

DELTA AIR LINES INC /DE/  
Form 10-Q  
October 16, 2008

**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, 2008

Or

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

**DELTA AIR LINES, INC.**

**State of Incorporation: Delaware**

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

**Post Office Box 20706, Atlanta, Georgia 30320-6001**

**Telephone: (404) 715-2600**

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

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

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

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

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Yes  No

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

Yes  No

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

Common Stock, \$0.0001 par value 308,542,158 shares outstanding

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

Unless otherwise indicated, the terms Delta, the Company, we, us and our refer to Delta Air Lines, Inc. and its subsidiaries.

**FORWARD-LOOKING STATEMENTS**

Statements in this Form 10-Q (or otherwise made by us or on our behalf) that are not historical facts, including statements about our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. For examples of such risks and uncertainties, please see the cautionary statements contained in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 ( Form 10-K ) and Part II, Item 1A. Risk Factors in this Form 10-Q. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****DELTA AIR LINES, INC.****Consolidated Balance Sheets****ASSETS**

(in millions)	September 30, 2008 (Unaudited)	December 31, 2007
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,160	\$ 2,648
Short-term investments	921	138
Restricted cash	228	520
Accounts receivable, net of allowance for uncollectible accounts of \$29 and \$26 at September 30, 2008 and December 31, 2007, respectively	1,240	1,066
Expendable parts and supplies inventories, net of allowance for obsolescence of \$24 and \$11 at September 30, 2008 and December 31, 2007, respectively	243	262
Deferred income taxes, net	99	142
Prepaid expenses and other	597	464
<b>Total current assets</b>	<b>5,488</b>	<b>5,240</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Flight equipment	10,264	9,525
Accumulated depreciation	(642)	(299)
<b>Flight equipment, net</b>	<b>9,622</b>	<b>9,226</b>
Ground property and equipment	2,069	1,943
Accumulated depreciation	(499)	(246)
<b>Ground property and equipment, net</b>	<b>1,570</b>	<b>1,697</b>
Flight and ground equipment under capital leases	621	602
Accumulated amortization	(128)	(63)
<b>Flight and ground equipment under capital leases, net</b>	<b>493</b>	<b>539</b>
Advance payments for equipment	375	239
<b>Total property and equipment, net</b>	<b>12,060</b>	<b>11,701</b>
<b>OTHER ASSETS:</b>		
Goodwill	5,168	12,104
Identifiable intangibles, net of accumulated amortization of \$305 and \$147 at September 30, 2008 and December 31, 2007, respectively	2,291	2,806
Other noncurrent assets	591	572
<b>Total other assets</b>	<b>8,050</b>	<b>15,482</b>

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Total assets	\$	25,598	\$	32,423
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

## DELTA AIR LINES, INC.

## Consolidated Balance Sheets

## LIABILITIES AND SHAREOWNERS EQUITY

(in millions, except share data)	September 30, 2008 (Unaudited)	December 31, 2007
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt and capital leases	\$ 865	\$ 1,014
Air traffic liability	2,460	1,982
SkyMiles deferred revenue	1,077	1,055
Accrued salaries and related benefits	572	734
Taxes payable	345	323
Accounts payable	347	363
Note payable		295
Other accrued liabilities	1,122	839
 Total current liabilities	 6,788	 6,605
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt and capital leases	9,274	7,986
Pension and related benefits	2,979	3,002
SkyMiles deferred revenue	2,058	2,276
Deferred income taxes, net	714	855
Postretirement benefits	857	865
Other noncurrent liabilities	537	721
 Total noncurrent liabilities	 16,419	 15,705
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREOWNERS EQUITY:</b>		
Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 316,059,820 and 299,464,669 shares issued at September 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital	9,561	9,512
(Accumulated deficit) retained earnings	(7,170)	314
Accumulated other comprehensive income	152	435
Stock held in treasury, at cost, 7,517,662 and 7,238,973 shares at September 30, 2008 and December 31, 2007, respectively	(152)	(148)
 Total shareowners equity	 2,391	 10,113
 Total liabilities and shareowners equity	 \$ 25,598	 \$ 32,423

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

## DELTA AIR LINES, INC.

## Consolidated Statements of Operations

(Unaudited)

