SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-K
March 07, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-2594729**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

26600 Telegraph Road, Suite 400

Southfield, Michigan	**48033**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (248) 352-7300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant s $0.01 par value common equity held by non-affiliates as of the last business day of the registrant s most recently completed second quarter was $447,709,967, based on a closing price of $17.90. On February 28, 2019, there were 25,019,237 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s 2019 Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant s fiscal year, are incorporated by reference into Part III of this Form 10-K.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have included or incorporated by reference in this Annual Report on Form 10-K (including in the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations) and from time to time our management may make statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements are based upon management s current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, will l result, will continue, plans to and similar expressions. These statements include our belief regarding general automotive industry and market conditions and growth rates, as well as general domestic and international economic conditions.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, which could cause actual results to differ materially from such statements and from the Company s historical results and experience. These risks, uncertainties and other factors include, but are not limited to, those described in Part I, Item 1A, Risk Factors and Part II - Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K and elsewhere in the Annual Report and those described from time to time in our other reports filed with the Securities and Exchange Commission.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the risks described herein should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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ITEM 1 - BUSINESS

Description of Business and Industry

Our principal business is the design and manufacture of aluminum wheels for sale to original equipment manufacturers (OEMs) in North America and Europe and aftermarket distributors in Europe. We employ approximately 8,000 employees, operating in nine manufacturing facilities in North America and Europe with a combined annual manufacturing capacity of approximately 21 million wheels. We believe we are the #1 North American aluminum wheel manufacturer, the #3 European aluminum wheel manufacturer and the #1 European aluminum wheel aftermarket manufacturer and supplier. Our OEM aluminum wheels accounted for approximately 92% of our sales in 2018 and are primarily sold for factory installation on many vehicle models manufactured by BMW-Mini, Daimler AG Company (Mercedes-Benz, AMG, Smart), FCA, Ford, GM, Honda, Jaguar-Land Rover, Mazda, Nissan, Renault, Peugeot, PSA, Subaru, Suzuki, Toyota, VW Group (Volkswagen, Audi, Skoda, Porsche, Bentley) and Volvo. We also sell aluminum wheels to the European aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO. North America and Europe represent the principal markets for our products, but we have a global presence and diversified customer base consisting of North American, European and Asian OEMs. We continue to deliver on our strategic plan to be one of the leading light vehicle aluminum wheel suppliers globally, delivering innovative wheel solutions to our customers.

As a result of the acquisition of our European operations on May 30, 2017, we have broadened our product portfolio and acquired a significant customer share with European OEMs including BMW-Mini, Daimler AG Company, Jaguar-Land Rover, VW Group and Volvo. The acquisition was not only complementary in terms of customers, market coverage and product offering but also very much aligned with our strategic direction with a priority focus on larger diameter wheels and premium finishes providing enhanced opportunity for higher value-added content. Our global reach encompasses sales to the ten largest OEMs in the world. The following chart shows our sales by customer for the years ended December 31, 2018 and 2017.

Demand for our products is mainly driven by light-vehicle production levels in North America and Europe. North American light-vehicle production in 2018 was 17.0 million vehicles, a 0.6 percent decrease compared to 2017. In Western and Central Europe, light vehicle production level was 18.5 million vehicles, a 2.1 percent decrease over 2017. The majority of our customers wheel programs are awarded one, two or three years in advance. Our purchase orders with OEMs are typically specific to a particular vehicle model.

Customer Dependence

We have proven our ability to be a consistent producer of high quality aluminum wheels with the capability to meet our customers price, quality, delivery and service requirements. We continually strive to enhance our relationships with our customers through continuous improvement programs, not only through our manufacturing operations but in the engineering, design, development and quality areas as well.

Ford, GM and VW Group were our only customers individually accounting for 10 percent or more of our consolidated trade sales in 2018, with Toyota accounting for more than 10 percent in 2016 only. Net sales to these customers in 2018, 2017 and 2016 were as follows (dollars in millions):

	2018		2017		2016	
	Percent of Net Sales	Dollars	Percent of Net Sales	Dollars	Percent of Net Sales	Dollars
Ford	18%	$ 272.6	22%	$ 248.8	38%	$ 271.4
GM	18%	$ 265.3	20%	$ 217.5	30%	$ 216.4
VW Group	12%	$ 183.9	9%	$ 94.3	<1%	$ 2.8
Toyota	8%	$ 114.0	9%	$ 103.8	14%	$ 98.4

In addition, sales to Daimler AG Company and Nissan exceeded five percent of our consolidated sales during 2018 and 2017. BMW-Mini and Volvo exceeded five percent of our consolidated sales in 2018 and Fiat Chrysler and Nissan were at or exceeded 5% of our sales in 2016. The change in sales over the three-year period was primarily driven by the acquisition of our European operations. The loss of all or a substantial portion of our sales to Daimler AG Company, Ford, GM, Nissan, Toyota, Volvo, VW Group, and BMW-Mini would have a significant adverse effect on our financial results. See also Item 1A, Risk Factors, of this Annual Report.

Raw Materials

The raw materials used in manufacturing our products are readily available and are obtained through numerous suppliers with whom we have established trade relationships. Aluminum accounted for the vast majority of our total raw material requirements during 2018. Our aluminum requirements are met through purchase orders with major global producers. During 2018, we successfully secured aluminum commitments from our primary suppliers sufficient to meet our production requirements, and we anticipate being able to source aluminum requirements to meet our expected level of production in 2019. We procure other raw materials through numerous suppliers with whom we have established trade relationships.

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain other commodities used in the manufacture of our products, such as natural gas, electricity and other raw materials.

We establish price adjustment clauses with our OEM customers to minimize the aluminum price risk. In the aftermarket, we use hedging products to secure our aluminum purchase prices.

Foreign Operations

We manufacture a significant portion of our North American products in Mexico for sale in the United States, Canada and Mexico. Net sales of wheels manufactured in our Mexico operations in 2018 totaled $673.2 million and represented 84 percent of our total net sales in North America as compared to $608.0 million and 83 percent in 2017. Net property, plant and equipment used in our operations in Mexico totaled $221.5 million at December 31, 2018 and $214.5 million at December 31, 2017. The overall cost for us to manufacture wheels in Mexico is currently lower than in the United States, due to lower labor costs as a result of lower prevailing wage rates.

Similarly, we manufacture the majority of our products for the European market in Poland, for sale throughout Europe. For the year ended December 31, 2018, net sales of wheels manufactured in Poland were $421.8 million and 60 percent of total net European sales versus $220.4 million and 59 percent in the seven months following the acquisition in 2017. Net property, plant and equipment used in our operations in Poland totaled $221.0 million at

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December 31, 2018 versus $227.3 million at December 31, 2017. Similar to our Mexican operations, the overall cost to manufacture wheels in Poland is substantially lower than in both the United States and Germany at the present time due principally to lower labor costs.

Net Sales Backlog

Our customers typically award programs one, two or three years before actual production is scheduled to begin. Each year, the automotive manufacturers introduce new models, update existing models and discontinue certain models. In this process, we may be selected as the supplier on a new model, we may continue as the supplier on an updated model or we may lose a new or updated model to a competitor. Our estimated net sales may be impacted by various assumptions, including new program vehicle production levels, customer price reductions, currency exchange rates and program launch timing. Our customers may terminate the awarded programs or reduce order levels at any time, based on market conditions or change in portfolio direction. Therefore, expected net sales information does not represent firm commitments or firm orders. We estimate that we have been awarded programs covering approximately 84 percent of our manufacturing capacity over the next three years.

Competition

Competition in the market for aluminum wheels is based primarily on delivery, overall customer service, price, quality and technology. We currently supply approximately 19 percent and 13 percent of the aluminum wheels installed on passenger cars and light-duty trucks in North America and Europe, respectively.

Competition is global in nature with a significant volume of exports from Asia into North America. There are several competitors with facilities in North America but we estimate that we have more than twice the North American production capacity of any competitor. Some of the key competitors in North America include Central Motor Wheel of America (CMWA), CITIC Dicastal Co., Ltd., Prime Wheel Corporation, Enkei and Ronal. Key European competitors include Ronal, Borbet, Maxion and CMS. We are the leading manufacturer of alloy wheels in the European aftermarket, where the competition is highly fragmented. Key competitors include Alcar, Brock, Borbet, ATU and Mak. See also Item 1A, Risk Factors, of this Annual Report.

Steel and other types of wheels also compete with our products. Aluminum wheel usage on passenger cars, crossovers, SUV s and light-duty trucks continues to dominate in North America. According to *Ward s Automotive Group,* the aluminum wheel penetration rate on passenger cars and light-duty trucks in North America was 88 percent for the 2018 model year compared to 87 percent for 2017. Although similar industry data is not available for Europe, we estimate aluminum wheel penetration continues to marginally increase year-over-year with further opportunity to increase. Several factors can affect the aluminum wheel penetration rate including price, fuel economy requirements and styling preferences. Although aluminum wheels are currently more costly than steel, aluminum is a lighter material than steel, which is desirable for fuel efficiency, better ride & handling and generally viewed as aesthetically superior to steel and, thus, more desirable to the OEMs and their customers.

Research and Development

Our policy is to continuously review, improve and develop our engineering capabilities to satisfy our customer requirements in the most efficient and cost-effective manner available. We strive to achieve this objective by attracting and retaining top engineering talent and by maintaining the latest state-of-the-art computer technology to support engineering development. Fully developed engineering centers located in Fayetteville, Arkansas, and in Lüdenscheid, Germany support our research and development. We also have a technical sales function at our corporate headquarters in Southfield, Michigan that maintains a complement of engineering staff located near some of our largest customers headquarters and engineering and purchasing offices. Aftermarket wheels are developed in Bad Dürkheim.

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Research and development costs (primarily engineering and related costs), which are expensed as incurred, are included in cost of sales in our consolidated income statements. Research and development costs during each of the last three years were $5.7 million in 2018, $7.7 million in 2017 and $3.8 million in 2016.

Government Regulation

Safety standards in the manufacture of vehicles and automotive equipment have been established under the National Traffic and Motor Vehicle Safety Act of 1966, as amended. We believe that we are in compliance with all federal standards currently applicable to OEM suppliers and to automotive manufacturers.

Environmental Compliance

Our manufacturing facilities, like most other manufacturing companies, are subject to solid waste, water and air pollution control standards mandated by federal, state and local laws. Violators of these laws are subject to fines and, in extreme cases, plant closure. We believe our facilities are in material compliance with all presently applicable standards. The cost of environmental compliance was approximately $0.7 million in 2018, $0.6 million in 2017 and $0.4 million in 2016. We expect that future environmental compliance expenditures will approximate these levels and will not have a material effect on our consolidated financial position or results of operations. However, climate change legislation or regulations restricting emission of greenhouse gases could result in increased operating costs and reduced demand for the vehicles that use our products. See also Item 1A, Risk Factors - We are subject to various environmental laws of this Annual Report.

