting

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

(in millions)	Airline	Refinery	Intersegment Sales/Other	Consolidated
Three Months Ended September 30, 2017				
Operating revenue:	\$ 10,931	\$ 1,357		\$ 11,060
Sales to airline segment			\$ (239) ⁽¹⁾	
Exchanged products			(910) ⁽²⁾	
Sales of refined products			(79) ⁽³⁾	
Operating income	1,802	37	—	1,839
Interest expense, net	100	—	—	100
Depreciation and amortization	563	11	—	574
Total assets, end of period	49,992	1,936	—	51,928
Capital expenditures	901	40	—	941
Three Months Ended September 30, 2016				
Operating revenue:	\$ 10,473	\$ 971		\$ 10,483
Sales to airline segment			\$ (173) ⁽¹⁾	
Exchanged products			(734) ⁽²⁾	
Sales of refined products			(54) ⁽³⁾	
Operating income (loss)	2,014	(45)	—	1,969
Interest expense, net	94	1	—	95
Depreciation and amortization	464	10	—	474
Total assets, end of period	49,748	1,200	—	50,948
Capital expenditures	652	28	—	680

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

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

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

(in millions)	Airline	Refinery	Intersegment Sales/Other	Consolidated
Nine Months Ended September 30, 2017				
Operating revenue:	\$30,742	\$3,624		\$ 30,999
Sales to airline segment			\$ (622) ⁽¹⁾	
Exchanged products			(2,399) ⁽²⁾	
Sales of refined products			(346) ⁽³⁾	
Operating income	4,834	87	—	4,920
Interest expense, net	297	—	—	297
Depreciation and amortization	1,617	32	—	1,649
Capital expenditures	2,605	126	—	2,731

Nine Months Ended September 30, 2016

Operating revenue:	\$30,043	\$2,763		\$ 30,181
Sales to airline segment			\$ (495) ⁽¹⁾	
Exchanged products			(2,005) ⁽²⁾	
Sales of refined products			(125) ⁽³⁾	
Operating income (loss) ⁽⁴⁾	6,015	(83)	—	5,932
Interest expense, net	293	2	—	295
Depreciation and amortization	1,402	28	—	1,430
Capital expenditures	2,536	61	—	2,597

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

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

⁽³⁾ 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 and refinery segments with respect to the refinery's inventory price risk.

NOTE 10. RESTRUCTURING

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

(in millions)	Lease Restructuring
Liability as of January 1, 2017	\$ 329
Payments	(63)
Additional expenses and other	(10)
Liability as of September 30, 2017	\$ 256

Lease restructuring charges include remaining lease payments for permanently grounded aircraft related to domestic and Pacific fleet restructurings. We are continuing to restructure our domestic fleet by replacing a portion of our 50-seat regional fleet with more efficient and customer preferred aircraft and replacing older, less cost effective B-757-200 aircraft with B-737-900ER aircraft. We are also restructuring our Pacific fleet by removing less efficient B-747-400 aircraft by the end of 2017 and replacing them with smaller-gauge, widebody aircraft to better match capacity with demand.

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

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 1,178	\$ 1,259	\$ 3,005	\$ 3,751
Basic weighted average shares outstanding	716	740	724	758
Dilutive effect of share-based awards	3	4	3	4
Diluted weighted average shares outstanding	719	744	727	762
Basic earnings per share	\$ 1.64	\$ 1.70	\$ 4.15	\$ 4.95
Diluted earnings per share	\$ 1.64	\$ 1.69	\$ 4.13	\$ 4.92

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

September 2017 Quarter Financial Highlights

Our pre-tax income for the September 2017 quarter was \$1.8 billion, representing a \$95 million decrease compared to the corresponding prior year period resulting from higher salaries and related costs, fuel expense and depreciation expense, partially offset by increased passenger and other revenue.

Revenue

Our revenue increased \$577 million, or 5.5%, and passenger revenue per available seat mile ("PRASM") increased 1.9%, including one point of negative impact from Hurricane Irma, on 1.6% higher capacity compared to the September 2016 quarter. Revenue improvement resulted from our commercial initiatives, including differentiated products for our customers, and strong leisure demand and an improving business revenue environment. Other revenue primarily increased from sales of non-jet fuel products to third parties by our oil refinery, consistent with stronger pricing of refined products throughout the oil industry, and growth in our loyalty programs revenue.

Operating Expense

Total operating expense increased \$707 million, or 8.3%, and our consolidated operating cost per available seat mile ("CASM") increased 6.6% to 13.14 cents compared to the September 2016 quarter, primarily due to increases in salaries and related costs, fuel expense and depreciation expense.

Salaries and Related Costs. Salaries increased as a result of contractual pay rate increases for pilots and increases for eligible merit, ground and flight attendant employees.

Fuel Expense. The increase in fuel expense primarily resulted from an approximately 14% increase in our fuel purchase cost and a slight increase in consumption. These increases were partially offset by profits generated within our refinery segment in the September 2017 quarter.

Depreciation Expense. The increase in depreciation expense primarily resulted from new aircraft deliveries over the prior year, including B-737-900ER, A321-200, A330-300 and A350-900 aircraft, fleet modifications and accelerated depreciation due to the planned retirement of our MD-88 fleet and two B-767-300ER aircraft.

Non-fuel unit costs ("CASM-Ex, including profit sharing," a non-GAAP financial measure) increased 4.8% to 10.05 cents compared to the September 2016 quarter due to increases in salaries and related costs and depreciation expense, discussed above.

The non-GAAP financial measure for CASM-Ex, including profit sharing is defined and reconciled in "Supplemental Information" below.