(in millions, except per share data)	Successor Three Months Ended September 30, 2008	Successor Three Months Ended September 30, 2007	Successor Nine Months Ended September 30, 2008	Successor Five Months Ended September 30, 2007	Predecessor Four Months Ended April 30, 2007
<b>OPERATING REVENUE:</b>					
Passenger:					
Mainline	\$ 3,921	\$ 3,539	\$ 10,609	\$ 5,877	\$ 3,829
Regional affiliates	1,057	1,099	3,239	1,859	1,296
Cargo	162	120	456	202	148
Other, net	579	469	1,680	737	523
Total operating revenue	5,719	5,227	15,984	8,675	5,796
<b>OPERATING EXPENSE:</b>					
Aircraft fuel and related taxes	1,952	1,270	5,052	2,060	1,270
Salaries and related costs	1,086	1,109	3,269	1,817	1,302
Contract carrier arrangements	905	815	2,732	1,345	956
Depreciation and amortization	293	297	892	490	386
Aircraft maintenance materials and outside repairs	273	253	836	418	320
Contracted services	272	264	783	424	326
Passenger commissions and other selling expenses	259	248	732	423	298
Landing fees and other rents	190	178	554	300	250
Passenger service	122	94	311	155	95
Aircraft rent	70	60	201	96	90
Impairment of goodwill			6,939		
Impairment of intangible assets			357		
Restructuring and merger-related items	24		144		
Profit sharing		79		144	14
Other	142	107	399	205	189
Total operating expense	5,588	4,774	23,201	7,877	5,496
<b>OPERATING INCOME (LOSS)</b>	131	453	(7,217)	798	300
<b>OTHER (EXPENSE) INCOME:</b>					
Interest expense (contractual interest expense totaled \$366 for the four months ended April 30, 2007)	(140)	(132)	(428)	(252)	(262)
Interest income	21	42	73	75	14
Miscellaneous, net	(62)		(31)	9	27
Total other expense, net	(181)	(90)	(386)	(168)	(221)
<b>(LOSS) INCOME BEFORE REORGANIZATION ITEMS, NET</b>	(50)	363	(7,603)	630	79
<b>REORGANIZATION ITEMS, NET</b>					1,215
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	(50)	363	(7,603)	630	1,294
<b>INCOME TAX (PROVISION) BENEFIT</b>		(143)	119	(246)	4
<b>NET (LOSS) INCOME</b>	\$ (50)	\$ 220	\$ (7,484)	\$ 384	\$ 1,298

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<b>BASIC (LOSS) INCOME PER SHARE</b>	\$ (0.13)	\$ 0.56	\$ (18.91)	\$ 0.98	\$ 6.58
<b>DILUTED (LOSS) INCOME PER SHARE</b>	\$ (0.13)	\$ 0.56	\$ (18.91)	\$ 0.97	\$ 4.63

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



## DELTA AIR LINES, INC.

## Condensed Consolidated Statements of Cash Flow

(Unaudited)

(in millions)	Successor Nine Months Ended September 30, 2008	Successor Five Months Ended September 30, 2007	Predecessor Four Months Ended April 30, 2007
<b>Net cash provided by (used in) operating activities</b>	\$ 282	\$ (198)	\$ 1,025
<b>Cash Flows From Investing Activities:</b>			
Property and equipment additions:			
Flight equipment, including advance payments	(1,056)	(342)	(167)
Ground property and equipment, including technology	(160)	(79)	(41)
Decrease in restricted cash	2	108	56
Proceeds of sales of flight equipment	110	24	21
Redesignation of cash equivalents to short-term investments	(818)		
Proceeds from sales of investments			34
Purchase of short-term investments		(49)	
Other, net	7		
Net cash used in investing activities	(1,915)	(338)	(97)
<b>Cash Flows From Financing Activities:</b>			
Payments on long-term debt and capital lease obligations	(857)	(327)	(166)
Proceeds from Exit Facilities			1,500
Proceeds from long-term obligations	2,014	319	
Payments on DIP Facility			(2,076)
Other, net	(12)	(3)	(50)
Net cash provided by (used in) financing activities	1,145	(11)	(792)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(488)</b>	<b>(547)</b>	<b>136</b>
Cash and cash equivalents at beginning of period	2,648	2,170	2,034
Cash and cash equivalents at end of period	\$ 2,160	\$ 1,623	\$ 2,170
<b>Supplemental disclosure of cash paid (refunded) for:</b>			
Interest	\$ 515	\$ 231	\$ 243
Interest received from the preservation of cash due to Chapter 11 filing			(50)
<b>Non-cash transactions:</b>			
Flight equipment	\$ 103	\$	\$ 135
Flight equipment under capital leases	32	35	117
Debt extinguishment from aircraft negotiation		14	