Employees

As of December 31, 2018, we had approximately 8,000 full-time employees and 260 contract employees compared to 7,800 full-time employees and 350 contract employees at December 31, 2017. As of December 31, 2016, we had approximately 4,189 full-time employees and 682 contract employees. None of our employees in North America are covered by a collective bargaining agreement. Superior Industries Europe AG s (SEAG s) subsidiary, Superior Industries Production Germany GmbH (SPG), is a member of the employers association for the metal and electronic industry in North Rhine-Westphalia e.V. (Metall und Elektro-Industrie NORDRHEIN-WESTPFALEN e.V.) and is subject to various collective bargaining agreements entered into by the employers association with the trade union IG Metall. These collective bargaining agreements include provisions relating to wages, holiday, and partial retirement. It is estimated that approximately 432 employees of SEAG employed at SPG in Germany were unionized and/or subject to collective bargaining agreements in 2018. SPG and Superior Industries Automotive Germany GmbH (operating a joint workers council) operate a statutory workers council and Superior Industries Production (Poland) Sp. z o.o. (SPP) operates a voluntary workers council.

Fiscal Year End

Fiscal year 2018 started on January 1, 2018 and ended December 31, 2018. The fiscal year for 2017 consisted of the 53-week period ended December 31, 2017. Thus, 2018 reflects one less calendar week of North America operations than in 2017. The 2016 fiscal year consisted of the 52-week period ended on December 25, 2016. Historically our fiscal year ended on the last Sunday of the calendar year. While our European operations historically reported on a calendar year end, these fiscal periods aligned as of December 31, 2017. Beginning in 2018, both our North American and European operations are on a calendar fiscal year with each month ending on the last day of the calendar month. For convenience of presentation, all fiscal years are referred to as beginning as of January 1, and ending as of December 31, but actually reflect our financial position and results of operations for the periods described above.

Segment Information

We have aligned our executive management structure, organization and operations to focus on our performance in our North American and European regions. Financial information about our operating segments is contained in

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Note 6, Business Segments in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data of this Annual Report.

Seasonal Variations

The automotive industry is cyclical and varies based on the timing of consumer purchases of vehicles, which in turn varies based on a variety of factors such as general economic conditions, availability of consumer credit, interest rates and fuel costs. While there have been no significant seasonal variations in the past few years, production schedules in our industry can vary significantly from quarter to quarter to meet the scheduling demands of our customers. Typically, our aftermarket business experiences two seasonal peaks, which require substantially higher levels of production. The higher demand for aftermarket wheels from our customers occurs in March and October leading into the spring and winter peak consumer selling seasons.

History

We were initially incorporated in Delaware in 1969. Our entry into the OEM aluminum wheel business in 1973 resulted from our successful development of manufacturing technology, quality control and quality assurance techniques that enabled us to satisfy the quality and volume requirements of the OEM market for aluminum wheels. The first aluminum wheel for a domestic OEM customer was a Mustang wheel for Ford. We reincorporated in California in 1994, and in 2015, we moved our headquarters from Van Nuys, California to Southfield, Michigan and reincorporated in Delaware. On May 30, 2017, we acquired a majority interest in Uniwheels AG, which is a European supplier of OEM and aftermarket aluminum wheels. Uniwheels AG was renamed in 2018 to Superior Industries Europe AG. Our stock is traded on the New York Stock Exchange under the symbol SUP.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q and any amendments thereto are available, without charge, on or through our website, www.supind.com, under Investor Relations, as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (SEC). Also included on our website, www.supind.com, under Investor Relations, is our Code of Conduct, which, among others, applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Copies of all SEC filings and our Code of Conduct are also available, without charge, upon request from Superior Industries International, Inc., Shareholder Relations, 26600 Telegraph Road, Suite 400, Southfield, Michigan 48033.

The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information related to issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference in this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

The following discussion of risk factors contains forward-looking statements, which may be important to understanding any statement in this Annual Report or elsewhere. The following information should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Item 8, Financial Statements and Supplementary Data of this Annual Report.

Our business routinely encounters and addresses risks and uncertainties. Our business, results of operations, financial condition and cash flows could be materially adversely affected by the factors described below. Discussion about the important operational risks that our business encounters can also be found in the MD&A section and in the business description in Item 1, Business of this Annual Report. Below, we have described our present view of the most significant risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently do not consider significant, could also potentially impair our business, results of operations, financial condition and cash flows. Our reactions to these risks and uncertainties as well as our competitors and customers reactions will affect our future operating results.

The automotive industry is cyclical and volatility in the automotive industry could adversely affect our financial performance.

Substantially all our sales are made to the European and U.S. automotive markets. Therefore, our financial performance depends largely on conditions in the European and U.S. automotive industry, which in turn can be affected significantly by broad economic and financial market conditions. Consumer demand for automobiles is subject to considerable volatility as a result of consumer confidence in general economic conditions, levels of employment, prevailing wages, fuel prices and the availability and cost of consumer credit, as well as changing consumer preferences. Demand for aluminum wheels can be further affected by other factors, including pricing and performance comparisons to competitive materials such as steel. Finally, the demand for our products is influenced by shifts of market share between vehicle manufacturers and the specific market penetration of individual vehicle platforms being sold by our customers. Decreases in demand for automobiles in Europe and the United States could adversely affect the valuation of our productive assets, results of operations, financial condition and cash flows.

A limited number of customers represent a large percentage of our sales. The loss of a significant customer or decrease in demand could adversely affect our operating results.

Ford, GM, Toyota, VW Group, together, represented 56 percent in 2018, 60 percent in 2017 and 82 percent of our sales in 2016. Despite the decrease in the combined percentage of our four largest customers in 2018 and 2017, a loss of a significant customer or decrease in demand still remains a risk. Our OEM customers are not required to purchase any minimum amount of products from us. Increasingly global procurement practices, the pace of new vehicle introduction and demand for price reductions may make it more difficult to maintain long-term supply arrangements with our customers, and there are no guarantees that we will be able to negotiate supply arrangements with our customers on terms acceptable to us in the future. The contracts we have entered into with most of our customers provide that we will manufacture wheels for a particular vehicle model, rather than manufacture a specific quantity of products. Such contracts range from one year to the life of the model (usually three to five years), typically are non-exclusive and do not require the purchase by the customer of any minimum number of wheels from us. Therefore, a significant decrease in consumer demand for certain key models or group of related models sold by any of our major customers, or a decision by a manufacturer not to purchase from us, or to discontinue purchasing from us, for a particular model or group of models, could adversely affect our results of operations, financial condition and cash flows.

We operate in a highly competitive industry and efforts by our competitors to gain market share could adversely affect our financial performance.

The global automotive component supply industry is highly competitive. Competition is based on a number of factors, including delivery, overall customer service, price, quality, technology and available capacity to meet customer demands. Some of our competitors are companies, or divisions or subsidiaries of companies, which are larger and have greater financial and other resources than we do. We cannot ensure that our products will be able to compete successfully with the products of these competitors. In particular, our ability to increase manufacturing capacity typically requires significant investments in facilities, equipment and personnel. The majority of our operating facilities are at full or near to full capacity levels which may cause us to incur labor costs at premium rates in order to meet customer requirements, experience increased maintenance expenses or require us to replace our machinery and equipment on an accelerated basis. Furthermore, the nature of the markets in which we compete has attracted new entrants, particularly from low-cost countries. As a result, our sales levels and margins continue to be adversely affected by pricing pressures reflective of significant competition from producers located in low-cost foreign markets, such as China, Morocco, and Turkey. Such competition with lower cost structures poses a significant threat to our ability to compete internationally and domestically. These factors have led to our customers awarding business to foreign competitors in the past, and they may continue to do so in the future. In addition, any of our competitors may foresee the course of market development more accurately, develop products that are superior to our products, have the ability to produce similar products at a lower cost or adapt more quickly to new technologies or evolving customer requirements. Consequently, our products may not be able to compete successfully with competitors products.

We experience continual pressure to reduce costs.

The global vehicle market is highly competitive at the OEM level, which drives continual cost-cutting initiatives by our customers. Customer concentration, relative supplier fragmentation and product commoditization have translated into continual pressure from OEMs to reduce the price of our products. It is possible that pricing pressures beyond our expectations could intensify as OEMs pursue restructuring and cost-cutting initiatives. If we are unable to generate sufficient production cost savings in the future to offset such price reductions, our gross margin and cash flows could be adversely affected. In addition, changes in OEMs purchasing policies or payment practices could have an adverse effect on our business. Our OEM customers typically attempt to qualify more than one supplier for the programs we participate on and for programs we may bid on in the future. As such, our OEM customers are able to negotiate favorable pricing or may decrease wheel orders from us. Such actions may result in decreased sales volumes and unit price reductions for the Company, resulting in lower revenues, gross profit, operating income and cash flows.

We may be unable to successfully implement cost-saving measures or achieve expected benefits under our plans to improve operations.

As part of our ongoing focus to provide high quality products, we continually analyze our business to further improve our operations and identify cost-cutting measures. We may be unable to successfully identify or implement plans targeting these initiatives, or fail to realize the benefits of the plans we have already implemented, as a result of operational difficulties, a weakening of the economy or other factors. Cost reductions may not fully offset decreases in the prices of our products due to the time required to develop and implement cost reduction initiatives. Additional factors such as inconsistent customer ordering patterns, increasing product complexity and heightened quality standards are making it increasingly more difficult to reduce our costs. It is possible that the costs we incur to implement improvement strategies may negatively impact our financial position, results of operations and cash flow.

We may be unable to successfully launch new products and/or achieve technological advances.

In order to compete effectively in the automotive supply industry, we must be able to launch new products and adopt technology to meet our customers demands in a timely manner. However, we cannot ensure that we will be able to install and certify the equipment needed for new product programs in time for the start of production, or that the transitioning of our manufacturing facilities and resources under new product programs will not impact production rates or other operational efficiency measures at our facilities. In addition, we cannot ensure that our customers will execute the launch of their new product programs on schedule. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and customer approvals. For example, we recently completed the construction of a Physical Vapor Deposition (PVD) finishing facility. PVD is a wheel coating process that creates a bright chrome-like surface in a more environmentally friendly manner than traditional chrome plating. Various commercial opportunities are being evaluated, while at the same time this facility continues to undergo trial testing to meet customer quality criteria. As a result, existing purchase orders for the PVD process will continue to be satisfied using alternative finishing processes. The global automotive industry is experiencing a period of significant technological change. As a result, the success of our business requires us to develop and/or incorporate leading technologies, including PVD and other finishing capabilities such as surface printing, laser etching, and 5-Axis milling. Such technologies are subject to rapid obsolescence and may not be proven feasible on a volume production basis, have a demand with our customers, meet our customer s specifications or prove profitable to us. Our failure to satisfy any of these criteria with respect to a particular technology could result in our not pursuing the development of that technology, expensing any unamortized investment costs and abandoning or seeking an alternative use for any impacted technology. Our inability to maintain access to these technologies (either through development or licensing) may adversely affect our ability to compete. If we are unable to successfully develop new technologies, differentiate our products, maintain a low-cost footprint or compete effectively with technology-focused new market entrants, we may lose market share or be forced to reduce prices, thereby lowering our margins. Any such occurrences could adversely affect our financial condition, operating results and cash flows.