Results of Operations - Three Months Ended September 30, 2017 and 2016**Operating Revenue**

(in millions)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	September 30, 2017	2016			
Passenger:					
Mainline	\$7,924	\$7,615	\$ 309	4.1	%
Regional carriers	1,475	1,456	19	1.3	%
Total passenger revenue	9,399	9,071	328	3.6	%
Cargo	187	167	20	11.5	%
Other	1,474	1,245	229	18.4	%
Total operating revenue	\$11,060	\$10,483	\$ 577	5.5	%

Passenger Revenue

(in millions)	Three Months Ended September 30, 2017	Increase (Decrease) vs. Three Months Ended September 30, 2016								
		Passenger Revenue	RPMs (Traffic)	ASMs (Capacity)	Passenger Mile Yield	PRASM	Load Factor			
Mainline	\$ 4,897	6.1	% 6.0	%	4.5	%	0.1	% 1.6	% 1.3	pts
Regional carriers	1,475	1.3	% (1.1)	)%	(1.9)	)%	2.5	% 3.3	% 0.7	pts
Domestic	6,372	5.0	% 4.9	%	3.4	%	—	% 1.5	% 1.2	pts
Atlantic	1,727	3.4	% 5.7	%	0.9	%	(2.2)	)% 2.4	% 4.0	pts
Pacific	680	(10.3)	% (9.6)	)%	(7.5)	)%	(0.8)	)% (3.1)	% (2.1)	pts
Latin America	620	8.6	% 3.9	%	2.6	%	4.4	% 5.9	% 1.2	pts
Total	\$ 9,399	3.6	% 3.4	%	1.6	%	0.2	% 1.9	% 1.5	pts

Passenger revenue increased \$328 million, or 3.6%, compared to the September 2016 quarter. PRASM increased 1.9% and passenger mile yield increased 0.2% on 1.6% higher capacity. Load factor was 1.5 points higher than the prior year quarter at 86.9%.

Unit revenues of the domestic region increased 1.5%, including one point of negative impact from Hurricane Irma. Revenue improvement resulted from our commercial initiatives, including differentiated products for our customers, and strong leisure demand and an improving business revenue environment.

Passenger revenue related to our international regions increased 0.9% year-over-year primarily due to unit revenue and capacity increases in the Atlantic and Latin America, partially offset by capacity reductions through network optimization to higher yielding markets and the impact of foreign currency fluctuations in the Pacific.

In the Atlantic, unit revenues increased 2.4% due to load factor improvements and an increase in the mix of U.S. point-of-sale tickets, which benefits from the strength of the U.S. dollar, partially offset by lower yields driven by competitive fare environment pressures. Load factor and unit revenue growth was particularly strong to the United Kingdom.

Unit revenue declines in the Pacific compared to the September 2016 quarter primarily resulted from yield declines driven by currency pressure due to the prior year strength of the Japanese yen compared to the U.S. dollar and industry capacity growth in the region, particularly in China. We continue to optimize the Pacific region with a 7.5% reduction in capacity during the September 2017 quarter focused on refining the network to generate incremental value from our Chinese and Korean partnerships.

Unit revenues increased in Latin America principally as a result of unit revenue improvement in the Caribbean, Mexican leisure markets and South America (excluding Brazil). Brazil unit revenues declined in the September 2017 quarter compared to the strong results in the September 2016 quarter from the impact of the 2016 Summer Olympics. We continue to generate incremental value from our partnerships with GOL and Aeroméxico, which provide greater connectivity for our customers in the region. Despite unit revenue improvement in the Caribbean during the quarter, hurricane damage in several markets at the end of the quarter will result in temporary service adjustments going forward.

Other Revenue

(in millions)	Three Months			
	Ended September 30, 2017	2016	Increase (Decrease)	% Increase (Decrease)
Loyalty programs	\$494	\$446	\$ 48	10.8 %
Administrative fees, club and on-board sales	316	313	3	1.0 %
Ancillary businesses and refinery	372	228	144	63.2 %
Baggage fees	247	229	18	7.9 %
Other	45	29	16	55.2 %
Total other revenue	\$1,474	\$1,245	\$ 229	18.4 %

Loyalty programs. We sell mileage credits to credit card companies, hotels and car rental agencies under marketing agreements. We allocate the consideration received from mileage credit sales to the individual products and services bundled with the sale based on their relative selling prices. We defer the travel component as part of frequent flyer deferred revenue and recognize passenger revenue as the mileage credits are redeemed for travel. The revenue allocated to the remaining deliverables (such as lounge access, baggage fee waivers and brand usage) is recorded in other revenue. We recognize the revenue for these services as they are performed.

The amount of loyalty program revenue changes based on the price paid for mileage credits, the volume of credits sold and our allocation of selling price to the individual products and services. With the adoption of the new revenue recognition standard in 2018, we expect to increase the value we use to account for the travel component within mileage credit sales. This new value for the travel component will cause a re-allocation of the consideration received from mileage credit sales. The re-allocation will result in less revenue recognized for loyalty programs in other revenue and more revenue in passenger revenue as the frequent flyer awards are redeemed.

Loyalty program revenue increased during the September 2017 quarter compared to the same period a year ago related to growth in our co-brand credit card partnership with American Express. Additional information about our frequent flyer program accounting policies can be found in Note 1, "Summary of Significant Accounting Policies," in our Form 10-K.

Administrative fees, club and on-board sales. These revenues primarily relate to travel-related services such as ticket changes and unaccompanied minors and also include amounts collected for on-board sales and Sky Club lounge memberships. We recognize revenue as these services are performed. A significant portion of these fees are travel-related and performed in conjunction with the passenger's flight. Therefore, we expect the majority of these fees will be reclassified to passenger revenue with our adoption of the new revenue recognition standard in 2018.

Ancillary business and refinery. Ancillary business and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations and refinery sales to third parties. Ancillary business and refinery revenues are not related to the generation of a seat mile. Ancillary business and refinery sales primarily increased due to sales of non-jet fuel products to third parties by our oil refinery, consistent with stronger pricing of refined products throughout the oil industry.

