

DELTA AIR LINES INC /DE/  
Form 10-Q/A  
August 09, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2004

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

IRS Employer Identification No.: 58-0218548

P.O. 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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares outstanding by each class of common stock,  
as of July 31, 2004:

Common Stock, \$1.50 par value - 125,607,315 shares outstanding

This document is also available on our web site at <http://investor.delta.com/edgar.cfm>.

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Our Form 10-Q for the quarter ended June 30, 2004 that was filed on August 9, 2004 shows that total liabilities and shareowners deficit were \$24.173 billion at June 30, 2004. The correct amount of total liabilities and shareowners deficit at June 30, 2004 was \$24.175 billion. There are no other changes to our Form 10-Q for the quarter ended June 30, 2004.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**DELTA AIR LINES, INC.**  
**Consolidated Balance Sheets**  
(In Millions, Except Share Data)

<b>ASSETS</b>	<b>June 30, 2004 (Unaudited)</b>	<b>December 31, 2003</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,966	\$ 2,710
Restricted cash	267	207
Accounts receivable, net of an allowance for uncollectible accounts of \$32 at June 30, 2004 and \$38 at December 31, 2003	823	662
Expendable parts and supplies inventories, net of an allowance for obsolescence of \$178 at June 30, 2004 and \$183 at December 31, 2003	215	202
Deferred income taxes, net	90	293
Prepaid expenses and other	455	476
Total current assets	3,816	4,550
<b>PROPERTY AND EQUIPMENT:</b>		
Flight equipment	21,285	21,008
Accumulated depreciation	(6,883)	(6,497)
Flight equipment, net	14,402	14,511
Flight and ground equipment under capital leases	481	463
Accumulated amortization	(372)	(353)
Flight and ground equipment under capital leases, net	109	110
Ground property and equipment	4,674	4,477
Accumulated depreciation	(2,573)	(2,408)
Ground property and equipment, net	2,101	2,069
Advance payments for equipment	121	62
Total property and equipment, net	16,733	16,752
<b>OTHER ASSETS:</b>		
Goodwill	2,092	2,092
Operating rights and other intangibles, net of accumulated amortization of \$182 at June 30, 2004 and \$179 at December 31, 2003	92	95
Restricted investments for Boston airport terminal project	189	286
Deferred income taxes, net	869	869
Other noncurrent assets	1,253	1,295
Total other assets	3,626	4,637
Total assets	\$ 24,175	\$ 25,939

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

**DELTA AIR LINES, INC.**  
**Consolidated Balance Sheets**  
(In Millions, Except Share Data)

<b>LIABILITIES AND SHAREOWNERS' DEFICIT</b>	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<b>(Unaudited)</b>	
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt and capital leases	\$ 499	\$ 1,021
Accounts payable, deferred credits and other accrued liabilities	1,726	1,709
Air traffic liability	1,896	1,308
Taxes payable	551	498
Accrued salaries and related benefits	1,232	1,285
Accrued rent	185	336
Total current liabilities	6,089	6,157
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt and capital leases	11,555	11,040
Long-term debt issued by Massachusetts Port Authority	498	498
Postretirement benefits	2,220	2,253
Accrued rent	731	701
Pension and related benefits	4,711	4,886
Deferred income taxes, net	278	-
Other	202	204
Total noncurrent liabilities	20,195	19,582
<b>DEFERRED CREDITS:</b>		
Deferred gains on sale and leaseback transactions	401	426
Deferred revenue and other credits	161	158
Total deferred credits	562	584
<b>COMMITMENTS AND CONTINGENCIES (Notes 4 and 5)</b>		
<b>EMPLOYEE STOCK OWNERSHIP PLAN PREFERRED STOCK:</b>		
Series B ESOP Convertible Preferred Stock, \$1.00 par value, \$72.00 stated and liquidation value; 5,678,176 shares issued and outstanding at June 30, 2004, and 5,839,708 shares issued and outstanding at December 31, 2003	409	420
Unearned compensation under employee stock ownership plan	(128)	(145)
Total Employee Stock Ownership Plan Preferred Stock	281	275
<b>SHAREOWNERS' DEFICIT:</b>		
Common stock, \$1.50 par value; 450,000,000 shares authorized; 180,915,087 shares issued at June 30, 2004 and shares at December 31, 2003	271	271
Additional paid-in capital	3,205	3,272
Retained earnings (deficit)	(1,512)	844
Accumulated other comprehensive loss	(2,287)	(2,338)
Treasury stock at cost, 55,695,590 shares at June 30, 2004 and 57,370,142 shares at December 31, 2003	(2,629)	(2,708)
Total shareowners' deficit	(2,952)	(659)
Total liabilities and shareowners' deficit	\$ 24,175	\$ 25,939