International trade agreements and our international operations make us vulnerable to risks associated with doing business in foreign countries that can affect our business, financial condition and results of operations.

We manufacture a substantial portion of our products in Mexico, Germany and Poland and we sell our products internationally. Accordingly, unfavorable changes in foreign cost structures, trade protection laws, tariffs on aluminum, regulations and policies affecting trade and investments and social, political, labor or economic conditions in a specific country or region, among other factors, could have a negative effect on our business and results of operations. Legal and regulatory requirements differ among jurisdictions worldwide. Violations of these laws and regulations could result in fines, criminal sanctions, prohibitions on the conduct of our business and damage to our reputation. Although we have policies, controls and procedures designed to ensure compliance with these laws, our employees, contractors, or agents may violate our policies.

As a result of changes to U.S. administrative policy, among other possible changes, there may be (i) changes to existing trade agreements, such as the North American Free Trade Agreement (NAFTA) and its anticipated successor agreement, the U.S.-Mexico-Canada Agreement (USMCA), which is still subject to approval by the United States, Mexico and Canada; (ii) greater restrictions on free trade generally; and (iii) significant increases in tariffs on goods imported into the United States, particularly tariffs on products manufactured in Mexico. It remains unclear what the U.S. administration or foreign governments, including China, will or will not do with respect to tariffs, NAFTA, USMCA or other international trade agreements and policies. A trade war, other governmental action related to tariffs or international trade agreements, changes in United States social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently manufacture and sell products, and any resulting negative sentiments towards the United States as a result of such changes, likely would have an adverse effect on our business, financial condition, results of operations and cash flows.

Cost of manufacturing our products in Mexico, Germany and Poland may be affected by tariffs imposed by the United States, trade protection laws, policies and other regulations affecting trade and investments, social, political, labor, or general economic conditions. Other factors that can affect the business and financial results of our Mexican, German, Polish and U.S. operations include, but are not limited to, changes in cost structures, currency effects of the Mexican Peso, Euro and Polish Zloty, availability and competency of personnel and tax regulations.

Fluctuations in foreign currencies may adversely impact our financial results.

Due to our operations outside of the United States, we experience exposure to foreign currency gains and losses in the ordinary course of our business. We settle transactions between currencies - i.e., in particular, Mexican Peso to U.S. dollar, Euro to U.S. dollar and Euro to Polish Zloty. To the extent possible, we attempt to match the timing and magnitude of transaction settlements between currencies to create a natural hedge. Based on our current business model and levels of production and sales activity, the net imbalance between currencies depends on specific circumstances. While changes in the terms of the contracts with our customers will create an imbalance between currencies that we hedge with foreign currency forward or option contracts, there can be no assurances that our hedging program will effectively offset the impact of the imbalance between currencies or that the net transaction balance will not change significantly in the future.

The foreign currency forward or option contracts we enter into with financial institutions are designed to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions and forecasted future cash flows. We have a program to hedge a portion of our material foreign exchange exposures, typically for up to 48 months. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There is no guarantee that our hedge program will effectively mitigate our exposures to foreign exchange changes which could have material adverse effects on our cash flows and results of operations.

Fluctuations in foreign currency exchange rates may also affect the value of our foreign assets as reported in U.S. dollars, and may adversely affect reported earnings and, accordingly, the comparability of period-to-period results of operations. Changes in currency exchange rates may affect the relative prices at which we and our foreign competitors sell products in the same market. In addition, changes in the value of the relevant currencies may affect the cost of certain items required in our operations. We cannot ensure that fluctuations in exchange rates will not otherwise have a material adverse effect on our financial condition or results of operations or cause significant fluctuations in quarterly and annual results of operations.

Our substantial indebtedness could adversely affect our financial condition

We have a significant amount of indebtedness. As of December 31, 2018, our total debt was $684.9 million ($664.5 million, net of unamortized debt issuance costs of $20.4 million), and we had availability of $156.6 million under the Senior Secured Credit Facilities, as well as 30.0 million Euros under a secured European revolving line of credit. The interest expense on indebtedness will remain significantly higher than historical interest expense (in particular, relative to the time prior to the acquisition of the European Operations) and could adversely affect our financial condition.

Subject to the limits contained in the Credit Agreement governing the Senior Secured Credit Facilities and the indenture governing the Notes (the Indenture) and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify.

In addition, the Indenture and the Credit Agreement governing the Senior Secured Credit Facilities and our other debt instruments contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of the maturity of all of our debt.

We may not be able to generate sufficient cash to service all of our indebtedness, including the Notes or our redeemable preferred stock, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations or redeemable preferred stock depends on our financial and operating performance, which is subject to prevailing economic, industry and competitive conditions and to certain financial, business, economic and other factors beyond our control. We may not be able to maintain a sufficient level of cash flow from operating activities to permit us to pay the principal, premium, if any, and interest on the Notes, redeemable preferred stock and our other indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, including payments with respect to our redeemable preferred stock, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or seek to restructure or refinance our indebtedness, including the Notes. Our ability to restructure or refinance our debt will depend on the condition of the capital and credit markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations and limit our financial flexibility. In addition, any failure to make payments of interest and principal on our outstanding indebtedness and redeemable preferred stock on a timely basis would likely result in a reduction of our credit

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rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations, including (i) redemption of our redeemable preferred stock at a redemption price of $300.0 million (2.0 times stated value) or the product of the number of common shares into which the redeemable preferred stock could be converted (5.3 million shares currently) and the then current market price of our common stock and (ii) the repurchase of the Notes or redemption of the redeemable preferred stock upon a change of control or repurchase of the Notes upon sales of certain assets. In the absence of such cash flows and resources, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. The Credit Agreement governing the Senior Secured Credit Facilities and the Indenture restrict our ability to conduct asset sales and/or use the proceeds from asset sales. We may not be able to consummate these asset sales to raise capital or sell assets at prices and on terms that we believe are fair, and any proceeds that we do receive may not be adequate to meet any debt service obligations then due, including payments due with respect to our redeemable preferred stock. If we cannot meet our debt service obligations, the holders of our debt may accelerate our debt and, to the extent such debt is secured, foreclose on our assets. In such an event, we may not have sufficient assets to repay all of our debt.

The terms of the Credit Agreement governing the Senior Secured Credit Facilities, the Indenture, and other debt instruments, as well as the documents governing other debt that we may incur in the future may, restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The Indenture, the Credit Agreement governing the Senior Secured Credit Facilities, and our other debt instruments, and the documents governing other debt that we may incur in the future may, contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- create or incur liens;
- engage in mergers or consolidations or sell all or substantially all of our assets;
- sell, transfer or otherwise dispose of assets;
- make investments, acquisitions, loans or advances or other restricted payments;
- pay dividends or distributions, repurchase our capital stock or make certain other restricted payments;
- prepay, redeem, or repurchase any subordinated indebtedness;
- designate our subsidiaries as unrestricted subsidiaries;

enter into agreements which limit the ability of our non-guarantor subsidiaries to pay dividends or make other payments to us; and enter into certain transactions with our affiliates.

In addition, the restrictive covenants in the Credit Agreement governing the Senior Secured Credit Facilities and other debt instruments require us to maintain specified financial ratios and satisfy other financial condition tests to the extent subject to certain financial covenant conditions. Our ability to meet those financial ratios and tests can be affected by events beyond our control. We may not meet those ratios and tests.

A breach of the covenants or restrictions under the Indenture governing the Notes, under the Credit Agreement governing the Senior Secured Credit Facilities, or under other debt instruments could result in an event of default under the applicable indebtedness. Such a default may allow the creditors under such facility to accelerate the related debt, which may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the Credit Agreement governing our Senior Secured Credit Facilities would permit the lenders under our revolving credit facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under the Senior Secured Credit Facilities or under other secured debt instruments, those lenders could proceed against the collateral granted to them to secure that indebtedness. We have pledged substantially all of our assets as collateral under the Senior Secured Credit Facilities. In the event our lenders or holders of the Notes accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness or be able to borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms acceptable to us. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities. These restrictions, along with restrictions that may be contained in agreements evidencing or governing other future indebtedness, may affect our ability to grow or pursue other important initiatives in accordance with our growth strategy.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our Senior Secured Credit Facilities are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. As of December 31, 2018, approximately $382.8 million of our debt was variable rate debt. Our anticipated annual interest expense on $382.8 million variable rate debt at the current rate of 6.3 percent would be $24.1 million. We have entered into interest rate swaps exchanging floating for fixed rate interest payments in order to reduce interest rate volatility. As of December 31, 2018, we have executed interest rate swaps for $90.0 million, maturing $25.0 million March 31, 2019, $30.0 million September 30, 2019, and $35.0 million December 31, 2019. In addition, on January 10, 2019 we entered into additional interest rate swaps for $200 million, maturing $50 million September 30, 2022 and $150 million December 31, 2022. In the future, we may again enter into interest rate swaps to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

In addition, the interest rates under our Senior Secured Credit Facilities are calculated using LIBOR. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021 and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, a comparable or successor reference rate as approved by the Administrative Agent under the Credit Agreement will apply or such other reference rate as may be agreed by the Company and the lenders under the Credit Agreement. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. To the extent these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

We are subject to taxation related risks in multiple jurisdictions.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Significant judgment is required in determining our global provision for income taxes, deferred tax assets or liabilities and in evaluating our tax positions on a worldwide basis. While we believe our tax positions are consistent with the tax laws in the jurisdictions in which we conduct our business, it is possible that these positions may be overturned by jurisdictional tax authorities, which may have a significant impact on our global provision for income taxes. Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. We are also subject to ongoing tax audits. These audits can involve complex issues, which may require an extended period of time to resolve and can be highly subjective. Tax authorities may disagree with certain tax reporting positions taken by us and, as a result, assess additional taxes against us. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision.