Baggage fees. The revenue amount shown above represents baggage fees that were sold as a separate component of the passenger's ticket. Similar to administrative fees described above, baggage services are performed and earned in conjunction with the passenger's flight, and we expect that these fees will be reclassified to passenger revenue with our adoption of the new revenue recognition standard in 2018.

Operating Expense

(in millions)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	September 30, 2017	September 30, 2016			
Salaries and related costs	\$2,715	\$2,463	\$ 252	10.2	%
Aircraft fuel and related taxes	1,519	1,422	97	6.8	%
Regional carriers expense	1,156	1,119	37	3.3	%
Depreciation and amortization	574	474	100	21.1	%
Contracted services	561	520	41	7.9	%
Aircraft maintenance materials and outside repairs	503	462	41	8.9	%
Passenger commissions and other selling expenses	482	466	16	3.4	%
Landing fees and other rents	400	399	1	0.3	%
Passenger service	315	264	51	19.3	%
Profit sharing	314	326	(12)	(3.7)	%
Aircraft rent	89	72	17	23.6	%
Other	593	527	66	12.5	%
Total operating expense	\$9,221	\$8,514	\$ 707	8.3	%

Salaries and Related Costs. The increase in salaries and related costs is primarily due to contractual pay rate increases for pilots and increases for eligible merit, ground and flight attendant employees.

Aircraft Fuel and Related Taxes. Including our regional carriers, fuel expense increased \$133 million compared to the prior year quarter due to an increase in the market price per gallon of fuel and a slight increase in consumption, which were partially offset by profits generated within our refinery segment. The table below presents fuel expense including our regional carriers:

(in millions)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	September 30, 2017	September 30, 2016			
Aircraft fuel and related taxes ⁽¹⁾	\$1,519	\$1,422	\$ 97		
Aircraft fuel and related taxes included within regional carriers expense	266	230	36		
Total fuel expense	\$1,785	\$1,652	\$ 133	8.1	%

⁽¹⁾ 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 (non-GAAP financial measures):

(in millions, except per gallon data)	Three Months Ended		Change	Average Price Per Gallon		
	September 30,			Three Months Ended		Change
	2017	2016		September 30, 2017	September 30, 2016	
Fuel purchase cost ⁽¹⁾	\$1,822	\$1,585	\$237	\$1.64	\$1.44	\$0.20
Airline segment fuel hedge impact	—	22	(22)	—	0.02	(0.02)
Refinery segment impact	(37)	45	(82)	(0.03)	0.04	(0.07)
Total fuel expense	\$1,785	\$1,652	\$133	\$1.61	\$1.50	\$0.11
MTM adjustments and settlements ⁽²⁾	74	(23)	97	0.07	(0.02)	0.09
Total fuel expense, adjusted	\$1,859	\$1,629	\$230	\$1.68	\$1.48	\$0.20

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

Mark-to-market ("MTM") adjustments and settlements include the effects of the derivative transactions discussed in Note 4 of the Notes to the Condensed

⁽²⁾ Consolidated Financial Statements. For additional information and the reason for adjusting fuel expense for MTM adjustments and settlements, see "Supplemental Information" below.

Depreciation and Amortization. The increase in depreciation and amortization primarily results from new aircraft deliveries over the prior year, including B-737-900ER, A321-200, A330-300 and A350-900 aircraft, fleet modifications and accelerated depreciation due to the planned retirement of our MD-88 fleet and two B-767-300ER aircraft.

Passenger Service. Passenger service expense includes the costs of onboard food and beverage, cleaning and supplies. The increase in passenger service expense predominantly relates to costs associated with enhancements to our onboard product offering.

Aircraft Rent. The increase in aircraft rent primarily results from new leased aircraft deliveries over the prior year, including B-737-900ER and A321-200 aircraft.

Other. The increase in other expense primarily relates to costs associated with sales of non-jet fuel products to third parties by our oil refinery.

Results of Operations - Nine Months Ended September 30, 2017 and 2016**Operating Revenue**

(in millions)	Nine Months Ended		Increase (Decrease)	% Increase (Decrease)	
	September 30, 2017	September 30, 2016			
Passenger:					
Mainline	\$22,027	\$21,530	\$ 497	2.3	%
Regional carriers	4,291	4,273	18	0.4	%
Total passenger revenue	26,318	25,803	515	2.0	%
Cargo	530	494	36	7.3	%
Other	4,151	3,884	267	6.9	%
Total operating revenue	\$30,999	\$30,181	\$ 818	2.7	%

Passenger Revenue

(in millions)	Nine Months Ended September 30, 2017	Increase (Decrease) vs. Nine Months Ended September 30, 2016					
		Passenger Revenue	RPMs (Traffic)	ASMs (Capacity)	Passenger Mile Yield	PRASM	Load Factor
Mainline	\$ 14,111	4.2	% 4.1	% 3.1	% 0.1	% 1.1	% 0.8 pts
Regional carriers	4,291	0.4	% (1.6)	% (1.9)	% 2.0	% 2.3	% 0.2 pts
Domestic	18,402	3.3	% 3.2	% 2.2	% 0.1	% 1.0	% 0.7 pts
Atlantic	4,110	0.2	% 4.7	% —	% (4.3)	% 0.2	% 3.8 pts
Pacific	1,808	(12.1)	% (11.3)	% (9.5)	% (0.9)	% (3.0)	% (1.8) pts
Latin America	1,998	9.4	% 5.5	% 2.4	% 3.7	% 6.8	% 2.6 pts
Total	\$ 26,318	2.0	% 2.1	% 0.6	% (0.1)	% 1.4	% 1.3 pts

Passenger revenue increased \$515 million, or 2.0%, compared to the nine months ended September 30, 2016. PRASM increased 1.4% and passenger mile yield decreased 0.1% on 0.6% higher capacity. Load factor was 1.3 points higher than the prior year period at 85.7%.