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

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DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements

September 30, 2008

(Unaudited)

**1. BACKGROUND**

*General Information*

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

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

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

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

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

293 million shares of common stock to holders of \$13.3 billion of allowed general, unsecured claims. We have reserved 93 million shares of common stock for future distributions to holders of allowed general, unsecured claims when disputed claims are resolved.

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

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

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

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

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

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

**Reorganization Items, net**

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

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

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

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

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

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

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

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- (4) Estimated claims for the four months ended April 30, 2007 relate to the restructuring of the financing arrangements for 143 aircraft, the rejection of two aircraft leases and adjustments to prior claims estimates.
- (5) In connection with amendments to our contract carrier agreements with Chautauqua Airlines, Inc. ( Chautauqua ) and Shuttle America Corporation ( Shuttle America ), both subsidiaries of Republic Airways Holdings, Inc. ( Republic Holdings ), which, among other things, reduced the rates we pay those carriers, we recorded (a) a \$91 million allowed general, unsecured claim and (b) a \$37 million net charge related to our surrender of warrants to purchase up to 3.5 million shares of Republic Holdings common stock. Additionally, in connection with an amendment to our contract carrier agreement with Freedom Airlines, Inc. ( Freedom ), a subsidiary of Mesa Air Group, Inc., which, among other things, reduced the rates we pay that carrier, we recorded a \$35 million allowed general, unsecured claim.
- (6) In accordance with the Plan of Reorganization, we made \$130 million in lump-sum cash payments to approximately 39,000 eligible non-contract, non-management employees. We also recorded an additional charge of \$32 million related to our portion of payroll related taxes associated with the issuance, as contemplated by the Plan of Reorganization, of approximately 14 million shares of common stock to these employees. For additional information regarding the stock grants, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.
- (7) Allowed general, unsecured claims of \$83 million for the four months ended April 30, 2007 in connection with Comair's comprehensive agreement with ALPA reducing pilot labor costs.
- (8) Reflects interest earned due to the preservation of cash during our Chapter 11 proceedings.
- (9) For the four months ended April 30, 2007, we recorded a net \$43 million gain, primarily reflecting a \$126 million net gain in connection with our settlement agreement with the Massachusetts Port Authority ( Massport ), which was partially offset by a net \$80 million charge from an allowed general, unsecured claim under our settlement agreement relating to the restructuring of certain of our lease and other obligations at the Cincinnati-Northern Kentucky International Airport (the Cincinnati Airport Settlement Agreement ). For additional information regarding our settlement agreement with Massport, see Note 6 of the Notes to the Consolidated Financial Statements in our Form 10-K. For additional information regarding the Cincinnati Airport Settlement Agreement, see Note 6.
- (10) Allowed general, unsecured claims in connection with agreements reached with committees representing pilot and non-pilot retired employees reducing their postretirement healthcare benefits.

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## 2. ACCOUNTING AND REPORTING POLICIES

### *Basis of Presentation*

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

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

Management believes that the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including adjustments required by fresh start reporting, normal recurring items, restructuring and related items and reorganization items, considered necessary for a fair statement of results for the interim periods presented.

Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices and other factors, operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of operating results for the entire year.

### *Short-Term Investments*

Our short-term investments were primarily comprised of an investment in The Reserve Primary Fund (the Primary Fund ), a money market fund that has suspended redemptions and is being liquidated, and auction rate securities. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities, we record these investments as available-for-sale and trading securities, respectively, at fair value on our Consolidated Balance Sheets.