In December 2017, the Tax Cuts and Jobs Act (The Act) was signed into law, effective January 1, 2018. The Act, among other things, contains significant changes to corporate taxation, including the reduction of the corporate tax rate from 35 percent to 21 percent, a one-time transition tax on offshore earnings at reduced tax rates regardless of whether earnings are repatriated, the elimination of U.S. tax on foreign dividends (subject to certain important exceptions), new taxes on certain foreign earnings Global Intangible Low-Taxed Income (GILTI), limitations on deductibility of interest expense, immediate deductions for certain new investments and the modification or repeal of many business deductions and credits.

In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in countries where we do business. The impact of tax reform in the United States or other foreign tax law changes could result in an overall tax rate increase to our business.

Increases in the costs and restrictions on availability of raw materials could adversely affect our operating margins and cash flow.

Generally, we obtain our raw materials, supplies and energy requirements from various sources. Although we currently maintain alternative sources, our business is subject to the risk of price increases and periodic delays in delivery. Fluctuations in the prices of raw materials may be driven by the supply and demand for that commodity or governmental regulation, including trade laws and tariffs. In addition, if any of our suppliers seek bankruptcy relief or otherwise cannot continue their business as anticipated, the availability or price of raw materials could be adversely affected.

Although we are able to periodically pass certain aluminum cost increases on to our customers, we may not be able to pass along all changes in aluminum costs, or there may be a delay in passing the aluminum costs onto our customers. Our customers are not obligated to accept energy or other supply cost increases that we may attempt to pass along to them. This inability to pass on these cost increases to our customers could adversely affect our operating margins and cash flow.

Aluminum and alloy pricing may have a material effect on our operating margins and cash flows.

The cost of aluminum is a significant component in the overall cost of a wheel and in our selling prices to customers. The price for aluminum we purchase is adjusted based on changes in certain published market indices, but the timing of price adjustments is based on specific customer agreements and can vary from monthly to quarterly. As a result, the timing of aluminum price adjustments with customers flowing through sales rarely will match the timing of such changes in cost and can result in fluctuations to our gross profit. This is especially true during periods of frequent increases or decreases in the market price of aluminum.

The aluminum we use to manufacture wheels also contains additional alloy materials, including silicon. The cost of alloying materials is also a component of the overall cost of a wheel. The price of the alloys we purchase is also based on certain published market indices; however, most of our customer agreements do not provide price adjustments for changes in market prices of alloying materials. Increases or decreases in the market prices of these alloying materials could have a material effect on our operating margins and cash flows.

There is a risk of discontinuation of the E.U. anti-dumping duty from China which may increase the competitive pressure from Chinese producers, including in the aftermarket.

In 2010, the European Commission imposed provisional anti-dumping duties of 22.3 percent on imports of aluminum road wheels from China after a complaint of unfair competition from European manufacturers. The European Commission argued that the EU manufacturers had suffered a significant decrease in production and sales, and a loss of market share, as well as price depression due to cheaper imports from China. On January 23, 2017, the European Commission decided to maintain the anti-dumping duties (Commission Implementing Regulation (EU) 2017/109) for another five-year period. The anti-dumping duties protect the EU producers until January 24, 2022. After this date, the competitive pressures from Chinese producers, which have cost advantages, primarily in the aftermarket, may adversely affect the Company s financial condition, results of operations and cash flows.

We are subject to various environmental laws.

We incur costs to comply with applicable environmental, health and safety laws and regulations in the ordinary course of our business. We cannot ensure that we have been or will be at all times in complete compliance with such laws and regulations. Failure to be in compliance with such laws and regulations could result in material fines or sanctions. Additionally, changes to such laws or regulations may have a significant impact on our cash flows, financial condition and results of operations.

We are also subject to various foreign, federal, state and local environmental laws, ordinances and regulations, including those governing discharges into the air and water, the storage, handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances or wastes and the health and safety of our employees. The nature of our current and former operations and the history of industrial uses at some of our facilities expose us to the risk of liabilities or claims with respect to environmental and worker health and safety matters which could have a material adverse effect on our financial condition. In addition, some of our properties are subject to indemnification and/or cleanup obligations of third parties with respect to environmental matters. However, in the event of the insolvency or bankruptcy of such third parties, we could be required to assume the liabilities that would otherwise be the responsibility of such third parties.

Further, changes in legislation or regulation imposing reporting obligations on, or limiting emissions of greenhouse gases from, or otherwise impacting or limiting our equipment and operations or from the vehicles that use our products could adversely affect demand for those vehicles or require us to incur costs to become compliant with such regulations.

We are from time to time subject to litigation, which could adversely impact our financial condition or results of operations.

The nature of our business exposes us to litigation in the ordinary course of our business. We are exposed to potential product liability and warranty risks that are inherent in the design, manufacture and sale of automotive products, the failure of which could result in property damage, personal injury or death. Accordingly, individual or class action suits alleging product liability or warranty claims could result. Although we currently maintain what we believe to be suitable and adequate product liability insurance in excess of our self-insured amounts, we cannot guarantee that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against future liabilities. In addition, if any of our products prove to be defective, we may be required to participate in a recall. A successful claim brought against us in excess of available insurance coverage, if any, or a requirement to participate in any product recall, could have a material adverse effect on our results of operations, financial condition or cash flows.

Our business requires extensive product development activities to launch new products. Accordingly, there is a risk that wheels under development may not be ready by the start of production (SOP) or may fail to meet the customer s specifications. In any such case, warranty or compensation claims might be raised, or litigation might

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be commenced, against the Company. Moreover, the Company could lose its reputation of an entrepreneur actively developing new and innovative solutions, which in turn could affect the volume of orders, particularly orders for new designs.

Moreover, there are risks related to civil liability under our customer supply contracts (civil liability clauses in contracts with customers, contractual risks related to civil liability for causing delay in production launch, etc.). If we fail to ensure production launch as and when required by the customer, thus jeopardizing production processes at the customer s facilities, this could lead to increased costs, giving rise to recourse claims against, or causing loss of orders by the Company. This could also have an adverse effect on our financial condition, results of operations or cash flows.

If we do not successfully manage the transition associated with the retirement of our former Chief Executive Officer and the appointment of a new Chief Executive Officer, it could be viewed negatively by our customers and shareholders and could have an adverse impact on our business.

In December 2018, Donald J. Stebbins retired from his position as our President and Chief Executive Officer. Timothy C. McQuay, the Chairman of the Board, is serving as the Executive Chairman. The Board has an active search process underway to select the next Chief Executive Officer from internal and external candidates. If we are unable to attract and retain a qualified candidate to become our Chief Executive Officer in a timely manner, our ability to meet our financial and operational goals and strategic plans, as well as our financial performance, may be adversely impacted. It may also make it more difficult to retain and hire key employees. In addition, such leadership transitions can be inherently difficult to manage, and a poorly executed transition involving our new Chief Executive Officer may cause disruption to our business, including to our relationships with customers, vendors and employees.

Labor-related disruptions involving us or one or more of our customers or suppliers may adversely affect our operations.

Our business is labor-intensive. Although we consider our current relations with our employees to be good, if major work disruptions were to occur, our ability to operate our business could be harmed. A labor dispute involving us or one or more of our customers or our suppliers or our customers suppliers, or that could otherwise affect our operations could reduce our sales and our profitability. A labor dispute involving any of our customers or our customers suppliers that results in a slowdown or a closure of our customers assembly plants where our products are included in the assembled parts or vehicles could also adversely affect our business and harm our profitability.

We may be unable to attract and retain key personnel.

Our success depends, in part, on our ability to attract, hire, train and retain qualified managerial, operational, engineering, sales and marketing personnel. We face significant competition for these types of employees in our industry. We may be unsuccessful in attracting and retaining the personnel we require to conduct our operations successfully. In addition, key personnel may leave us and compete against us. Our success also depends, to a significant extent, on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either resign or retire. The loss of any member of our senior management team or other experienced senior employees could impair our ability to execute our business plans and strategic initiatives, cause us to lose customers and experience reduced net sales, or lead to employee morale problems and/or the loss of other key employees.

A disruption in our information technology systems, including a disruption related to cybersecurity, could adversely affect our financial performance.

We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems, as well as those of our customers, suppliers and other service providers could be breached or damaged by computer viruses, malware, phishing attacks, denial-of-service attacks, natural or man-made incidents or disasters or unauthorized physical or electronic access. These types of incidents have become more prevalent and pervasive across industries, including in our industry, and are expected to continue in the future. A breach could result in business disruption, theft of our intellectual property, trade secrets or customer information and unauthorized access to personnel information. Although cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our information technology systems from attack, damage or unauthorized access are a high priority for us, our activities and investment may not be deployed quickly enough or successfully protect our systems against all vulnerabilities, including technologies developed to bypass our security measures. In addition, outside parties may attempt to fraudulently induce employees or customers to disclose access credentials or other sensitive information in order to gain access to our secure systems and networks. There are no assurances that our actions and investments to improve the maturity of our systems, processes and risk management framework or remediate vulnerabilities will be sufficient or completed quickly enough to prevent or limit the impact of any cyber intrusion. Moreover, because the techniques used to gain access to or sabotage systems often are not recognized until launched against a target, we may be unable to anticipate the methods necessary to defend against these types of attacks and we cannot predict the extent, frequency or impact these problems may have on us. To the extent that our business is interrupted or data is lost, destroyed or inappropriately used or disclosed, such disruptions could adversely affect our competitive position, relationships with our customers, financial condition, operating results and cash flows. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future.

We are also dependent on security measures that some of our third-party customers, suppliers and other service providers take to protect their own systems and infrastructures. Some of these third parties store or have access to certain of our sensitive data, as well as confidential information about their own operations, and as such are subject to their own cybersecurity threats. Any security breach of any of these third-parties systems could result in unauthorized access to our information technology systems, cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our financial performance.

Competitors could copy our products or technologies and we could violate protected intellectual property rights or trade secrets of our competitors or other third parties.

We register business-related intellectual property rights, such as industrial designs and trademarks, hold licenses and other agreements covering the use of intellectual property rights, and have taken steps to ensure that our trade secrets and technological know-how remain confidential. Nevertheless, there is a risk that third parties would attempt to copy, in full or in part, our products, technologies or industrial designs, or to obtain unauthorized access and use of Company secrets, technological know-how or other protected intellectual property rights. Also, other companies could successfully develop technologies, products or industrial designs similar to ours, and thus potentially compete with us.

Further, there can be no assurance that we will not unknowingly infringe intellectual property rights of our competitors, such as patents and industrial designs, especially due to the fact that the interpretations of what constitutes protected intellectual property may differ. Similarly, there is a risk that we will illegitimately use intellectual property developed by our employees, which is subject in each case to relevant regulations governing employee-created innovations. If a dispute concerning intellectual property rights arises, in which the relevant court issues an opinion on the disputed intellectual property rights contrary to us, identifying a breach of intellectual property rights, we may be required to pay substantial damages or to stop the use of such intellectual property. In addition, we are exposed to the risk of injunctions being imposed to prevent further infringement, leading to a decrease in the number of customer orders.