Unit revenues of the domestic region increased 1.0%, including the negative impact from Hurricane Irma. The increase resulted from our commercial initiatives, including differentiated products for our customers, and an improving revenue environment, particularly related to business yields.

Passenger revenue related to our international regions decreased 0.8% year-over-year primarily due to reduced capacity and unit revenue declines in the Pacific, partially offset by unit revenue and capacity growth in Latin America.

In the Atlantic, unit revenue was flat on increased traffic, which was nearly offset by lower yields driven by industry capacity growth, primarily from non-alliance carriers. We continue to leverage our partners' hub positions in Europe's leading business markets of London, Amsterdam and Paris and we continue to shift the mix of ticket sales toward more U.S. point-of-sale.

Unit revenue declines in the Pacific compared to the nine months ended September 30, 2016 primarily resulted from yield and load factor declines driven by industry capacity growth in the region. We continue to optimize the Pacific region with a 9.5% reduction in capacity during the nine months ended September 30, 2017, focused on refining the network to generate incremental value from our Chinese and Korean partnerships. During the June 2017 quarter, we reached an agreement to create a trans-Pacific joint venture with Korean Air, offering an enhanced and expanded network, industry-leading products and service and a seamless customer experience between the U.S. and Asia. In

addition, we launched nonstop service between Atlanta and Seoul during the period.

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Unit revenues increased in Latin America principally as a result of unit revenue improvement in Brazil compared to the same period a year ago, related to both improved traffic and higher fares. This improvement was driven by the strengthening of the Brazilian real against the U.S. dollar and additional connectivity for our customers provided by our partnership with GOL. Increased leisure traffic to Mexico and the Caribbean, and the incremental value provided by our partnership with Aeroméxico also contributed to the Latin America unit revenue improvement. Despite unit revenue improvement in the Caribbean, hurricane damage in several markets at the end of the period will result in temporary service adjustments going forward.

Other Revenue

(in millions)	Nine Months				
	Ended September 30,		Increase	% Increase	
	2017	2016	(Decrease)	(Decrease)	
Loyalty programs	\$1,442	\$1,319	\$ 123	9.3	%
Administrative fees, club and on-board sales	958	943	15	1.6	%
Ancillary businesses and refinery	922	804	118	14.7	%
Baggage fees	688	668	20	3.0	%
Other	141	150	(9)	(6.0)	%
Total other revenue	\$4,151	\$3,884	\$ 267	6.9	%

Loyalty programs. We sell mileage credits to credit card companies, hotels and car rental agencies under marketing agreements. We allocate the consideration received from mileage credit sales to the individual products and services bundled with the sale based on their relative selling prices. We defer the travel component as part of frequent flyer deferred revenue and recognize passenger revenue as the mileage credits are redeemed for travel. The revenue allocated to the remaining deliverables (such as lounge access, baggage fee waivers and brand usage) is recorded in other revenue. We recognize the revenue for these services as they are performed.

The amount of loyalty program revenue changes based on the price paid for mileage credits, the volume of credits sold and our allocation of selling price to the individual products and services. With the adoption of the new revenue recognition standard in 2018, we expect to increase the value we use to account for the travel component within mileage credit sales. This new value for the travel component will cause a re-allocation of the consideration received from mileage credit sales. The re-allocation will result in less revenue recognized for loyalty programs in other revenue and more revenue in passenger revenue as the frequent flyer awards are redeemed.

Loyalty program revenue increased during the nine months ended September 30, 2017 compared to the same period a year ago related to growth in our co-brand credit card partnership with American Express. Additional information about our frequent flyer program accounting policies can be found in Note 1, "Summary of Significant Accounting Policies," in our Form 10-K.

Administrative fees, club and on-board sales. These revenues primarily relate to travel-related services such as ticket changes and unaccompanied minors and also include amounts collected for on-board sales and Sky Club lounge memberships. We recognize revenue as these services are performed. A significant portion of these fees are travel-related and performed in conjunction with the passenger's flight. Therefore, we expect the majority of these fees will be reclassified to passenger revenue with our adoption of the new revenue recognition standard in 2018.

Ancillary business and refinery. Ancillary business and refinery includes aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations and refinery sales to third parties. Ancillary business and refinery revenues are not related to the generation of a seat mile. Ancillary business and refinery sales primarily increased due to sales of non-jet fuel products to third parties by our oil refinery, consistent with stronger pricing of refined products throughout the oil industry.

Baggage fees. The revenue amount shown above represents baggage fees that were sold as a separate component of the passenger's ticket. Similar to administrative fees described above, baggage services are performed and earned in conjunction with the passenger's flight, and we expect that these fees will be reclassified to passenger revenue with our adoption of the new revenue recognition standard in 2018.

Operating Expense

(in millions)	Nine Months Ended		Increase (Decrease)	% Increase (Decrease)
	September 30, 2017	September 30, 2016		
Salaries and related costs	\$7,804	\$7,165	\$ 639	8.9 %
Aircraft fuel and related taxes	4,207	3,877	330	8.5 %
Regional carriers expense	3,347	3,221	126	3.9 %
Depreciation and amortization	1,649	1,430	219	15.3 %
Contracted services	1,627	1,480	147	9.9 %
Aircraft maintenance materials and outside repairs	1,496	1,357	139	10.2 %
Passenger commissions and other selling expenses	1,344	1,291	53	4.1 %
Landing fees and other rents	1,144	1,123	21	1.9 %
Passenger service	806	674	132	19.6 %
Profit sharing	803	922	(119)	(12.9)%
Aircraft rent	259	204	55	27.0 %
Other	1,593	1,505	88	5.8 %
Total operating expense	\$26,079	\$24,249	\$ 1,830	7.5 %

Salaries and Related Costs. The increase in salaries and related costs is primarily due to contractual pay rate increases for pilots and increases for eligible merit, ground and flight attendant employees.