At September 30, 2008, the fair value of our investment in the Primary Fund was \$818 million. The cost of this investment was \$831 million. In mid-September, the net asset value of the Primary Fund decreased below \$1 per share as a result of the Primary Fund s valuing at zero its holdings of debt securities issued by Lehman Brothers Holdings, Inc. ( Lehman Brothers ), which filed for bankruptcy on September 15, 2008. Accordingly, we recorded a \$13 million loss to recognize our pro rata share of the estimated loss in this investment.

We have requested the redemption of our investment in the Primary Fund. We expect distributions will occur as the Primary Fund s assets mature or are sold. In addition, the Primary Fund has announced that it has applied to participate in the United States Department of Treasury s Temporary Money Market Fund Guarantee Program, participation in which is subject to the approval of the Treasury Department. Even if the Primary Fund is allowed to participate in the Guarantee Program, the effect on our investment is uncertain. While we expect to receive substantially all of our current holdings in the Primary Fund, we cannot predict when this will occur or the amount we will receive. Accordingly, we have reclassified our investment from cash and cash equivalents to short-term investments on our Consolidated Balance Sheet as of September 30, 2008.

At September 30, 2008 and December 31, 2007, the fair value of our insured auction rate securities was \$103 million and \$107 million, respectively. The cost of these investments was \$110 million. Because these securities are not actively traded, fair value was estimated using a discounted cash flow model. The valuation is based on our assessment of observable yields on instruments bearing comparable risks. Changes in market conditions could result in further adjustments to the fair value of these securities. For additional information regarding the valuation of our short-term investments, see Note 3.

### *Restricted Cash*

Restricted cash included in current assets on our Consolidated Balance Sheets totaled \$228 million and \$520 million at September 30, 2008 and December 31, 2007, respectively. Restricted cash recorded in other noncurrent assets on our Consolidated Balance Sheets totaled \$16 million and \$15 million at September 30, 2008 and December 31, 2007, respectively. Restricted cash is recorded at cost, which approximates fair value.

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

January 2008.

**Goodwill and Other Intangible Assets**

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

(in millions)	Total
Balance at December 31, 2007	\$ 12,104
Impairment charge	(6,939)
Adjustment to pre-emergence deferred tax assets and reserves	3
Balance at September 30, 2008	5,168

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

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

In accordance with SOP 90-7, a reduction in the valuation allowance associated with the realization of pre-emergence deferred tax assets will sequentially reduce the value of recorded goodwill followed by other indefinite-lived intangible assets until the net carrying cost of these assets is zero. During the nine months ended September 30, 2008, we increased goodwill by \$3 million associated with adjustments to pre-emergence deferred tax assets and reserves.

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

**Indefinite-Lived Intangible Assets**

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





**Definite-Lived Intangible Assets**

(in millions)	Net Carrying Amount December 31, 2007	Amortization	Impairment	Net Carrying Amount September 30, 2008
Marketing agreements	\$ 581	(145)		\$ 436
Contracts	195	(11)	(12)	172
Customer relationships	33	(2)	(31)	
Total	\$ 809	\$ (158)	\$ (43)	\$ 608

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

***Reclassifications***

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

**3. FAIR VALUE MEASUREMENTS**

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

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

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

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

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

(in millions)	September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 2,018	\$ 2,018	\$	\$
Short-term investments	921			921
Fuel hedge derivatives	77		(26)	103

Our fuel hedge option contracts are valued under the income approach using option-pricing models. During the June 2008 quarter, we reevaluated the valuation inputs used for our option contracts. As a result, we reclassified these contracts from Level 2 to Level 3 within SFAS

157 s three-tier fair value hierarchy since valuation at December 31, 2007.

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

(in millions)	Short-term Investments	Fuel Hedging Derivatives
Balance at December 31, 2007	\$ 107	\$
Transfers to Level 3	831	53
Change in fair value included in earnings	(17)	313
Change in fair value included in other comprehensive income		(253)
Purchases and settlements		(10)
Balance at September 30, 2008	\$ 921	\$ 103
Losses included in earnings attributable to the change in unrealized losses relating to assets still held at September 30, 2008	\$ (17)	\$ (8)

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

(in millions)	Fuel Expense and Related Taxes	Other (Expense) Income
Total gains (losses) included in earnings	\$ 331	\$ (10)
Change in unrealized losses relating to assets still held at September 30, 2008	\$	\$ (25)

**Assets Measured at Fair Value on a Nonrecurring Basis**

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

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