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 Share and Per Share Data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>OPERATING REVENUES:</b>				
Passenger:				
Mainline	\$ 2,895	\$ 2,560	\$ 5,455	\$ 5,075
Regional affiliates	761	662	1,442	1,217
Cargo	125	114	247	228
Other, net	180	160	346	300
Total operating revenues	3,961	3,496	7,490	6,820
<b>OPERATING EXPENSES:</b>				
Salaries and related costs	1,584	1,592	3,193	3,226
Aircraft fuel	669	435	1,243	946
Depreciation and amortization	311	306	618	609
Contracted services	249	219	490	451
Contract carrier arrangements	237	190	474	359
Landing fees and other rents	220	212	437	430
Aircraft maintenance materials and outside repairs	164	159	321	303
Aircraft rent	182	179	363	362
Other selling expenses	145	124	271	239
Passenger commissions	58	50	105	105
Passenger service	85	76	163	156
Pension settlements, restructuring and related items, net	117	-	117	43
Appropriations Act reimbursements	-	(398)	-	(398)
Other	181	156	324	328
Total operating expenses	4,202	3,300	8,119	7,159
<b>OPERATING INCOME (LOSS)</b>	(241)	196	(629)	(339)
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(197)	(191)	(391)	(367)
Interest income	8	7	21	17
Gain from sale of investments	-	283	-	283
Gain (loss) on extinguishment of debt	-	(1)	1	(15)
Fair value adjustments of SFAS 133 derivatives	5	(9)	(18)	(15)
Miscellaneous income (expense), net	(4)	16	(11)	13
Total other income (expense), net	(188)	105	(398)	(84)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(429)	301	(1,027)	(423)
<b>INCOME TAX (PROVISION) BENEFIT</b>	(1,534)	(117)	(1,319)	141
<b>NET INCOME (LOSS)</b>	(1,963)	184	(2,346)	(282)
<b>PREFERRED STOCK DIVIDENDS</b>	(5)	(4)	(9)	(8)
<b>NET INCOME (LOSS) AVAILABLE TO COMMON SHAREOWNERS</b>	\$ (1,968)	\$ 180	\$ (2,355)	\$ (290)
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	\$ (15.79)	\$ 1.46	\$ (18.95)	\$ (2.35)
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	\$ (15.79)	\$ 1.40	\$ (18.95)	\$ (2.35)
<b>WEIGHTED AVERAGE SHARES USED IN BASIC</b>				

<b>PER SHARE COMPUTATION</b>	124,690,747	123,362,811	124,284,915	123,361,622
<b>WEIGHTED AVERAGE SHARES USED IN DILUTED</b>				
<b>PER SHARE COMPUTATION</b>	124,690,747	130,518,617	124,284,915	123,361,622
<b>DIVIDENDS PER COMMON SHARE</b>	\$ -	\$ 0.025	\$ -	\$ 0.050

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

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,346)	\$ (282)
Adjustments to reconcile net loss to cash (used in) provided by operating activities, net	1,705	205
Changes in certain assets and liabilities, net	417	247
Net cash (used in) provided by operating activities	(224)	170
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment additions:		
Flight equipment, including advance payments	(316)	(159)
Ground property and equipment	(204)	(145)
Decrease in restricted investments related to Boston airport terminal project	97	42
Proceeds from sale of investments	1	273
Other, net	4	6
Net cash (used in) provided by investing activities	(418)	17
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt and capital lease obligations	(827)	(348)
Issuance of long-term obligations	739	1,396
Cash dividends on common and preferred stock	-	(19)
Make-whole payments on extinguishment of ESOP Notes	-	(15)
Redemption of preferred stock	-	(9)
Payment on termination of accounts receivable securitization	-	(250)
Other, net	(14)	(96)
Net cash (used in) provided by financing activities	(102)	659
Net (decrease) increase in cash and cash equivalents	(744)	846
Cash and cash equivalents at beginning of period	2,710	1,969
Cash and cash equivalents at end of period	\$ 1,966	\$ 2,815
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid (received) during the period for:		
Interest (net of amounts capitalized)	\$ 379	\$ 369
Income taxes, net	\$ 2	\$ (392)
<b>NON-CASH TRANSACTIONS:</b>		
Aircraft delivered under seller-financing	\$ 55	\$ 378
Dividends payable on ESOP Preferred Stock	\$ 25	\$ -

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

**DELTA AIR LINES, INC.**  
**Statistical Summary**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Consolidated:</b>				
Revenue Passenger Miles (millions) <sup>(1)</sup>	29,584	24,961	54,783	48,565
Available Seat Miles (millions) <sup>(1)</sup>	38,620	33,267	74,369	67,519
Passenger Mile Yield <sup>(1)</sup>	12.36 ¢	12.91 ¢	12.59 ¢	12.96 ¢
Operating Revenue Per Available Seat Mile <sup>(1)</sup>	10.26 ¢	10.51 ¢	10.07 ¢	10.10 ¢
Passenger Revenue Per Available Seat Mile <sup>(1)</sup>	9.47 ¢	9.69 ¢	9.27 ¢	9.32 ¢
Operating Cost Per Available Seat Mile <sup>(1)</sup>	10.88 ¢	9.92 ¢	10.92 ¢	10.60 ¢
Passenger Load Factor <sup>(1)</sup>	76.60 %	75.03 %	73.66 %	71.93 %
Breakeven Passenger Load Factor <sup>(1)</sup>	81.66 %	70.48 %	80.38 %	75.81 %
Passengers Enplaned (thousands)	28,616	25,969	53,959	50,879
Fuel Gallons Consumed (millions)	639	571	1,242	1,159
Average Price Per Fuel Gallon, Net of Hedging Gains	104.53 ¢	76.29 ¢	100.02 ¢	81.67 ¢
Number of Aircraft in Fleet, End of Period	842	816	842	816
Full-Time Equivalent Employees, End of Period	70,300	69,800	70,300	69,800
<b>Mainline:</b>				
Revenue Passenger Miles (millions)	25,714	21,771	47,528	42,753
Available Seat Miles (millions)	33,198	28,628	63,684	58,761
Operating Cost Per Available Seat Mile	10.32 ¢	9.56 ¢	10.35 ¢	10.17 ¢
Number of Aircraft in Fleet, End of Period	550	551	550	551

(1) Includes the operations of Atlantic Coast Airlines, Chautauqua Airlines, Inc., and SkyWest Airlines, Inc. under our contract carrier arrangements with those airlines. For additional information about our contract carrier arrangements, see Notes 1 and 5 in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.



**DELTA AIR LINES, INC.**  
**Aircraft Fleet Table**  
**(Unaudited)**

The following table contains information about our total aircraft fleet, orders, options and rolling options at June 30, 2004, as adjusted for the agreement we entered into in July 2004 with Boeing. Options have scheduled delivery slots. Rolling options replace options and are assigned delivery slots as options expire or are exercised.