Aircraft Fuel and Related Taxes. Including our regional carriers, fuel expense increased \$461 million compared to the prior year due to an increase in the market price per gallon of fuel, partially offset by reduced fuel hedge losses compared to the prior year period and profits generated within our refinery segment. The table below presents fuel expense including our regional carriers:

(in millions)	Nine Months Ended		Increase (Decrease)	% Increase (Decrease)
	September 30, 2017	September 30, 2016		
Aircraft fuel and related taxes ⁽¹⁾	\$4,207	\$3,877	\$ 330	
Aircraft fuel and related taxes included within regional carriers expense	747	616	131	
Total fuel expense	\$4,954	\$4,493	\$ 461	10.3 %

⁽¹⁾ 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 (non-GAAP financial measures):

(in millions, except per gallon data)	Nine Months Ended		Average Price Per Gallon			
	September 30,		September 30,		Change	
	2017	2016	2017	2016	2017	2016
Fuel purchase cost ⁽¹⁾	\$5,029	\$4,118	\$911	\$ 1.64	\$ 1.34	\$0.30
Airline segment fuel hedge impact ⁽²⁾	12	292	(280)	—	0.09	(0.09)
Refinery segment impact ⁽²⁾	(87)	83	(170)	(0.03)	0.03	(0.06)
Total fuel expense	\$4,954	\$4,493	\$461	\$ 1.61	\$ 1.46	\$0.15
MTM adjustments and settlements ⁽³⁾	210	439	(229)	0.07	0.14	(0.07)
Total fuel expense, adjusted	\$5,164	\$4,932	\$232	\$ 1.68	\$ 1.60	\$0.08

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

⁽²⁾ Includes the impact of pricing arrangements between the airline and refinery segments with respect to the refinery's inventory price risk. For additional information regarding the refinery segment impact, see "Refinery Segment" below.

⁽³⁾ MTM adjustments and settlements include the effects of the derivative transactions discussed in Note 4 of the Notes to the Condensed Consolidated Financial Statements. For additional information and the reason for adjusting fuel expense, see "Supplemental Information" below.

Depreciation and Amortization. The increase in depreciation and amortization primarily results from new aircraft deliveries over the prior year, including B-737-900ER, A321-200, A330-300 and A350-900 aircraft, fleet modifications and accelerated depreciation due to the planned retirement of our MD-88 fleet and two B-767-300ER aircraft.

Contracted Services. The increase in contracted services expense predominantly relates to additional contract labor expenses associated with a higher volume of cargo activity, contractual rate increases and investments to improve the customer experience.

Aircraft Maintenance Materials and Outside Repairs. Aircraft maintenance materials and outside repairs consist of costs associated with the maintenance of aircraft used in our operations and costs associated with maintenance sales to third parties by our MRO business. The increase in aircraft maintenance materials and outside repairs expense primarily relates to an increase in maintenance activity in order to enhance service reliability of certain aircraft.

Passenger Service. Passenger service expense includes the costs of onboard food and beverage, cleaning and supplies. The increase in passenger service expense predominantly relates to costs associated with enhancements to our onboard product offering.

Aircraft Rent. The increase in aircraft rent primarily results from new leased aircraft deliveries over the prior year, including B-737-900ER and A321-200 aircraft.

<i>Non-Operating Results</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Favorable (Unfavorable)	2017	2016	Favorable (Unfavorable)
(in millions)						
Interest expense, net	\$(100)	\$(95)	\$ (5)	\$(297)	\$(295)	\$ (2)
Miscellaneous, net	66	26	40	(12)	47	(59)
Total non-operating expense, net	\$(34)	\$(69)	\$ 35	\$(309)	\$(248)	\$ (61)

At December 31, 2016, the principal amount of debt and capital leases was \$7.4 billion. During the nine months ended September 30, 2017, we issued \$2.0 billion of unsecured notes. As a result of the debt issuance, the principal amount of debt and capital leases increased to \$8.9 billion at September 30, 2017.

In the three months ended September 30, 2017, miscellaneous, net is favorable primarily due to foreign currency gains compared to losses in the three months ended September 30, 2016 and our proportionate share of gains from our equity investment in Aeroméxico.

In the nine months ended September 30, 2017, miscellaneous, net is unfavorable primarily due to our proportionate share of losses from our equity investment in Virgin Atlantic compared to gains in the nine months ended September 30, 2016 and our proportionate share of losses from our equity investment in Aeroméxico. These losses were partially offset by foreign currency gains compared to losses in the nine months ended September 30, 2016.

Income Taxes

We project that our annual effective tax rate for 2017 will be between 34% and 35%. In certain interim periods, we may have adjustments to our net deferred tax assets as a result of changes in prior year estimates and tax laws enacted during the period, which will impact the effective tax rate for that interim period.

Refinery Segment

The refinery primarily produces gasoline, diesel and jet fuel. Non-jet fuel products the refinery produces are exchanged with third parties for jet fuel consumed in our airline operations. The jet fuel produced and procured through exchanging gasoline and diesel fuel produced by the refinery provides approximately 200,000 barrels per day for use in our airline operations. We believe that the jet fuel supply resulting from the refinery's operation contributes to reduced market prices for jet fuel, and thus lowered our cost of jet fuel compared to what it otherwise would have been.

The refinery recorded operating revenues of \$1.4 billion and \$3.6 billion in the three and nine months ended September 30, 2017, respectively, compared to \$1.0 billion and \$2.8 billion in the three and nine months ended September 30, 2016, respectively. Operating revenues in the three and nine months ended September 30, 2017 were composed of \$910 million and \$2.4 billion, respectively, of non-jet fuel products exchanged with third parties to procure jet fuel, \$239 million and \$622 million, respectively, of sales of jet fuel to the airline segment and \$79 million and \$346 million, respectively, of sales of refined products. Refinery revenues increased compared to the prior year due to stronger pricing of refined products throughout the oil industry.