All these events could have a material adverse effect on our assets, financial condition, results of operations or cash flows.

We may be unable to successfully achieve expected benefits from our joint ventures or acquisitions.

As we continue to expand globally, we have engaged, and may continue to engage, in joint ventures and have pursued, and may continue to pursue, acquisitions, including our acquisition of Uniwheels (now referred to as our Europe segment, Europe business or Europe operations) in May 2017. The pursuit of potential joint ventures and/or acquisitions may divert the attention of management and cause us to incur expenses in identifying, investigating and pursuing suitable joint ventures and/or acquisitions, whether or not they are consummated. Such joint ventures and acquisitions involve potential risks, including failure to successfully integrate and/or realize the expected benefits of such joint ventures or acquisitions. Integrating acquired operations is a significant challenge, and there is no assurance that we will be able to manage any future integrations successfully. Failure to successfully integrate operations or to realize the expected benefits of such joint ventures or acquisitions may have an adverse impact on our results of operations, financial condition and cash flows.

We may fail to comply with conditions of the state tax incentive programs in Poland.

We have three production plants in a special Poland economic zone, Tanobrzeska Specjalna Strefa Ekonomiczna Euro-Park Wislosan in Stalowa Wola, Poland. Our Polish operations were granted seven permits to operate in this special economic zone, which allows us to benefit from Polish state tax incentives. The permits require certain conditions to be met, which include increasing the number of employees, keeping the number of employees at such level and incurring required capital expenditures. In addition, particular permits indicate deadlines for completion of respective stages of investments. For three of the seven permits, conditions have already been fulfilled. As of December 31, 2018, the tax subsidies are limited to 2018 (for three permits) and 2027 (for four permits). If we do not fulfill the conditions required by the permits, the permits might be withdrawn and we would no longer benefit from state tax incentives, which may impact our assets, financial condition, results of operations or cash flows in a material way. Furthermore, under current Polish regulations, special economic zones are scheduled to cease to exist in 2027.

We are currently unable to fully deduct interest charges on German indebtedness.

The interest deduction barrier (*Zinsschranke*) limits the tax deductibility of interest expenses for a German business. If no exception to the interest deduction barrier applies, the net interest expense (interest expense less interest income) is deductible up to 30 percent of the taxable EBITDA (*verrechenbares EBITDA*) taxable in Germany in a given financial year. Non-deductible interest expenses can be carried forward. Interest carry-forwards are subject to the same tax cancellation rules as tax loss carry-forwards. Whenever interest expenses are not deductible or if an interest carry-forward is lost, the tax burden in future assessment periods could rise, which might have alone, or in combination, a material adverse effect on our assets, financial condition, results of operation or cash flows.

We may be exposed to risks related to existing and future profit and loss transfer agreements executed with German subsidiaries of our European Operations.

Profit and loss transfer agreements are one of the prerequisites of the taxation of Superior and its German subsidiaries as a German tax group. For tax purposes, a profit and loss transfer agreement must have a contract term for a minimum of five years. In addition, such agreement must be fully executed. If a profit and loss transfer agreement or its actual execution does not meet the prerequisites for the taxation as a German tax group, Superior Industries International AG (SII AG) and each subsidiary are taxed on their own income (and under certain circumstances even with retrospective effect). Additionally, 5 percent of dividends from the subsidiary to SII AG would be regarded as non-deductible expenses at the SII AG level. Furthermore, the compensation of a loss of a subsidiary would be regarded as a contribution by SII AG into the subsidiary and thus, would not directly reduce SII AG s profits. As a consequence, if the profit and loss transfer agreements do not meet the prerequisites of a German tax group, this could have a future material adverse effect on our assets, financial condition, results of operations or cash flows.

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Purchase of additional shares of Uniwheels may require a higher purchase price.

Superior executed a Domination and Profit Loss Transfer Agreement, DPLTA , which became effective in January 2018. According to the terms of the DPLTA, SII AG offered to purchase any outstanding shares for cash consideration of Euro 62.18, or approximately Polish Zloty 264 per share. The cash consideration paid to shareholders, which tendered under the DPLTA may be subject to change based on appraisal proceedings that the minority shareholders of Uniwheels have initiated.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Our worldwide headquarters is located in Southfield, Michigan. In our North American operations, we maintain and operate five facilities that manufacture aluminum wheels for the automotive industry and a new facility for finishing wheels with physical vapor deposition. Four of these five facilities are located in Chihuahua, Mexico and one facility is located in Fayetteville, Arkansas. The five manufacturing facilities encompass 2.5 million square feet of manufacturing space. We own all of our manufacturing facilities in North America, and we lease our worldwide headquarters located in Southfield, Michigan.

Our European operations include five locations. The European headquarters is located in Bad Dürkheim, Germany which includes our European management, sales and distribution functions, as well as the logistics center and warehouse for the aftermarket business. The largest of European production facilities is in Stalowa Wola, Poland, which consists of 3 plants. The newest plant in Poland was put into operation in the beginning of June 2016. Another production facility is situated in Werdohl, Germany, where most development work is performed. Forged wheels are manufactured in Fußgönheim, Germany, near the Bad Dürkheim offices. The European locations also include a research and development center in Lüdenscheid, Germany. Our European production facilities encompass approximately 1.5 million square feet. We own all of our manufacturing facilities in Europe, and we lease our European headquarters located in Bad Dürkheim, Germany.

In general, our manufacturing facilities, which have been constructed at various times, are in good operating condition and are adequate to meet our current production capacity requirements. There are active maintenance programs to keep these facilities in good condition, and we have an active capital spending program to replace equipment as needed to maintain factory reliability and remain technologically competitive on a worldwide basis.

Additionally, reference is made to Note 1, Summary of Significant Accounting Policies, Note 9, Property, Plant and Equipment and Note 16 Leases, in the Notes to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data of this Annual Report.

ITEM 3 - LEGAL PROCEEDINGS

We are party to various legal and environmental proceedings incidental to our business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against us. Based on facts now known, we believe all such matters are adequately provided for, covered by insurance, are without merit, and/or involve such amounts that would not materially adversely affect our consolidated results of operations, cash flows or financial position. See also under Item 1A, Risk Factors - We are from time to time subject to litigation, which could adversely impact our financial condition or results of operations of this Annual Report.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

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ITEM 4A - EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers who are also Directors is contained in our 2019 Proxy Statement under the caption Election of Directors. Such information is incorporated into Part III, Item 10, Directors, Executive Officers and Corporate Governance. All executive officers are appointed annually by the Board of Directors and serve at the will of the Board of Directors.

The following table sets forth the names, ages and positions of our executive officers.

Name	Age	Position
Joanne M. Finnorn	54	Senior Vice President, General Counsel and Corporate Secretary
Michael J. Hatzfeld Jr.	46	Vice President of Finance and Corporate Controller
Dr. Wolfgang Hiller	57	Senior Vice President of European Operations and Aftermarket
Parveen Kakar	52	Senior Vice President of Sales, Marketing and Product Development
Matti M. Masanovich	47	Executive Vice President and Chief Financial Officer
Dr. Karsten Obenaus	54	Senior Vice President and Chief Financial Officer Europe
Timothy C. McQuay	67	Executive Chairman
Shawn J. Pallagi	61	Senior Vice President and Chief Human Resources Officer
Robert M. Tykal	56	Senior Vice President, North American Operations

Set forth below is a description of the business experience of each of our executive officers.

Joanne M. Finnorn

Ms. Finnorn is the Company s Senior Vice President, General Counsel and Corporate Secretary, a position she has held since September 2017. Previously, Ms. Finnorn served as the Vice President, General Counsel and Chief Compliance Officer of Amerisure Mutual Insurance Company from February 2016 to August 2017. From 2013 to January 2016, Ms. Finnorn served as General Counsel of HouseSetter LLC, a home monitoring company and was the Principal of Finnorn Law & Advisory Services. Ms. Finnorn began her career as an attorney with General Motors, served as general Counsel for their GMAC European Operations in Zurich, Switzerland and Vice President & General Counsel and Vice President, Subscriber Services, for OnStar LLC. Ms. Finnorn obtained a Bachelor degree from Alma college and a Juris Doctor from Stanford Law School.

Michael J. Hatzfeld Jr.

Mr. Hatzfeld Jr. is the Company s Vice President of Finance and Corporate Controller. Prior to joining the Company, Mr. Hatzfeld Jr. held various positions with General Motors Company since 2011, most recently as Controller, US Sales and Marketing Unit in 2018, Controller, Global Revenue Recognition Project from 2016 to 2017, Controller, Customer Care and Aftersales Units from 2014 to 2016 and Assistant Director, Corporate Reporting and Analysis from 2013 to 2014. Mr. Hatzfeld Jr. began his career in public accounting at Ernst & Young LLP. Mr. Hatzfeld Jr. holds a Bachelor of Science degree from Duquesne University. Mr. Hatzfeld Jr. is also a Certified Public Accountant.