Aircraft Type	Current Fleet (1)(2)			Orders (3)	Options (4)	Rolling Options (4)
	Owned	Leased	Total			
B-737-200	6	46	52	-	-	-
B-737-300	-	26	26	-	-	-
B-737-800	71	-	71	61	60	-
B-757-200	77	44	121	-	-	-
B-767-200	15	-	15	-	-	-
B-767-300	4	24	28	-	-	-
B-767-300ER	51	8	59	-	10	7
B-767-400	21	-	21	-	23	-
B-777-200	8	-	8	5	20	5
	180					

(1) The table above reflects delivery of four CRJ-700 aircraft during the June 2004 quarter.

(2) The table above includes the following 16 aircraft, which have been temporarily grounded: two B-737-200, one B-767-200 and 13 MD-11 aircraft.

(3) In October 2003, we entered into a definitive agreement to sell 11 B-737-800 aircraft immediately after those aircraft are delivered to us by the manufacturer in 2005. These 11 B-737-800 aircraft are included in the above table because we continue to have a contractual obligation to purchase these aircraft from the manufacturer. For additional information about our definitive agreement, see Note 9 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2003.

(4) In July 2004, we and Boeing agreed, among other things: (a) to cancel our options to purchase B-777-200 and B-737-800 aircraft for the years 2005 through 2007; (b) to replace those options with rolling options in later years; and (c) to cancel our options and rolling options to purchase B-757-200 aircraft. These changes are reflected in the table above. For additional information about our agreement with Boeing, see Note 5 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

**DELTA AIR LINES, INC.**  
**Notes to the Condensed Consolidated Financial Statements**  
**June 30, 2004**  
**(Unaudited)**

**1. 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, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, 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 the accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2003 (Form 10-K).

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

Effective with the June 2004 quarter, our Consolidated Statements of Operations reflect the following two reclassifications in order to provide better clarity about our Mainline and Regional Affiliate operations:

- Passenger revenues and expenses from our contract carrier arrangements with Atlantic Coast Airlines (ACA), Chautauqua Airlines, Inc. (Chautauqua), and SkyWest Airlines, Inc. (SkyWest) are now reported in regional affiliates passenger revenues and contract carrier arrangements, respectively. Prior to the June 2004 quarter, we recorded the revenues from these arrangements net of related expenses in other, net revenues; and
- Passenger revenues from our Mainline operations and those from our wholly owned subsidiaries ASA Holdings, Inc. (ASA) and Comair Holdings, Inc. (Comair) are now reported separately in mainline passenger revenues and regional affiliates passenger revenues, respectively. Previously, these revenues were reported together as passenger revenues. Expenses from our Mainline operations, ASA and Comair continue to be reported in the applicable expense line item.

We have reclassified prior period amounts to be consistent with the June 2004 quarter presentation. These reclassifications did not impact our operating income (loss) or net income (loss) for each period presented. For additional information about our contract carrier arrangements and the reclassification related to those arrangements, see Note 5 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

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

Due to seasonal variations in the demand for air travel and other factors, operating results for the three and six months ended June 30, 2004 are not necessarily indicative of operating results for the entire year.

### *Business Environment*

During the six months ended June 30, 2004, our financial performance continued to deteriorate. Our unaudited consolidated net loss of \$2.3 billion primarily reflects two non-cash charges totaling \$1.7 billion which are discussed in Notes 6 and 7 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q, a significant decline in domestic passenger mile yield, near historically high aircraft fuel prices and other cost pressures. Our cash and cash equivalents at June 30, 2004 were \$2.0 billion, down from \$2.7 billion at December 31, 2003. These results are unsustainable and underscore the urgent need to reduce our cost structure.

In light of our losses and the decline in our cash and cash equivalents, we must make permanent structural changes in the near term to appropriately align our cost structure with the depressed level of revenue we can generate in this business environment. Our cost structure is materially higher than that of low-cost carriers. Moreover, other hub-and-spoke airlines, such as American Airlines, United Airlines and US Airways, have significantly reduced their costs through bankruptcy or the threat of bankruptcy. As a result, our unit costs have gone from being among the lowest of the hub-and-spoke airlines to among the highest, a result that places us at a serious competitive disadvantage.

In 2002, we began our profit improvement program, which has a goal of reducing our mainline fuel price neutralized unit costs by 15% as compared to 2002 and increasing our revenues. While we have made progress under this program, significant increases in aircraft fuel prices and pension and related expense and declining yields have offset a large portion of these benefits. Accordingly, we have now concluded that we will need substantial further reductions to our cost structure in order to achieve viability.

At the end of 2003, we began a strategic reassessment of our business. The goal of this project is to develop and implement a comprehensive and competitive business strategy that addresses the airline industry environment and positions us to achieve long-term sustained success. As part of this project, we are now also evaluating the appropriate cost reduction targets and the actions we should take to seek to achieve these targets. Because our cost reduction targets will be substantial, we believe that our key

stakeholder groups, including our lessors, vendors, lenders and employees, must participate in the process if we are to be successful.

Our pilot cost structure is significantly higher than that of our competitors and must be reduced in order for us to compete effectively with both hub and spoke airlines and low cost carriers. On July 30, 2004, we presented a proposal to the Air Line Pilots Association, International (ALPA), the union representing our pilots, to reduce our pilot costs by approximately \$1 billion annually through a combination of changes in wages, pension and other benefits and work rules. We believe that this approximately \$1 billion in annual pilot cost savings, in addition to significant cost reductions from other stakeholder groups, is essential for us to compete successfully. We cannot predict the outcome of our discussions with ALPA.

During the six months ended June 30, 2004, lower than anticipated domestic passenger mile yields and higher than expected aircraft fuel prices have caused our actual and projected cash flows from operations for 2004 to be significantly lower than we had projected at the beginning of that year. As a result, we plan to use a portion of our cash reserves to pay certain obligations that we previously anticipated would be paid from cash flows from operations. Accordingly, we expect our cash and cash equivalents to decline during the remainder of 2004 at a level consistent with the decline during the first half of the year.