The refinery recorded profits of \$37 million and \$87 million in the three and nine months ended September 30, 2017, respectively, compared to losses of \$45 million and \$83 million in the three and nine months ended September 30, 2016, respectively. The refinery's profit in the current period was primarily due to increased product cracks.

A refinery is subject to annual U.S. Environmental Protection Agency requirements to blend renewable fuels into the gasoline and on-road diesel fuel it produces. Alternatively, a refinery may purchase renewable energy credits, called Renewable Identification Numbers ("RINs"), from third parties in the secondary market. The refinery, operated by Monroe, purchases the majority of its RINs requirement in the secondary market. We recognized \$54 million and \$48 million of expense related to the RINs requirement in the September 2017 and 2016 quarters, respectively, and \$116 million and \$130 million for the nine months ended September 30, 2017 and 2016, respectively.

For more information regarding the refinery's results, see Note 9 of the Notes to the Condensed Consolidated Financial Statements.

Operating Statistics

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Consolidated⁽¹⁾				
Revenue passenger miles (in millions)	61,006	58,973	166,533	163,113
Available seat miles (in millions)	70,167	69,028	194,265	193,152
Passenger mile yield	15.41 ¢	15.38 ¢	15.80 ¢	15.82 ¢
PRASM	13.40 ¢	13.14 ¢	13.55 ¢	13.36 ¢
TRASM ⁽²⁾	15.76 ¢	15.19 ¢	15.96 ¢	15.63 ¢
TRASM, adjusted ⁽³⁾	15.58 ¢	15.17 ¢	15.82 ¢	15.55 ¢
CASM	13.14 ¢	12.33 ¢	13.42 ¢	12.55 ¢
CASM-Ex, including profit sharing ⁽³⁾	10.05 ¢	9.58 ¢	10.37 ¢	9.79 ¢
Passenger load factor	86.9 %	85.4 %	85.7 %	84.4 %
Fuel gallons consumed (in millions)	1,108	1,099	3,073	3,075
Average price per fuel gallon ⁽⁴⁾	\$1.61	\$1.50	\$1.61	\$1.46
Average price per fuel gallon, adjusted ⁽⁴⁾⁽⁵⁾	\$1.68	\$1.48	\$1.68	\$1.60

⁽¹⁾ Includes the operations of our regional carriers under capacity purchase agreements.

⁽²⁾ Total revenue per available seat mile ("TRASM").

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- (3) Non-GAAP financial measure defined and reconciled to TRASM and CASM, respectively, in "Supplemental Information" below.
- (4) Includes the impact of fuel hedge activity and refinery segment results.
- (5) Non-GAAP financial measure defined and reconciled to average fuel price per gallon in "Results of Operations" for the three and nine months ended September 30, 2017 and 2016.

Fleet Information

Our operating aircraft fleet and commitments at September 30, 2017 are summarized in the following table:

Aircraft Type	Current Fleet ⁽¹⁾			Commitments			
	Owned	Capital Lease	Operating Lease	Total	Average Age	Purchases	Options
B-717-200	3	13	75	91	16.1	—	—
B-737-700	10	—	—	10	8.7	—	—
B-737-800	73	4	—	77	16.1	—	—
B-737-900ER	50	—	34	84	2.2	46	—
B-747-400	4	3	—	7	26.3	—	—
B-757-200	87	12	3	102	20.3	—	—
B-757-300	16	—	—	16	14.6	—	—
B-767-300	3	—	—	3	22.3	—	—
B-767-300ER	54	4	—	58	21.5	—	—
B-767-400ER	21	—	—	21	16.8	—	—
B-777-200ER	8	—	—	8	17.8	—	—
B-777-200LR	10	—	—	10	8.5	—	—
A319-100	55	—	2	57	15.6	—	—
A320-200	58	3	4	65	22.3	—	—
A321-200 ⁽²⁾	9	—	17	26	0.8	96	—
A330-200	11	—	—	11	12.5	—	—
A330-300	28	—	3	31	8.7	—	—
A330-900neo	—	—	—	—	—	25	—
A350-900	2	—	—	2	0.2	23	—
CS100	—	—	—	—	—	75	50
MD-88	94	19	—	113	27.3	—	—
MD-90	65	—	—	65	20.6	—	—
Total	661	158	138	857	17.0	265	50

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

⁽²⁾ Airbus has the option to confirm delivery commitments for five additional A321-200 aircraft.

The following table summarizes the aircraft fleet operated by our regional carriers on our behalf at September 30, 2017:

Carrier	Fleet Type					Total
	CRJ-200	CRJ-700	CRJ-900	Embraer 170	Embraer 175	
Endeavor Air, Inc. ⁽¹⁾	58	—	81	—	—	139
ExpressJet Airlines, Inc. ⁽²⁾	6	33	28	—	—	67
SkyWest Airlines, Inc.	74	27	36	—	18	155
Compass Airlines, Inc.	—	—	—	—	36	36
Republic Airline, Inc.	—	—	—	20	16	36
GoJet Airlines, LLC	—	22	7	—	—	29
Total	138	82	152	20	70	462

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

⁽²⁾ During the September 2017 quarter, we and ExpressJet, Inc. agreed to early terminate our relationship by the end of 2018.

