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Your Union at Work: Airline Financials – Understanding the Profit/Loss Statement

This edition of *Touch & Gos* is intended to help you understand some of the financial aspects of our industry and our company as your union continues to prepare for contract negotiations.

We will define terms used in the statement and show you where to find them. We will also define some of the statistics that can be derived from the statement that are used by the industry to gauge performance. Some of these derived statistics are margin calculations which are used to correct for differences in the size of different companies. For instance, if a company makes \$100 million profit on \$1 billion in total sales, it is doing comparatively better than a company that makes \$150 million profit on \$10 billion in total sales.

Definitions

Operating Revenue: Total revenue generated by passengers, cargo, and maintenance/repair/overhaul (MRO) work that tech ops performs for outside organizations. It excludes revenue from investing activities.

Operating Expense: Total expenses required to produce the operating revenue. This excludes capital expenditures and debt repayment among other things.

Operating Profit: Operating Revenue minus Operating Expense. This is also called Operating Income

Operating Margin: Operating Profit divided by Operating Revenue.

Pre-Tax Profit: Operating Profit minus Interest Expense and Other Expenses. This is the figure that is used to calculate profit sharing, except that some onetime charges and asset write-downs are excluded from the profit sharing calculation, as well as the profit sharing expense itself. This is also referred to as Pre-Tax Income.

Pre-Tax Margin: Pre-Tax Profit divided by Operating Revenue. The Pre-Tax Margin is generally accepted as the best financial comparison between airlines as it removes any differences in ownership arrangements (lease, purchase, financing, etc.) between the different carriers.

Forecasting

When Delta provides guidance to Wall Street about future financial performance, Delta will typically give a range of expected operating margin, rather than a range of operating income. For example, Delta management estimated the company would show a 6-7% operating margin in the fourth quarter of 2010. Assuming operating revenues of about \$8 billion, a 6-7% margin would produce an operating profit of around \$480-\$560 million. Subtracting about \$300 million in interest expense would leave a pre-tax profit of around \$180-260 million. Take about \$30-40 million in profit sharing out of that number and you get a reported quarterly pre-tax profit of around \$150-220 million. Delta

just reported a pre-tax profit of \$153 million in the fourth quarter, excluding special items.

Results

Delta's net income for 2010 was \$593 million based on an operating income of \$31.8 billion. The pre-tax profit was \$608 million which produced a profit sharing pool of \$313 million.

(Note: Our contract excludes certain expenses from the pretax profit calculation; this is a good thing). The adjusted pre-tax profit for profit sharing was \$1.94 billion. This is referred to as PTIX in the Pilot Working Agreement. Delta's operating margin was 7.0%. Delta management has stated that their target operating margin is 10-12%.

Example

Let's look at a portion of the **2010 Yearly** financial results:

(in millions, except per share data)	Year Ended	
	2010	
Operating Revenue:		
Passenger:		
Mainline	\$	21,408
Regional carriers		5,850
Total passenger revenue		27,258
Cargo		850
Other, net		3,647
Total operating revenue		31,755
Operating Expense:		
Aircraft fuel and related taxes		7,594
Salaries and related costs		6,751
Contract carrier arrangements ⁽¹⁾		4,305
Aircraft maintenance materials and outside repairs		1,569
Contracted services		1,549
Depreciation and amortization		1,511
Passenger commissions and other selling expenses		1,509
Landing fees and other rents		1,281
Passenger service		673
Aircraft rent		387
Profit sharing		313
Restructuring and merger-related items		450
Other		1,646
Total operating expense		29,538
Operating Income (Loss)		2,217
Other (Expense) Income:		
Interest expense		(1,004)
Amortization of debt discount, net		(216)
Interest income		35
Loss on extinguishment of debt		(391)
Miscellaneous, net		(33)
Total other expense, net		(1,609)
Income (Loss) Before Income Taxes		608
Income Tax (Provision) Benefit		(15)
Net Income (Loss)	\$	593

Operating Revenue = \$31.8

Operating Expense = \$29.5

Operating Profit = \$2.2 billion

Operating Margin:
 $\$2,217 / \$31,755 = 7.0\%$

Pre-Tax Profit: \$608 million

Pre-Tax Margin:
 $\$608 / \$31,755 = 1.9\%$