Our unencumbered assets are limited, our credit ratings have been substantially lowered and our cost structure is materially higher than that of our competitors. Except for our existing commitments to finance our purchase of regional jet aircraft, we have no available lines of credit. We believe that, unless we achieve significant reductions in our cost structure, we will be unable to access the capital markets for new borrowings on acceptable terms. Continued losses of the magnitude we recorded in 2003 and in the six months ended June 30, 2004 are unsustainable, and we have significant obligations due in 2005 and thereafter, including significant debt maturities, operating lease payments, purchase obligations and required pension funding. We are intensively engaged in an effort to identify and obtain cost reductions from our key stakeholders, and to implement new strategic business initiatives in order to effect a successful out-of-court restructuring, but there can be no assurance this effort will succeed. If we cannot make substantial progress in the near term toward achieving a competitive cost structure that will permit us to regain sustained profitability and access the capital markets on acceptable terms, we will need to seek to restructure our costs under Chapter 11 of the U.S. Bankruptcy Code.

#### *Stock-Based Compensation*

We account for our stock-based compensation plans under the intrinsic value method in accordance with Accounting Principles Bulletin (APB) Opinion 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. For additional information about our stock-based compensation plans, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K. No stock option compensation expense is recognized in our Consolidated Statements of Operations because all stock options granted had an exercise price equal to the fair value of the underlying common stock on the grant date.

The estimated fair values of stock options granted during the three and six months ended June 30, 2004 and 2003 were derived using a Black-Scholes model. The following table includes the assumptions used in estimating fair values and the resulting weighted average fair value of stock options granted in the periods presented:

Assumption	Stock Options Granted During the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 <sup>(1)</sup>	2003	2004	2003
Risk-free interest rate	-	2.2%	2.6%	2.2%
Average expected life of stock options (in years)	-	5.2	4.0	5.2
Expected volatility of common stock	-	54.3%	58.3	54.3%
Expected annual dividends on common stock	\$ -	\$ -	\$ -	\$ -
Weighted average fair value of a stock option granted	\$ -	\$ 7	\$ 5	\$ 7

(1) There were no stock options granted during the three months ended June 30, 2004.

The following table shows what our net income (loss) and earnings (loss) per share would have been for the three and six months ended June 30, 2004 and 2003, had we accounted for our stock-based compensation plans under the fair value method of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended:

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Net income (loss):</b>				
As reported	\$ (1,963)	\$ 184	\$ (2,346)	\$ (282)
Stock option compensation expense determined under				
the fair value based method, net of tax	(5)	(8)	(9)	(16)
As adjusted for the fair value method under SFAS 123	\$ (1,968)	\$ 176	\$ (2,355)	\$ (298)
<b>Basic earnings (loss) per share:</b>				
As reported	\$ (15.79)	\$ 1.46	\$ (18.95)	\$ (2.35)
As adjusted for the fair value method under SFAS 123	\$ (15.82)	\$ 1.40	\$ (19.02)	\$ (2.48)
<b>Diluted earnings (loss) per share:</b>				
As reported	\$ (15.79)	\$ 1.40	\$ (18.95)	\$ (2.35)
As adjusted for the fair value method under SFAS 123	\$ (15.82)	\$ 1.34	\$ (19.02)	\$ (2.48)

## 2. MARKETABLE AND OTHER EQUITY SECURITIES

### *Republic Airways Holdings, Inc. (Republic)*

In conjunction with our contract carrier agreement with Chautauqua, a regional air carrier that is a subsidiary of Republic, we have received certain equity interests in

Republic. On May 27, 2004, Republic completed an initial public offering (IPO) of 5,000,000 shares of its common stock for \$13.00 per share. We held the following equity interests in Republic as of June 30, 2004:

Warrant	Shares	Exercise Price
2002 Warrant	1,500,000	\$12.50 per share
2003 Warrant (February)	720,000	\$13.00 per share
2003 Warrant (October)	300,000	\$12.35 per share
2004 Warrant(1)	480,000	\$12.35 per share
IPO Warrant(2)	1,500,000	\$12.35 per share

(1)The 2004 Warrant is exercisable in whole or part at any time until March 10, 2014.

(2)The IPO Warrant is exercisable in whole or part at any time until May 27, 2014.

The fair value of the IPO Warrant on the date it became exercisable was approximately \$11 million, which is being recognized on a straight-line basis to income. The Republic IPO did not have a material impact on our Condensed Consolidated Financial Statements for the quarter ended June 30, 2004.

For additional information about our contract carrier agreement with Chautauqua, see Note 5 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q and Note 9 of the Notes to the Consolidated Financial Statements in our Form 10-K. For additional information about our equity interests in Republic, see Note 2 of the Notes to the Consolidated Financial Statements in our Form 10-K.

### 3. DERIVATIVE INSTRUMENTS

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), we record all derivative instruments on our Consolidated Balance Sheets at fair value and recognize certain changes in these fair values in our Consolidated Statements of Operations. SFAS 133 applies to the accounting for our fuel hedging program and our holdings of equity warrants and other similar rights in certain companies. The impact of SFAS 133 on our Consolidated Statements of Operations is summarized as follows:

(in millions)	Income (Expense)			
	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2004	2003	2004	2003
Change in time value of fuel hedge contracts	\$ -	\$ (15)	\$ (18)	\$ (42)
Ineffective portion of fuel hedge contracts	-	(2)	(10)	19
Fair value adjustment of equity rights	5	8	10	8
Fair value adjustments of SFAS 133 derivatives, pretax	\$ 5	\$ (9)	\$ (18)	\$ (15)

*Equity Warrants and Other Similar Rights*

The fair value of our equity warrants and other similar rights totaled \$56 million and \$30 million at June 30, 2004 and December 31, 2003, respectively. The change in the fair value of these rights is recorded in fair value adjustments of SFAS 133 derivatives on our Consolidated Statements of Operations. For additional information about these equity interests, see Note 2 of the Notes to the Consolidated Financial Statements in our Form 10-K.