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 September 30, 2017, we had \$4.9 billion in unrestricted liquidity, consisting of \$2.4 billion in cash and cash equivalents and short-term investments and \$2.5 billion in undrawn revolving credit facilities. During the nine months ended September 30, 2017, we used existing cash, cash generated from advance ticket sales and proceeds from a debt offering to fund capital expenditures of \$2.7 billion, purchase shares of Grupo Aeroméxico for \$795 million, return \$1.9 billion to shareholders and contribute \$3.2 billion to fund our pension obligation, 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 \$3.2 billion and \$6.1 billion in the nine months ended September 30, 2017 and 2016, respectively. We had lower operating cash flows during the first nine months of 2017 compared to the prior year primarily due to incremental pension plan contributions partially funded through \$2.0 billion of debt issuance.

Our operating cash flows are impacted by the following factors:

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

Fuel. Including our regional carriers, fuel expense represented approximately 19% of our total operating expenses for the nine months ended September 30, 2017. The market price for jet fuel is highly volatile, which can impact the comparability of our cash flows from operations from period to period.

Pension Contributions. Using the net proceeds from the \$2.0 billion debt issuance and existing cash, we contributed \$3.2 billion to our qualified defined benefit pension plans during the first half of 2017. We also contributed shares of our common stock from treasury with a value of \$350 million during the March 2017 quarter. As a result, we satisfied, on an accelerated basis, the 2017 required contributions for our defined benefit plans, and contributed more than \$3.0 billion above the minimum funding requirements. During the first half of 2016, we contributed \$1.3 billion to our qualified defined benefit pension plans.

Profit Sharing. Through September 30, 2017, 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, ("profit") we will pay a specified portion of that profit to eligible employees. The profit sharing formula pays 10% of profit and, if we exceed our prior year profit, the program will pay 20% of the year-over-year increase in profit to eligible employees. The profit sharing program for pilots (the "pilot program") pays 10% for the first \$2.5 billion of profit and 20% of profit above \$2.5 billion. During the nine months ended September 30, 2017, we accrued \$803 million in profit sharing expense based on the year-to-date performance and current expectations for 2017 profit.

Effective October 1, 2017, we changed our profit sharing formula to align all employees under a single program. Going forward, all eligible employees will be paid profit sharing under the same terms as the pilot program discussed above.

We paid \$1.1 billion in profit sharing in February 2017 related to our 2016 pre-tax profit in recognition of our employees' contributions toward meeting our financial goals.

Investing Activities

Capital Expenditures. Our capital expenditures were \$2.7 billion and \$2.6 billion for the nine months ended September 30, 2017 and 2016, respectively. Our capital expenditures during the nine months ended September 30, 2017 were primarily related to the purchases of nine B-737-900ER aircraft to replace a portion of our older B-757-200 aircraft, two A321-200, two A330-300 and two A350-900 aircraft, advanced deposit payments on future aircraft order commitments and seat density projects for our domestic fleet.

We have committed to future aircraft purchases that will require significant capital investment and have obtained, but are under no obligation to use, long-term financing commitments for a substantial portion of the purchase price of a significant number of these aircraft. Our expected 2017 investments of \$3.5 billion to \$4.0 billion will be primarily for (1) aircraft, including deliveries of B-737-900ERs, A321-200s, A350-900s and A330-300s, along with advance deposit payments for these and our A330-900neo and CS100 orders, as well as (2) aircraft modifications, the majority of which relate to increasing the seat density and enhancing the cabins on our domestic fleet.

Equity Investments. During the March 2017 quarter, we completed a \$622 million tender offer for additional capital stock of Grupo Aeroméxico, increasing our ownership percentage to 36%. During the September 2017 quarter, we executed derivative contracts for additional shares of Grupo Aeroméxico representing 13% of its shares for \$173 million, bringing our total ownership to 49%.

Subsequent to the September 2017 quarter, we acquired shares of Air France-KLM for \$448 million, which provides us with a 10% ownership stake.

LAX Redevelopment. During the September 2016 quarter, we executed a modified lease agreement with Los Angeles World Airports ("LAWA"), which owns and operates LAX, and announced plans to modernize, upgrade and connect Terminals 2 and 3 at LAX over the next seven years. We will design and manage the construction of the initial investment of \$350 million to renovate gate areas, support space and other amenities for passengers, upgrade the baggage handling systems in the terminals and facilitate the relocation of those airlines located in Terminals 2 and 3 to Terminals 5 and 6 and Tom Bradley International Terminal ("TBIT"). The relocation activities were completed during the June 2017 quarter. Subject to required approvals, we have an option to expand the project, which could cost an additional \$1.5 billion and would include (1) redevelopment of Terminal 3 and enhancement of Terminal 2, (2) rebuild of the ticketing, arrival hall and security checkpoint, (3) construction of infrastructure for the planned airport people mover, (4) ramp improvements and (5) construction of a secure connector to the north side of TBIT.

A substantial majority of the project costs will be funded through the RAIC, a California public benefit corporation, using a revolving credit facility provided by a group of lenders, whose aggregate commitments total \$800 million. The credit facility was executed during the September 2017 quarter. Loans made under the credit facility will be repaid with the proceeds from LAWA's purchase of completed project assets. We have guaranteed the obligations of the RAIC under the credit facility.

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

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

Financing Activities

Debt and Capital Leases. The principal amount of debt and capital leases was \$8.9 billion at September 30, 2017. Since December 31, 2009, we have reduced our principal amount of debt and capital leases by \$9.4 billion.

During the March 2017 quarter, we issued \$2.0 billion in aggregate principal amount of unsecured notes, consisting of \$1.0 billion of 2.875% Notes due 2020 and \$1.0 billion of 3.625% Notes due 2022. As discussed above, we used the net proceeds from this issuance to make a cash contribution to our qualified defined benefit pension plans.

During the September 2017 quarter, we received an update to our credit rating from Standard & Poor's to an investment-grade rating of BBB-. We now have investment-grade ratings from all three major credit rating agencies.