Dr. Wolfgang Hiller

Dr. Hiller is the Company s Senior Vice President of European Operations and Aftermarket, a position he has held since July 2017. Prior to that, he was the Chief Operating Officer of UNIWHEELS AG (Uniwheels), a leading manufacturer of aluminum wheels that was acquired by the Company. Dr. Hiller has more than 26 years of international experience in the automotive industry. Prior to joining Uniwheels,

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	Dr. Hiller worked as Managing Director Automotive for an investment company located in Dubai. Prior to this assignment, Dr. Hiller served as CEO of Buderus-Guss, a manufacturer of automotive brake discs. Apart from that, he spent six years with Bosch Japan & Thailand, where he held a position as Board Member and Senior Managing Director, being in charge of the Chassis Division / Global Sales JOEM and the ASEAN Region. Dr. Hiller holds a Master degree in Physics and subsequently acquired a Doctorate in Physics and Nuclear Medicine at University of Bonn.
Parveen Kakar	Mr. Kakar is the Company s Senior Vice President of Sales, Marketing and Product Development, a position that he has held since September 2014. Mr. Kakar joined the Company in 1989 as the Director of Engineering Services and has held various positions at the Company since then. From July 2008 to September 2014, Mr. Kakar served as the Company s Senior Vice President of Corporate Engineering and Product Development and from 2003 to 2008 as the Vice President of Program Development. Mr. Kakar holds a Bachelor of Science in Mechanical Engineering from Punjab Engineering College in India.
Matti Masanovich	Mr. Masanovich is the Company s Executive Vice President and Chief Financial Officer, a position he has held since September 2018. Prior to joining the Company, Mr. Masanovich was the Senior Vice President and Chief Financial Officer at General Cable Corporation (NYSE: BGC), a publicly held global wire and cable manufacturer, from November 2016 to July 2018. Prior to that, Mr. Masanovich served as the short-term Vice President and Controller of International Automotive Components, an automotive interiors supplier, from August 2016 to October 2016. From November 2013 to April 2016, Mr. Masanovich served as Global Vice President of Finance, Packard Electrical and Electronic Architecture (E/EA) Division in Shanghai, China at APTIV (NYSE: APTV) (formerly Delphi Automotive), an automotive technology company. Mr. Masanovich previously served in various executive positions with both public and private companies. Mr. Masanovich began his career in public accounting at Coopers & Lybrand and PricewaterhouseCoopers LLP. Mr. Masanovich holds a Bachelor of Commerce degree and a Master of Business Administration degree from the University of Windsor. Mr. Masanovich is also a Chartered Accountant.
Dr. Karsten Obenaus	Dr. Obenaus is the Company s Senior Vice President, Chief Financial Officer Europe; Global ERM & Strategic Planning, a position he has held since July 2017. Prior to that, Dr. Obenaus served as the Chief Financial Officer of UNIWHEELS AG from November 2014 and Head of Accounting, Head of Risk Management, Head of Controlling and Chief Financial Officer Polish Operations from 2008. Before that, he served as the Head of Controlling at the German alloy wheel producer ATS, which was later acquired by Uniwheels. Dr. Obenaus started his professional career in 1994 and obtained accounting and finance positions at Deutsche Industrie-Treuhand, Goedecke AG (Pfizer Group) and EMTEC (BASF Group). He holds a Master degree in Economics and subsequently acquired a Doctorate in Economics at the Johann Wolfgang Goethe-University of Frankfurt/Main.
Timothy C. McQuay	Mr. McQuay is the Company s Executive Chairman, a position he has held since December 2018, and he has served as a director of the Company since 2011. From November 2011 until his retirement in December 2015, he served as Managing Director, Investment Banking with Noble Financial Capital Markets, an investment banking firm. Previously, he served as Managing Director, Investment Banking with B. Riley & Co., an investment

banking firm, from September 2008 to November 2011. From August 1997 to December 2007, he served as Managing Director Investment

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Banking at A.G. Edwards & Sons, Inc. From May 1995 to August 1997, Mr. McQuay was a Partner at Crowell, Weedon & Co. and from October 1994 to August 1997, he also served as Managing Director of Corporate Finance. From May 1993 to October 1994, Mr. McQuay served as Vice President, Corporate Development with Kerr Group, Inc., a New York Stock Exchange listed plastics manufacturing company. From May 1990 to May 1993, Mr. McQuay served as Managing Director of Merchant Banking with Union Bank. Mr. McQuay received an A.B. degree in economics from Princeton University and a M.B.A. degree in finance from the University of California at Los Angeles.

Shawn J. Pallagi

Mr. Pallagi is the Company s Senior Vice President and Chief Human Resources Officer, a position he has held since May 2016. Prior to joining the Company, Mr. Pallagi served as the Senior Vice President Chief Human Resource Officer of Remy International (Remy), one of the largest producers of electrical replacement components for the automotive aftermarket, from January 2013 to December 2015, and in various other roles at Remy prior to that. Earlier in his career, Mr. Pallagi held several management positions at General Motors Corporation, including Executive Director of Human Resources of Global Manufacturing and Labor Relations from 2005 through 2010. He holds a Bachelor of Science in Business Administration from Western Michigan University.

Robert M. Tykal

Mr. Tykal is the Company s Senior Vice President of North American Operations, a position he has held since June 2017. Prior to joining the Company, Mr. Tykal was the Vice President of Global Operations for Gilbarco Veeder Root at Fortive Corporation, a leading global provider of integrated technology solutions in the retail petroleum industry, from April 2013 to March 2017. Before that, Mr. Tykal was President of Jacobs Vehicle Systems of Danaher Corporation, as well as President and Chief Executive Officer of DaimlerChrysler AG/MTU Drive Shafts (MTU). Prior to joining MTU, he worked at Detroit Diesel Corporation for 18 years, where he served as Vice President and General Manager. Mr. Tykal earned his Bachelor of Science in Mechanical Engineering from Michigan State University.

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PART II

ITEM 5 - MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Performance Graph

Our common stock is traded on the New York Stock Exchange under the symbol SUP.

The following graph compares the cumulative total stockholder return from December 31, 2013 through December 31, 2018, for our common stock, the Russell 2000 and a peer group[(1)] of companies that we have selected for purposes of this comparison. We have assumed that dividends have been reinvested, and the returns of each company in the Russell 2000 and the peer group have been weighted to reflect relative stock market capitalization. The graph below assumes that $100 was invested on December 31, 2013, in each of our common stock, the stocks comprising the Russell 2000 and the stocks comprising the peer group.

	Superior Industries International, Inc.	Russel 2000	Peer Group [(1)]
2013	$ 100	$ 100	$ 100
2014	$ 100	$ 105	$ 112
2015	$ 96	$ 100	$ 103
2016	$ 141	$ 122	$ 129
2017	$ 81	$ 139	$ 151
2018	$ 27	$ 124	$ 124

(1) We do not believe that there is a single published industry or line of business index that is appropriate for comparing stockholder returns. As a result, we have selected a peer group comprised of companies as disclosed in the 2018 Proxy Statement.

Holders of Common Stock

As of March 4, 2019, there were approximately 362 holders of record of our common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In January of 2016, our Board of Directors approved a new stock repurchase program (the 2016 Repurchase Program), authorizing the repurchase of up to an additional $50.0 million of common stock. The timing and extent of the repurchases under the 2016 Repurchase Program depend upon market conditions and other corporate considerations in our sole discretion. Under the 2016 Repurchase Program, we repurchased common stock from time to time on the open market or in private transactions, totaling 454,718 shares of Company stock at a cost of $10.4 million in 2016. During 2017, we purchased an additional 215,841 shares of Company stock at a cost of $5.0 million under the 2016 Repurchase Program. We did not repurchase any shares in 2018.

Recent Sales of Unregistered Securities

Not applicable.

Securities Authorized for Issue Under Equity Compensation Plans

The information about securities authorized for issuance under Superior s equity compensation plans is included in Note 20, Stock-Based Compensation in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report and will also be included in our 2019 Proxy Statement under the caption Securities Authorized for Issuance under the Equity Compensation Plans.

ITEM 6 - SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data of this Annual Report.

Fiscal Year Ended December 31,	2018	2017	2016	2015	2014
Income Statement (000s)					
Net sales (1)	$ 1,501,827	$ 1,108,055	$ 732,677	$ 727,946	$ 745,447
Value added sales (2)	$ 797,187	$ 616,753	$ 408,690	$ 360,846	$ 369,355
Closure and impairment costs (3)	$	$ 138	$ 1,458	$ 7,984	$ 8,429
Gross profit	$ 163,527	$ 102,897	$ 86,204	$ 71,217	$ 50,222
Income from operations	$ 85,805	$ 21,518	$ 54,602	$ 36,294	$ 17,913
Consolidated income before income taxes and equity earnings	$ 32,252	$ 866	$ 54,721	$ 35,283	$ 15,702
Income tax provision (4)	$ (6,291)	$ (6,875)	$ (13,340)	$ (11,339)	$ (6,899)
Net income (loss)	$ 25,961	$ (6,009)	$ 41,381	$ 23,944	$ 8,803
Net income (loss) attributable to Superior	$ 25,961	$ (6,203)	$ 41,381	$ 23,944	$ 8,803
Adjusted EBITDA (5)	$ 185,623	$ 140,085	$ 88,511	$ 76,053	$ 55,753
Balance Sheet (000s)					
Current assets	$ 370,421	$ 417,383	$ 254,081	$ 245,820	$ 276,011
Current liabilities	$ 178,463	$ 195,059	$ 85,964	$ 73,862	$ 71,962
Working capital	$ 191,958	$ 222,324	$ 168,117	$ 171,958	$ 204,049
Total assets	$ 1,451,616	$ 1,551,252	$ 542,756	$ 539,929	$ 579,910
Long-term debt	$ 661,426	$ 679,552	$	$	$
Shareholders equity(6)	$ 373,265	$ 445,723	$ 398,226	$ 413,912	$ 439,006
Financial Ratios					
Current ratio (7)	2.1:1	2.1:1	3.0:1	3.3:1	3.8:1
Return on average shareholders equity(8)	6.3%	(1.4)%	10.2%	5.6%	1.9%

Share Data

Net income (loss)										
- Basic	$	0.29	$	(1.01)	$	1.63	$	0.90	$	0.33
- Diluted	$	0.29	$	(1.01)	$	1.62	$	0.90	$	0.33
Shareholders equity at year-end	$	14.92	$	17.89	$	15.84	$	15.86	$	16.42
Dividends declared	$	0.36	$	0.45	$	0.72	$	0.72	$	0.72

(1) Effective January 1, 2018, the Company adopted *ASU 2014-09, Topic ASC 606, Revenue from Contracts with Customers* , on a modified retrospective basis. Accordingly, periods prior to 2018 have not been adjusted.

(2) Value added sales is a key measure that is not calculated according to U.S. GAAP. See Management s Discussion and Analysis, Non-GAAP Financial Measures section of this Annual Report for a definition of value added sales and a reconciliation of value added sales to net sales, the most comparable GAAP measure.

(3) During 2016, we sold the shut-down Rogers facility for total proceeds of $4.3 million, resulting in a $1.4 million gain on sale. Prior to selling the facility, we incurred $1.5 million of further closure costs including carrying costs for the closed facility and $0.3 million in depreciation. During 2015, the shutdown of the Rogers facility resulted in a gross margin loss of $8.0 million due to $4.3 million in impairment of fixed assets and asset relocation costs, $2.0 million of carrying costs for the closed facility and $1.7 million in depreciation. The Adjusted EBITDA impact of the Rogers facility closure for 2015 was $6.3 million, which includes the $4.3 million of restructuring costs and $2.0 million of carrying costs related to the closed facility. During 2014, we had $8.4 million of restructuring costs related to the closure of the Rogers facility. The carrying costs for the closed facility are not included in the restructuring line in the Consolidated Income Statements of our Consolidated Financial Statements.

(4) See Note 15, Income Taxes in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data in this Annual Report for a discussion of material items impacting the 2018, 2017 and 2016 income tax provisions.

(5) Adjusted EBITDA is a key measure that is not calculated according to GAAP. See Management s Discussion and Analysis, Non-GAAP Financial Measures section of this Annual Report for a definition of Adjusted EBITDA and a reconciliation of our Adjusted EBITDA to net income, the most comparable GAAP measure.