**4. DEBT INSTRUMENTS**

The following table summarizes the scheduled maturities of our debt, including current maturities, at June 30, 2004, as adjusted for changes in these scheduled maturities that occurred subsequent to June 30, 2004 (see Note 13):

<b>Years Ending December 31,</b> (in millions)	<b>Principal Amount</b>
Six months ending December 31, 2004	\$ 226
2005	1,196
2006	589
2007	537
2008	1,293
After 2008	8,608
<b>Total</b>	<b>\$ 12,449</b>

On January 31, 2002, we entered into a facility to finance, on a secured basis at the time of acquisition, certain future deliveries of regional jet aircraft. At June 30, 2004, the total borrowings outstanding under this facility, as amended, were \$159 million. Borrowings under this facility (1) are due between 366 days and 18 months after the date of borrowing (subject to earlier repayment if certain longer-term financing is obtained for these aircraft) and (2) bear interest at LIBOR plus a margin.

In the June 2004 quarter, we entered into secured financing arrangements under which we borrowed a total of \$190 million. These borrowings are due in installments through June 2020; are secured by five CRJ-200 and seven CRJ-700 aircraft; and bear interest at LIBOR plus a margin. The proceeds from these borrowings were used to (1) repay \$134 million of outstanding interim financing for five CRJ-200 and three CRJ-700 aircraft and (2) finance our purchase of four CRJ-700 aircraft delivered in the June 2004 quarter.

For additional information about our debt, see Note 6 of the Notes to the Consolidated Financial Statements in our Form 10-K and Note 4 of the Notes to the Condensed Consolidated Financial Statements in our Form 10-Q for the quarter ended March 31, 2004. For information about financing transactions that occurred subsequent to June 30, 2004, see Note 13 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

## 5. COMMITMENTS AND CONTINGENCIES

### *Aircraft Order Commitments*

Future commitments for aircraft on firm order as of June 30, 2004 are estimated to be \$4.5 billion. The following table shows the timing of these commitments, as adjusted for the agreement we entered into in July 2004 with Boeing which, as discussed below, changed the delivery date of certain aircraft on firm order:

<b>Year Ending December 31,</b> (in millions)	<b>Amount</b>
Six months ending December 31, 2004	\$ 363
2005	1,017
2006	757
2007	1,628
2008	337
After 2008	406
<b>Total</b>	<b>\$ 4,508</b>

The table above includes approximately \$310 million for the six months ending December 31, 2004 for the purchase of regional jet aircraft. We have available to us long-term, secured financing commitments to fund a substantial portion of this amount. Our commitments for the year ending December 31, 2005 include our agreement to purchase 32 CRJ-200 aircraft, for which financing is available to us, on a long-term secured basis, at the time of acquisition of these aircraft. For additional information about these financing commitments, see Note 4 of the Notes to the Condensed Consolidated Financial Statements in our Form 10-Q for the quarter ended March 31, 2004.

Additionally, the table above includes our commitment to purchase 11 B-737-800 aircraft, which we have entered into a definitive agreement to sell to a third party immediately following delivery of these aircraft to us by the manufacturer in 2005. This transaction will reduce our commitments by approximately \$440 million, with substantially all of this reduction occurring in 2005. For additional information, see Note 9 of the Notes to the Consolidated Financial Statements in our Form 10-K.

Subsequent to June 30, 2004, we entered into an agreement with Boeing which:

- Deferred from 2005 to 2008 the delivery of two B-777-200 aircraft;
- Deferred from 2006 to 2009 the delivery of three B-777-200 aircraft;
- Deferred from 2006 to 2007 the delivery of five B-737-800 aircraft; and
- Accelerated from 2008 to 2007 the delivery of eight B-737-800 aircraft.



Our agreement with Boeing also (1) canceled our options to purchase B-777-200 and B-737-800 aircraft in 2005 through 2007; (2) replaced these options with rolling options in later years; and (3) canceled our options and rolling options to purchase B-757-200 aircraft.

#### *Contract Carrier Agreement Commitments*

We have contract carrier agreements with three regional air carriers: ACA, Chautauqua, and SkyWest. Under these agreements, ACA, Chautauqua, and SkyWest operate certain of their aircraft using our flight code; we schedule those aircraft and sell the seats on those flights; and we retain the related revenues. We pay those airlines an amount, as defined in the applicable agreement, which is based on their cost of operating those flights and other factors intended to approximate market rates for those services. The number of aircraft operated under these agreements at June 30, 2004 and June 30, 2003 totaled 126 and 133, respectively.

As discussed in Note 1 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q, we now report passenger revenues and expenses from our contract carrier arrangements in regional affiliates passenger revenues and contract carrier arrangements, respectively. Previously, we reported these revenues and expenses net in other, net revenues on our Consolidated Statements of Operations. The following table shows the effect of this reclassification for the periods presented on passenger revenues, other revenues, operating revenues and operating expenses:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Passenger revenues	\$ 196	\$ 174	\$ 386	\$ 313
Other revenues	41	16	88	46
Increase in operating revenues	\$ 237	\$ 190	\$ 474	\$ 359
Increase in operating expenses	\$ 237	\$ 190	\$ 474	\$ 359

In addition, we have included the Available Seat Miles (ASMs) and Revenue Passenger Miles (RPMs), shown in the following table, related to our contract carrier arrangements in our consolidated statistics on page 6 of this Form 10-Q so that those statistics are more meaningful:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
ASMs	1,391	1,233	2,777	2,281
RPMs	1,013	887	1,961	1,607

In April 2004, we notified ACA that we will terminate our contract carrier agreement with them, effective November 2004, due to their plans to change their business model by operating a new low-fare airline, which includes operating jet aircraft with more than 70 seats. Our collective bargaining agreement with ALPA

prohibits contract carrier codeshare arrangements with domestic carriers such as ACA if the contract carrier operates aircraft with more than 70 seats. In July 2004, ACA exercised its right to require us to assume the leases on the 30 leased Fairchild Dornier FRJ-328 regional jet aircraft that it operates for us, as of the termination date of our contract carrier agreement. We estimate that the total remaining operating lease payments on these 30 aircraft leases, when we are required to assume the leases in November 2004, will be approximately \$300 million. These operating lease payments will be made over the remaining terms of the aircraft leases, which are approximately 13 years. We expect that these 30 aircraft will remain in the Delta Connection carrier program, but will be operated for us by another carrier.