At September 30, 2017, our corporate ratings were:

Rating Agency	Current Rating Outlook	
Fitch	BBB-	Stable
Moody's	Baa3	Stable
Standard & Poor's	BBB-	Stable

Capital Return to Shareholders. During the nine months ended September 30, 2017, we repurchased and retired 27.4 million shares of our common stock at a cost of \$1.4 billion, completing our May 2015 Program. Details of this program and our May 2017 Program are summarized below:

(in millions, except average repurchase price)	Share Repurchase Authorization	Average Repurchase Price	Expiration Date	Authorization Remaining
May 2015 Program	\$ 5,000	\$ 45.32	December 31, 2017	\$ —
May 2017 Program	\$ 5,000	\$ —	December 31, 2020	\$ 5,000

In the September 2017 quarter, the Board of Directors approved and we paid a quarterly dividend of \$0.305 per share.

Fuel Hedge Restructuring. During the June 2016 quarter, we early terminated certain of our outstanding deferral transactions and made cash payments of \$170 million, including normal settlements. During the nine months ended September 30, 2017, we reported \$20 million in cash receipts and \$193 million in cash payments associated with these transactions in other, net in the financing activities section of the Condensed Consolidated Statements of Cash Flows. For additional information regarding these deferral transactions, see Note 4 to the Notes to the Condensed Consolidated Financial Statements.

Undrawn Lines of Credit

We have \$2.5 billion available in undrawn revolving lines of credit. These 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 financings at September 30, 2017.

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

Retirement Benefits. In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715)." This standard requires an entity to report the service cost component in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017. We will adopt the standard effective January 1, 2018.

Supplemental Information

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

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

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
TRASM	15.76¢	15.19¢	15.96¢	15.63¢
Adjusted for:				
Third-party refinery sales	(0.18)	(0.02)	(0.14)	(0.08)
TRASM, adjusted	15.58¢	15.17¢	15.82¢	15.55¢

The following table shows a reconciliation of CASM (a GAAP measure) to CASM-Ex, including profit sharing (a non-GAAP financial measure). We adjust CASM for the following items to determine CASM-Ex, including profit sharing, 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.

- *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 September 30, 2017		Nine Months Ended September 30, 2016	
CASM	13.14¢	12.33¢	13.42¢	12.55¢
Adjusted for:				
Aircraft fuel and related taxes	(2.54)	(2.39)	(2.55)	(2.33)
Other expenses	(0.55)	(0.36)	(0.50)	(0.43)
CASM-Ex, including profit sharing	10.05¢	9.58¢	10.37¢	9.79¢

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that the controls and procedures were effective as of September 30, 2017 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.

Except as set forth below, during the three months ended September 30, 2017, 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.

During the three months ended September 30, 2017, we implemented a new payroll system for U.S. employees which resulted in a material change in a component of our internal control over financial reporting. The operating effectiveness of these changes to our internal controls over financial reporting will be evaluated as part of our annual assessment of the effectiveness of internal controls over financial reporting as of the end of 2017.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

First Bag Fee Antitrust Litigation

In May-July 2009, a number of purported class action antitrust lawsuits were filed against Delta and AirTran Airways ("AirTran"), alleging that Delta and AirTran engaged in collusive behavior in violation of Section 1 of the Sherman Act in November 2008 based upon certain public statements made in October 2008 by AirTran's CEO at an analyst conference concerning fees for the first checked bag, Delta's imposition of a fee for the first checked bag on November 4, 2008 and AirTran's imposition of a similar fee on November 12, 2008. The plaintiffs sought to assert claims on behalf of an alleged class consisting of passengers who paid the first bag fee after December 5, 2008 and seek injunctive relief and unspecified treble damages. All of these cases have been consolidated for pre-trial proceedings in the Northern District of Georgia.

On July 12, 2016, the Court issued an order granting the plaintiffs' motion for class certification. On October 7, 2016, the U.S. Court of Appeals granted the defendants' petition for interlocutory review of this order, and that appeal remains pending.

On March 29, 2017, the District Court granted the defendants' motions for summary judgment. The plaintiffs have filed an appeal to the U.S. Court of Appeals, and that appeal remains pending.

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 September 2017 quarter. The total number of shares purchased includes shares repurchased pursuant to our \$5 billion share repurchase program, which was publicly announced on May 13, 2015 and completed in September 2017. Our new \$5 billion share repurchase program was publicly announced on May 11, 2017 (the "2017 Repurchase Program") and will terminate no later than December 31, 2020. Some purchases made in the September 2017 quarter were made pursuant to a trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

In addition, the table includes shares withheld from employees to satisfy certain tax obligations due in connection with grants of stock under the Delta Air Lines, Inc. Performance Compensation Plan (the "Plan"). The Plan provides for the withholding of shares to satisfy tax obligations. It does not specify a maximum number of shares that can be withheld for this purpose. The shares of common stock withheld to satisfy tax withholding obligations may be deemed to be "issuer purchases" of shares that are required to be disclosed pursuant to this Item.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Approximate	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value (in millions) of Shares That May Yet be Purchased Under the Plan or Programs
July 2017	1,903,484	\$53.01	1,903,484	\$ 5,450
August 2017	5,080,836	\$48.98	5,080,836	\$ 5,200
September 2017	4,229,768	\$47.85	4,229,768	\$ 5,000
Total	11,214,088		11,214,088	

ITEM 6. EXHIBITS

(a) Exhibits

- 10.1 Amended and Restated Agreement of Lease by and between The Port Authority of New York and New Jersey and Delta Air Lines, Inc., dated as of September 13, 2017
- 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 September 30, 2017
- 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 September 30, 2017
- 32 Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief Executive Officer and Executive Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017
- 101.INS XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 101.SCHXBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LABXBRL Taxonomy Extension Labels Linkbase Document
- 101.PREXBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Delta Air Lines, Inc.
(Registrant)

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

October 11, 2017