(6) During 2018, $51.9 million of non-controlling interests were reclassified from shareholders equity to European non-controlling redeemable equity within mezzanine equity in our Consolidated Balance Sheet.

(7) The current ratio is current assets divided by current liabilities.

(8) Return on average shareholders equity is net income divided by average shareholders equity. Average shareholders equity is the beginning of the year shareholders equity plus the end of year shareholders equity divided by two.

ITEM 7 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report. This discussion contains forward-looking statements, which involve risks and uncertainties. Please refer to the section entitled Forward Looking Statements at the beginning of this Annual Report immediately prior to Item 1. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including but not limited to those discussed in Item 1A, Risk Factors and elsewhere in this Annual Report.

Executive Overview

Our principal business is the design and manufacture of aluminum wheels for sale to original equipment manufacturers (OEMs) in North America and Europe and aftermarket suppliers in Europe. We employ approximately 8,000 employees, operating in nine manufacturing facilities in North America and Europe with a combined annual manufacturing capacity of approximately 21 million wheels. We believe we are the #1 North American aluminum wheel manufacturer, the #3 European aluminum wheel manufacturer and the #1 European aluminum wheel aftermarket supplier. Our OEM aluminum wheels accounted for approximately 92% of our sales in 2018 and are sold for factory installation on many vehicle models manufactured by BMW-Mini, Daimler AG Company, FCA, Ford, GM, Honda, Jaguar-Land Rover, Mazda, Nissan, Renault, Peugeot, PSA, Subaru,

Suzuki, Toyota, VW Group and Volvo. We sell aluminum wheels to the European aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO. North America and Europe represent the principal markets for our products, but we have a global presence and influence with North American, European and Asian OEMs. The following chart shows our sales by customer for the years ended December 31, 2018, 2017 and 2016:

2018 was the first full year as a more diversified and globally competitive company with the addition of our European operations. Despite slightly weaker year-over-year industry production volumes in both of our regions, the overall market remained relatively strong compared to historical levels. Globally, we shipped more than 21.0 million units, compared to 17.0 million in 2017, and our European operations had sales exceeding $700 million. In the second half of the year we faced various challenges, including lower industry volumes in Europe, rising energy rates in Mexico, and launch challenges in North America as customer preferences continue to shift toward larger more sophisticated finishes and larger wheel diameter. While we continued to incur costs associated with integration of our European operations in 2018, we are focused on leveraging the best practices of both regional teams to drive operational efficiencies globally and to continue to realize the benefits of our acquisition of the European operations.

The following chart shows the comparison of our operational performance in 2018, 2017 and 2016:

Net sales in 2018 increased 36 percent to $1,501.8 million from $1,108.1 million in 2017. Net sales in 2018 benefited from a 9.8 percent increase in average selling price per wheel due to improved product mix comprised of larger diameter wheels and premium finishes, increased aluminum prices, which we generally pass on to our customers, and additional five months of our European operations. Income from operations increased in 2018 to $85.8 million from $21.5 million in 2017 due to the inclusion of an additional five months of our European operations, higher gross profit margins from improved product mix and lower integration costs, partially offset by lower second-half volumes globally and second-half production inefficiencies in North America. Our Adjusted EBITDA increased to $185.6 million in 2018 from $140.1 million in 2017, primarily due the inclusion

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of five more months of our European operations in 2018, strong first-half results in both regions, and improved product mix with larger diameter wheels, partially offset by second-half production inefficiencies in North America, lower second-half global volume, and unrealized foreign exchange gains in 2017.

In the North American market, overall production of passenger cars and light-duty trucks in 2018 decreased 0.6 percent compared to 2017 with production of light-duty trucks, which includes pick-up trucks, SUVs, vans and crossover vehicles, increasing 4.9 percent and production of passenger cars decreasing 11.1 percent. In the Western and Central European market, new vehicle production of passenger cars and light-duty trucks decreased 2.1 percent in 2018 as compared to 2017. Germany, UK, France, Italy and Spain remained the largest car markets in Europe for 2018.

The following table is a summary of the Company s operating results from 2018, 2017 and 2016:

Results of Operations

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**
(Thousands of dollars, except per share amounts)			
Net Sales			
North America	$ 800,383	$ 732,418	$ 732,677
Europe	701,444	375,637	
Net sales	1,501,827	1,108,055	732,677
Cost of sales	1,338,300	1,005,158	646,473
Gross profit	163,527	102,897	86,204
Percentage of net sales	10.9%	9.3%	11.8%
Selling, general and administrative	77,722	81,379	31,602
Income from operations	85,805	21,518	54,602
Percentage of net sales	5.7%	1.9%	7.5%
Interest (expense) income, net	(50,097)	(40,004)	245
Other (expense) income, net	(6,936)	13,188	(126)
Change in fair value of redeemable preferred stock embedded derivative	3,480	6,164	
Income tax provision	(6,291)	(6,875)	(13,340)
Consolidated net income (loss)	25,961	(6,009)	41,381
Less: net loss attributable to non-controlling interests		(194)	
Net income (loss) attributable to Superior	25,961	(6,203)	41,381
Percentage of net sales	1.7%	(0.6)%	5.6%
Diluted earnings (loss) per share	$ 0.29	$ (1.01)	$ 1.62
Value added sales (1)	797,187	616,753	408,690
Adjusted EBITDA (2)	$ 185,623	$ 140,085	$ 88,511

Percentage of net sales	12.4%	12.6%	12.1%
Percentage of value added sales	23.3%	22.7%	21.7%
Unit shipments in thousands	20,991	17,008	12,260

(1) Value added sales is a key measure that is not calculated according to GAAP. See Management s Discussion and Analysis, Non-GAAP Financial Measures section of this Annual Report for a definition of value added sales and a reconciliation of value added sales to net sales, the most comparable GAAP measure.

(2) Adjusted EBITDA is a key measure that is not calculated according to GAAP. See the Non-GAAP Financial Measures section of this Annual Report for a definition of Adjusted EBITDA and a reconciliation of our Adjusted EBITDA to net income, the most comparable GAAP measure.

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2018 versus 2017

Shipments

Wheel unit shipments were 21 million for 2018, an increase of 23.4%, compared to unit shipments of 17 million in the prior year period. The increase in unit shipments was primarily due to the inclusion of additional five months of the European operations units, which drove 4.2 million units of improvement.

Net Sales

Net sales for 2018 were $1,501.8 million, compared to net sales of $1,108.1 million in 2017. The increase was driven by the inclusion of an additional five months of our European operations in 2018, which contributed $305.0 million of the increase. Additionally, a 9.8 percent increase in our global average selling price per wheel contributed $89.0 million of the sales increase, due to increases in aluminum prices and improved product mix comprised of larger diameter wheels and premium finishes.

Cost of Sales

Cost of sales were $1,338.3 million in 2018 compared to $1,005.2 million in the prior year period. The increase in cost of sales was due mainly to the inclusion of an additional five months of the European operations. Additionally, cost of sales increased due to higher aluminum prices and increased manufacturing costs associated with larger diameter wheels, energy rates in Mexico and launch costs in North America.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2018 were $77.7 million, or 5.2 percent of net sales, compared to $81.4 million, or 7.3 percent of net sales in 2017. The decrease as a percentage of sales is primarily due to $22.4 million of reduced acquisition and integration expenses.

Net Interest Expense

Net interest expense for 2018 was $50.1 million and $40.0 million for 2017. The increase is due to the full year of interest on the acquisition debt in 2018, partially offset by a non-recurring interest cost related to the bridge loan financing for the European business acquisition incurred in 2017.

Net Other (Expense) Income

Net other expense was $(6.9) million in 2018 compared with net other income of $13.2 million in 2017. The change was primarily due to foreign exchange losses of $(1.0) million in 2018 compared to gains of $12.9 million in 2017 and $2.2 million to year-over-year changes in derivative contracts. The remaining items were of an individually insignificant nature.

Change in Fair Value of Embedded Derivative Liability

During 2018 and 2017, we recognized a $3.5 million and $6.2 million change in the fair value of our redeemable preferred stock embedded derivative liability, respectively, primarily due to the declines in our stock price experienced in the respective years.

Income Tax Provision

The income tax provision for 2018 was $6.3 million on a pre-tax income of $32.3 million primarily due to the favorable split of jurisdictional pre-tax income or loss and finalizing 2017 provisional amounts recorded for the

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enactment-date-effects of The Tax Cuts and Jobs Act (the Act). The income tax provision for 2017 was $6.9 million on pre-tax income of $0.9 million primarily due to earnings in countries with tax rates lower than the U.S. statutory rate, acquisition costs, and the effects of the Act.

Net Income (Loss) Attributable to Superior

Net income attributable to Superior in 2018 was $26.0 million, or $0.29 per diluted share, compared to a net loss in 2017 of $(6.2) million, or $(1.01) loss per diluted share.

Segment Sales and Income from Operations

	Year Ended December 31, 2018	2017	Change
(Dollars in thousands)			
Selected data			
Net Sales			
North America	$ 800,383	$ 732,418	$ 67,965
Europe	701,444	375,637	325,807
Total net sales	$ 1,501,827	$ 1,108,055	$ 393,772
Income from Operations			
North America	$ 29,702	$ 9,808	$ 19,894
Europe	56,103	11,710	44,393
Total income from operations	$ 85,805	$ 21,518	$ 64,287

North America

In 2018, net sales of our North America segment increased 9.3 percent due to an 11.1 percent increase in average selling price per wheel partially offset by a 1.7 percent decrease in volumes. The increase in average selling price per wheel, contributed $81.5 million, and was driven by higher aluminum pricing, which we generally pass through to our customers, and improved product mix comprised of larger diameter wheels and premium finishes. Unit shipments declined from 11.5 million in 2017 to 11.3 million in 2018 resulting in a $12.2 million reduction in revenue. The decline in unit shipments was primarily due to lower sales to Ford, FCA, BMW and Subaru, partially offset by increased sales to GM. North American segment sales between U.S. and Mexico was approximately 15.9 percent and 84.1 percent, respectively during 2018, which compares to 17.0 percent and 83.0 percent for 2017. The North America segment income from operations increased in 2018 due primarily to lower integration costs and favorable product mix, partially offset by increased launch and energy costs.

Europe

In 2018, net sales of our European segment increased 86.7 percent primarily due to additional 5 months of sales, which contributed $283.3 million, and a 6.5 percent increase in average selling price per wheel. The increase in average selling price per wheel, was driven by a higher aluminum pricing, which we generally pass through to our customers. European segment sales between Germany and Poland was approximately 39.9 percent and 60.1 percent, respectively, during 2018, which compares to 41.3 percent and 58.7 percent for 2017. European segment income from operations for the year ended 2018 increased consistent with increasing sales, as well as a reduction in integration related expenses from $14.8 million in 2017 to $2.4 million in 2018.