For additional information about our contract carrier agreements, see Note 9 of the Notes to the Consolidated Financial Statements in our Form 10-K.

#### *War-Risk Insurance Contingency*

Under the 2003 Emergency Wartime Supplemental Appropriations Act, the U.S. government is currently providing U.S. airlines with war-risk insurance to cover losses, including those of terrorism, to passengers, third parties (ground damage) and the aircraft hull. On July 30, 2004, the Secretary of Transportation directed the Federal Aviation Administration to extend the war-risk insurance currently in force from August 31, 2004 to December 31, 2004. The U.S. government is considering legislative and administrative options to extend some or all of the war-risk insurance provided to U.S. airlines beyond December 31, 2004; however, there can be no assurance that such an extension will occur. The withdrawal of government support of airline war-risk insurance would require us to obtain insurance coverage commercially, which could have substantially less desirable coverage, may not be adequate to protect our risk of loss from future acts of terrorism and may result in a material increase to our operating expenses.

## 6. INCOME TAXES

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The following table shows significant components of our deferred tax assets and liabilities at June 30, 2004 and December 31, 2003:

(in millions)	June 30, 2004	December 31, 2003
Net operating loss carryforwards	\$ 2,405	\$ 1,908
Additional minimum pension liability	1,417	1,454
AMT credit carryforwards	346	346
Other temporary differences (primarily employee related benefits)	2,907	2,328
Valuation allowance	(1,715)	(25)
Total deferred tax assets	\$ 5,360	\$ 6,011
Temporary differences (primarily depreciation and amortization)	(5,548)	(4,849)
Total deferred tax (liabilities)	\$ (5,548)	\$ (4,849)
Net deferred tax (liabilities) assets	\$ (188)	\$ 1,162

The following table shows the current and noncurrent deferred tax (liabilities) assets, net recorded on our Consolidated Balance Sheets at June 30, 2004 and December 31, 2003:

(in millions)	June 30, 2004	December 31, 2003
Current deferred tax assets, net	\$ 90	\$ 293
Noncurrent deferred tax (liabilities) assets, net	(278)	869
Net deferred tax (liabilities) assets	\$ (188)	\$ 1,162

In accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109), the current and noncurrent components of our deferred tax balances are based on the balance sheet classification of the asset or liability creating the temporary difference. If the deferred tax asset or liability is not based on a component of our balance sheet, such as our net operating loss carryforwards, the classification is presented based on the expected reversal date of the temporary difference. Our valuation allowance has been classified as current or noncurrent based on the percentages of current and noncurrent deferred tax assets to total deferred tax assets.

At June 30, 2004, we had \$346 million of federal alternative minimum tax credit carryforwards, which do not expire. We also had federal and state pretax net operating loss carryforwards of approximately \$6.2 billion at June 30, 2004, substantially all of which will not begin to expire until 2022. However, in the event we seek to restructure our costs under Chapter 11 of the U.S. Bankruptcy Code, our ability to utilize our net operating loss carryforwards may be significantly limited. This could result in the need for an additional valuation allowance, which may be material.

SFAS 109 requires us to periodically assess whether it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets. In making this determination, we consider all available positive and negative evidence and make certain assumptions. We consider, among other things, our deferred tax liabilities; the overall business environment; our historical earnings and losses; our industry's historically cyclical periods of earnings and losses; and our outlook for future years.

In the June 2004 quarter, based on the considerations above, we determined that it is unclear as to the timing of when we will generate sufficient taxable income to realize our deferred income tax assets. This is primarily due to higher than expected fuel costs and lower than anticipated domestic passenger mile yields, which have caused our actual and anticipated financial performance for 2004 to be significantly worse than we originally projected. Accordingly, at June 30, 2004, we recorded an additional valuation allowance against our deferred income tax assets, which resulted in a \$1.5 billion non-cash charge to income tax expense on our Consolidated Statement of Operations for the three months ended June 30, 2004. In addition, we will discontinue recording income tax benefits in our Consolidated Statement of Operations until we determine that it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets.

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

## **7. EMPLOYEE BENEFIT PLANS**

During the June 2004 quarter, we recorded a \$117 million non-cash settlement charge in our Consolidated Statement of Operations related to our defined benefit pension plan for pilots (Pilot Plan) due to lump sum distributions to pilots who retired. We recorded this charge in accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS 88). SFAS 88 requires settlement accounting if the cost of all settlements, including lump sum retirement benefits paid, in a year exceeds, or is expected to exceed, the total of the service and interest cost components of pension expense for the same period.

Due to this non-cash settlement charge, we remeasured the benefit plan obligation for the Pilot Plan as of March 31, 2004 in accordance with SFAS No. 87, Employers' Accounting for Pensions (SFAS 87). As a result of this remeasurement, at June 30, 2004 we adjusted our additional minimum pension liability by recording a \$96 million reduction (\$59 million net of tax) to accumulated other comprehensive loss and reducing by \$7 million a previously recognized intangible asset. This non-cash adjustment reduced the Pilot Plan liability by \$103 million. This remeasurement did not have a material impact on our 2004 pension expense.

We expect to record additional non-cash settlement charges related to the Pilot Plan in the September 2004 and December 2004 quarters. The September 2004 settlement charge will not be material. We cannot reasonably estimate the December 2004 settlement charge at this time because this charge will depend on the number of pilots who retire, the amount of related lump sum distributions and other data which is not now available.

Net periodic benefit cost for the three months ended June 30, 2004 and 2003 included the following components:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Service cost	\$ 59	\$ 55	\$ 7	\$ 8
Interest cost	188	177	29	41
Expected return on plan assets	(167)	(174)	-	-
Amortization of prior service cost (benefit)	4	3	(21)	(12)
Recognized net actuarial loss	46	23	1	2
Amortization of net transition obligation	2	2	-	-
Settlement charge	117	-	-	-
Net periodic benefit cost	\$ 249	\$ 86	\$ 16	\$ 39

Net periodic benefit cost for the six months ended June 30, 2004 and 2003 included the following components:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Service cost	\$ 118	\$ 110	\$ 15	\$ 16
Interest cost	376	354	63	82
Expected return on plan assets	(334)	(348)	-	-
Amortization of prior service cost (benefit)	8	6	(38)	(24)
Recognized net actuarial loss	95	46	4	4
Amortization of net transition obligation	4	4	-	-
Settlement charge	117	-	-	-
Curtailement loss (gain)	-	47	-	(4)
Net periodic benefit cost	\$ 384	\$ 219	\$ 44	\$ 74

We expect our total pension contributions to our qualified defined benefit pension plans during 2004 to be approximately \$460 million, \$410 million of which was contributed during the six months ended June 30, 2004.

For additional information about our benefit plans, see Note 11 of the Notes to the Consolidated Financial Statements in our Form 10-K and Note 6 of the Notes to the Condensed Consolidated Financial Statements in our Form 10-Q for the quarter ended March 31, 2004.

## 8. SHAREOWNERS' DEFICIT

During the six months ended June 30, 2004, we distributed from treasury (1) 1,594,049 shares of our common stock for redemptions of our Series B ESOP Convertible Preferred Stock (ESOP Preferred Stock) under our Delta Family-Care Savings Plan and

(2) a total of 80,503 shares of our common stock under our 2000 Performance Compensation Plan and our Non-Employee Directors Stock Plan. For additional information about our stock compensation plans and our ESOP Preferred Stock, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.

## 9. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes (1) reported net income (loss); (2) additional minimum pension liability adjustments; and (3) unrealized effective gains and losses on fuel derivative instruments that qualify for hedge accounting. The following table shows our comprehensive loss for the three and six months ended June 30, 2004 and 2003:

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net income (loss)	\$ (1,963)	\$ 184	\$ (2,346)	\$ (282)
Other comprehensive income (loss)	39	(7)	51	81
Comprehensive income (loss)	\$ (1,924)	\$ 177	\$ (2,295)	\$ (201)

The following table shows the components of accumulated other comprehensive loss at June 30, 2004 and the activity for the six months then ended:

(in millions)	Additional	Fuel	Accumulated
	Minimum	Fuel	Other
	Pension	Derivative	Comprehensive
	Liability	Instruments	Loss
Balance at December 31, 2003	\$ (2,372)	\$ 34	\$ (2,338)
Minimum pension liability adjustment	96	-	96
Unrealized gain	-	50	50
Realized gain	-	(63)	(63)
Tax effect	(37)	5	(32)
Net of tax	59	(8)	51
Balance at June 30, 2004	\$ (2,313)	\$ 26	\$ (2,287)

We anticipate that pretax gains of \$41 million related to our fuel hedge contracts settled prior to their scheduled settlement dates will be realized through December 31, 2004 as the aircraft fuel purchases that were being hedged are consumed. These gains will be recognized as a reduction to aircraft fuel expense. For additional information about the settlement of our fuel hedge contracts, see Note 3 of the Notes to the Condensed Consolidated Financial Statements in our Form 10-Q for the quarter ended March 31, 2004. For information about our additional minimum pension liability, see Note 7 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q and Note 11 of the Notes to the Consolidated Financial Statements in our Form 10-K.

**10. GEOGRAPHIC INFORMATION**

We are managed as a single business unit that provides air transportation for passengers and cargo. For additional information about how we manage our business, see Note 14 of the Notes to the Consolidated Financial Statements in our Form 10-K. Our operating revenues by geographic region are summarized in the following table:

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
North America	\$ 3,189	\$ 2,927	\$ 6,142	\$ 5,711
Atlantic	585	420	981	791
Latin America	150	128	298	270
Pacific	37	21	69	48
Total	\$ 3,961	\$ 3,496	\$ 7,490	\$ 6,820

**11. RESTRUCTURING AND OTHER RESERVES**

The following table shows our restructuring and other reserve balances as of June 30, 2004 and the activity for the six months then ended for restructuring costs recorded in prior years related to (1) facility closures and other costs and (2) severance and related costs:

(in millions)	Facilities and Other	Severance and Related Costs	
		2002 Workforce Reduction Programs	2001 Workforce Reduction Programs
Balance at December 31, 2003	\$ 47	\$ 5	\$ 1
Payments	(4)	(2)	(1)
Adjustments	(1)	(2)	-
Balance at June 30, 2004	\$ 42	\$ 1	\$ -

The facilities and other reserve represents costs related primarily to (1) lease payments to be paid on closed facilities and (2) contract termination fees. The reserve for the 2002 workforce reduction programs primarily represents employee severance costs.

During the six months ended June 30, 2004, we recorded adjustments totaling \$3 million related to the 2002 workforce reduction programs reserve and to the facilities and other reserve based on revised estimates of remaining costs. For additional information about our charges for restructuring and related items recorded in prior years, see Notes 15 and 16 of the Notes to the Consolidated Financial Statements in our Form 10-K.

**12. EARNINGS (LOSS) PER SHARE**

We calculate basic earnings (loss) per share by dividing the income (loss) available to common shareowners by the weighted average number of common shares outstanding. Diluted earnings (loss) per share includes the dilutive effects of stock options and convertible securities. To the extent stock options and convertible securities are anti-dilutive, they are excluded from the calculation of diluted earnings (loss) per share. The following table shows our computation of basic and diluted loss per share:

(in millions, except per share data)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>BASIC:</b>				
Net income (loss)	\$ (1,963)	\$ 184	\$ (2,346)	\$ (282)
Dividends on allocated Series B ESOP Convertible Preferred Stock	(5)	(4)	(9)	(8)
Net income (loss) available to common shareowners	\$ (1,968)	\$ 180	\$ (2,355)	\$ (290)
Weighted average shares outstanding	124.7	123.4	124.3	123.4
Basic earnings (loss) per share	\$ (15.79)	\$ 1.46	\$ (18.95)	\$ (2.35)
<b>DILUTED:</b>				
Net income (loss) available to common shareowners	\$ (1,968)	\$ 180	\$ (2,355)	\$ (290)
Adjustment to income assuming conversion of Series B ESOP Convertible Preferred Stock	-	3	-	-
Net income (loss) available to diluted common shares	\$ (1,968)	\$ 183	\$ (2,355)	\$ (290)
Weighted average shares outstanding	124.7	123.4	124.3	123.4
Conversion of Series B ESOP Convertible Preferred Stock	-	6.1	-	-
Exercise of stock options	-	0.5	-	-
Conversion of performance based stock units	-	0.5	-	-
Weighted average shares outstanding as adjusted	124.7	130.5	124.3	123.4
Diluted earnings (loss) per share	\$ (15.79)	\$ 1.40	\$ (18.95)	\$ (2.35)

For the three and six months ended June 30, 2004, we excluded from the diluted loss per share computation (1) 37.2 million and 37.5 million stock options, respectively, because the exercise price of the options was greater than the average price of our common stock; (2) 7.3 million and 7.1 million additional shares, respectively, primarily related to our ESOP Preferred Stock, because their effect on our loss per share was anti-



dilutive; and (3) 12.5 million and 23.9 million shares issuable upon conversion of our 8% Convertible Senior Notes and our 2-7/8% Convertible Senior Notes, respectively, because the contingent conditions for conversion had not been met.

For the three and six months ended June 30, 2003, we excluded from the diluted loss per share computation (1) 56.9 million and 57.6 million stock options, respectively, because the exercise price of the options was greater than the average price of our common stock and (2) 12.5 million shares issuable upon conversion of our 8% Convertible Senior Notes because the contingent conditions for conversion had not been met. For the six months ended June 30, 2003, we also excluded from the diluted loss per share computation 6.9 million additional shares, primarily related to our ESOP Preferred Stock, because their effect on our loss per share was anti-dilutive.

For additional information about our 8% Convertible Senior Notes and our 2-7/8% Convertible Senior Notes, see Notes 6 and 22, respectively, of the Notes to the Consolidated Financial Statements in our Form 10-K.

### 13. SUBSEQUENT EVENTS

#### *General Electric Capital Corporation (GECC) Agreements*

On July 7, 2004, we entered into amendments to three of our secured financing agreements with GECC (Spare Engines Loan, Aircraft Loan and Spare Parts Loan). This transaction increased our aggregate borrowings under these loan agreements by \$380 million without our having to pledge additional collateral. As required by the amendments, we used \$228 million of this amount to repurchase immediately \$228 million principal amount of our Series 2001-1 Enhanced Equipment Trust Certificates held by GECC, which were due in 2006 (2001 EETC). As a result of these amendments:

- **Spare Engines Loan.** The principal amount of this loan increased by \$113 million to \$232 million. This loan is secured by (1) 96 specified spare Mainline aircraft engines, which constitute substantially all the spare Mainline aircraft engines owned by us (Engine Collateral) and (2) so long as certain letters of credit issued by GECC are outstanding, nine B-767-400 and three B-777-200 aircraft (Letter of Credit Aircraft Collateral). Borrowings under this loan are not repayable at our election prior to maturity.
- **Aircraft Loan.** The principal amount of this loan increased by \$43 million to \$150 million. This loan is secured by five B-767-400 aircraft (Other Aircraft Collateral), the Engine Collateral and substantially all the Mainline aircraft spare parts now owned or subsequently purchased by us (Spare Parts Collateral). Borrowings under this loan are repayable at our election at any time, subject to prepayment fees on any prepayment.

- Spare Parts Loan. The principal amount of this loan increased by \$224 million to \$310 million. This loan is secured by the Other Aircraft Collateral, the Engine Collateral and the Spare Parts Collateral. Borrowings under this loan are repayable at our election at any time after July 6, 2007, subject to prepayment fees on any prepayment.
- Final Maturity Date. The final maturity date of each of the three financing agreements was extended from April 15, 2010 to July 7, 2011.
- Repurchase of 2001 EETC. We used \$228 million of the incremental borrowings under the three financing agreements, as amended, to purchase \$228 million principal amount of our 2001 EETC.

In addition, prior to the amendments, the Engine Collateral secured, on a subordinated basis, up to \$230 million of certain other existing debt and aircraft lease obligations to GECC and its affiliates. The amendments will reduce this amount to \$110 million on September 28, 2004, provided that no event of default has occurred and is continuing on that date.

For additional information about our financing agreements with GECC, see Note 6 of the Notes to the Consolidated Financial Statements in our Form 10-K.

#### *Other Financing Arrangements*

In July 2004, we entered into secured financing arrangements under which we borrowed a total of \$151 million. These borrowings are due in installments through July 2019; are secured by seven CRJ-200 and three CRJ-700 aircraft; and bear interest at LIBOR plus a margin. The proceeds from these borrowings were used to repay a portion of the \$159 million of outstanding interim financing for these seven CRJ-200 and three CRJ-700 aircraft.

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.

	<p><u>Delta Air Lines, Inc.</u> (Registrant)</p> <p><u>By: /s/ Michael J. Palumbo</u> Michael J. Palumbo Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)</p>
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August 9, 2004