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2017 versus 2016

Net Sales

Net sales for 2017 increased $375.4 million over 2016 due to the inclusion of seven months of sales of our European operations. Overall unit shipments increased in the current year to 17.0 million from 12.3 million, an increase of 38.2 percent, which was driven by the addition of seven months unit sales for our newly acquired European operations. Net sales were also favorably impacted by an increase in the value of the aluminum component of sales, which we generally pass through to our customers. The North American average selling price per wheel increased by 6.8 percent during 2017 in comparison to 2016 due mainly to favorable mix with a higher percentage of larger diameter wheels and the increase in aluminum prices.

Cost of Sales

Cost of sales increased significantly in 2017 due to the inclusion of seven months of costs of our newly acquired European operations. In addition, an increase in aluminum costs resulted in higher cost of sales in our North American operations, which is typically passed through to the customer.

Selling, General and Administrative Expenses

Selling, general and administrative expenses also increased significantly in 2017 in comparison to 2016 due to the inclusion of seven months of our European operations and $32.1 million of acquisition and integration expenses related to the acquisition of Uniwheels.

Net Interest Expense

Net interest expense for 2017 was $40.0 million, while the Company recognized $0.2 million of net interest income in 2016. Interest expense increased in 2017 due to the new debt issued to finance the acquisition of Uniwheels.

Net Other Income

Net other income was $13.2 million in 2017 compared with net other expense of $0.1 million in 2016. The significant increase was due in part to foreign exchange gains of $12.9 million in 2017 (including an acquisition-related foreign exchange gain of $8.2 million), as compared to foreign exchange losses of $0.4 million in 2016. We also recognized a $0.5 million gain on sale of our minority interest in Synergies Casting Limited, a private aluminum wheel manufacturer based in Visakhapatnam, India.

Change in Fair Value of Embedded Derivative Liability

During 2017, we recognized a $6.2 million change in the fair value of our redeemable preferred stock embedded derivative liability. The beginning fair value of the embedded derivative liability was measured as of the date of issuance, May 22, 2017. During the third and fourth quarter, the fair value of the embedded derivative liability decreased, primarily due to the decline in our stock price.

Income Tax Provision

The income tax provision for 2017 was $6.9 million on a pre-tax income of $0.9 million due primarily to the split of jurisdictional pre-tax income or loss, certain non-deductible acquisition costs related to the Uniwheels acquisition, and provisional estimates recorded for the transition tax on offshore earnings and a deferred tax expense. The deferred tax expense resulted from the reduction of our deferred tax assets due to the change in the statutory federal income tax rate from 35% to 21% for years subsequent to 2017, based on the newly enacted U.S. Tax Cuts and Jobs Act (The Act). The income tax provision for 2016 was $13.3 million, representing an effective income tax rate of 24.4 percent. The effective tax rate for 2016 was lower than the statutory rate due to earnings in countries with tax rates lower than the U.S. statutory rate.

Net Income Attributable to Superior

Net loss attributable to Superior in 2017 was $6.2 million, or a loss of $1.01 per diluted share, compared to net income in 2016 of $41.4 million, or $1.62 per diluted share. The decrease in 2017 diluted per share was mainly driven by the acquisition costs, integration costs, interest expense, accretion on preferred equity, and the dividends that were issued to the preferred equity holder.

Segment Sales and Income from Operations

	Year Ended December 31,		
	2017	2016	Change
(Dollars in thousands)			
Selected data			
Net Sales			
North America	$ 732,418	$ 732,677	$ (259)
Europe	375,637		375,637
Total net sales	$ 1,108,055	$ 732,677	$ 375,378
Income from Operations			
North America	$ 9,808	$ 54,602	$ (44,794)
Europe	11,710		11,710
Total income from operations	$ 21,518	$ 54,602	$ (33,084)

North America

Due to the acquisition of our European operations on May 30, 2017, we will provide geographical segment analysis for the 2017 and 2016 results of operations discussion and analysis rather than the geographical discussion that was provided in 2016. In 2017, net sales of our North America segment remained at a consistent level despite a 6.4 percent decrease in volume due to a 6.8 percent increase in average unit selling price. Unit shipments declined from 12.3 million in 2016 to 11.5 million in 2017 resulting in a $47.0 million reduction in revenue which was fully offset by the increase in average selling price. The decline in volume resulted from lower unit sales with Ford, GM and FCA, partially offset by increased sales at Nissan and Subaru. The increase in average selling price was driven by an increase in the value of the aluminum component of sales, which we generally pass through to our customers, and our value added sales. The split between U.S. and Mexico sales were approximately 17.0 percent and 83.0 percent, respectively during 2017, which compares to 16.4 percent and 83.6 percent for 2016.

The North America segment income from operations decreased in 2017 due to nonrecurring costs and production inefficiencies. During 2017, the Company incurred $29.5 million of additional costs relating to the acquisition and integration of the European operations. We continued to invest in our machinery through higher levels of maintenance than in past years to alleviate the production issues that we have experienced since the second quarter of 2016.

Europe

We acquired the Uniwheels business on May 30, 2017, which comprises our European operations. As a result, we have included seven months of our European operations in our consolidated statement of operations for 2017. The European operations sales increased over the same seven-month period last year by 18.6 percent. Income from operations for this period included purchase accounting adjustments of $14.8 million related to inventory, and other expenses related to the acquisition and integration of the business.

Financial Condition, Liquidity and Capital Resources

Our sources of liquidity primarily include cash, cash equivalents and short-term investments, net cash provided by operating activities, our senior notes and borrowings under available debt facilities and, factoring arrangements for trade receivables and, from time to time, other external sources of funds. Working capital (current assets minus current liabilities) and our current ratio (current assets divided by current liabilities) were $192.0 million and 2.1:1, respectively, at December 31, 2018, versus $222.3 million and 2.1:1 at December 31, 2017. As of December 31, 2018, our cash, cash equivalents and short-term investments totaled $48.2 million compared to $47.1 million at December 31, 2017.

Our working capital requirements, investing activities and cash dividend payments have historically been funded from internally generated funds, debt facilities, cash equivalents and short-term investments, and we believe these sources will continue to meet our capital requirements in the foreseeable future.

In connection with the acquisition of our European business, we entered into several debt and equity financing arrangements during 2017. On March 22, 2017, we entered into a senior secured credit agreement (the Credit Agreement) consisting of a $400.0 million senior secured term loan facility (the Term Loan Facility) and a $160.0 million revolving credit facility. On May 22, 2017, we issued 150,000 shares of redeemable preferred stock to TPG Superior and TPG Growth III Sidewall, L.P. (TPG) for an aggregate purchase price of $150.0 million. On June 15, 2017, we issued 250.0 million aggregate principal amount of 6.00% Senior Notes (the Notes) due June 15, 2025. In addition, as a part of our European business acquisition, we assumed $70.7 million of outstanding debt. At December 31, 2018, balances outstanding under the Term Loan Facility, Notes, and an equipment loan were $382.8 million, $286.1 million, $16.0 million, respectively. There was no balance outstanding under the revolving credit facility at December 31, 2018 and unused commitments were $156.6 million. In addition, there was 30 million Euro available under our European business line of credit as of December 31, 2018.

The following table summarizes the cash flows from operating, investing and financing activities as reflected in the consolidated statements of cash flows.

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**
(Thousands of dollars)			
Net cash provided by operating activities	$ 156,116	$ 63,710	$ 78,491
Net cash used in investing activities	(77,097)	(777,614)	(35,038)
Net cash (used in) provided by financing activities	(76,338)	701,107	(37,327)
Effect of exchange rate changes on cash	(1,577)	1,371	(376)
Net increase (decrease) in cash and cash equivalents	$ 1,104	$ (11,426)	$ 5,750

2018 versus 2017

Operating Activities

Net cash provided by operating activities was $156.1 million in 2018 and $63.7 million in 2017. The increase in cash flow provided by operating activities was mainly due to the inclusion of a full year of our European operations in 2018 as compared to 7 months in 2017, improved working capital management and the introduction of receivables factoring program in North America, which generated $30.1 million of operating cash flows in the year.

Investing Activities

Net cash used in investing activities was $77.1 million in 2018 compared to $777.6 million in 2017. Net cash used in investing activities was higher in 2017 due to our European business acquisition in 2017.

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Financing Activities

Net cash used in financing activities was $76.3 million compared to net cash provided by financing activities of $701.1 million in 2017. Net cash provided by financing activities was higher in 2017 due to the issuance of debt to finance the European business acquisition.

2017 versus 2016

Operating Activities

Net cash provided by operating activities was $63.7 million in 2017, compared to net cash provided by operating activities of $78.5 million for 2016. The decrease in cash flow provided by operating activities was mainly due to lower net income primarily due to the acquisition of Uniwheels and integration related fees, and an increase in inventory partially offset by increases in trade payables.

Investing Activities

Net cash used in investing activities was $777.6 million in 2017 compared to $35.0 million in 2016. Net cash used in investing activities was higher in 2017 primarily due to the Uniwheels acquisition.

Financing Activities

Net cash provided by financing activities was $701.1 million in 2017 compared to net cash used in financing activities of $37.3 million in 2017. Net cash provided by financing activities was higher in 2017 due to debt issued to finance the Uniwheels acquisition.

Contractual Obligations

Contractual obligations as of December 31, 2018 are as follows (amounts in millions):

	Payments Due by Fiscal Year						
Contractual Obligations	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Long-term debt	$ 3.1	$ 3.1	$ 3.9	$ 7.1	$ 7.1	$ 660.6	$ 684.9
Retirement plans	1.4	1.5	1.5	1.5	1.5	42.0	49.4
Purchase obligations	9.9						9.9
Capital leases	0.5	0.2	0.2	0.2	0.2		1.3
Operating leases	4.2	3.2	2.9	2.6	2.3	7.8	23.0
Total	$ 19.1	$ 8.0	$ 8.5	$ 11.4	$ 11.1	$ 710.4	$ 768.5

The table above does not reflect unrecognized tax benefits and related interest and penalties of $34.3 million, for which the timing of settlement is uncertain, $8.8 million liability for derivative financial instruments maturing in 2019 through 2022 nor the redeemable preferred stock embedded derivative liability of $3.1 million. In addition, the table does not include dividend payments due quarterly nor the redemption value of the redeemable preferred stock in 2025.

Off-Balance Sheet Arrangements

As of December 31, 2018, we had no significant off-balance sheet arrangements other than factoring of $53.8 million of our trade receivables.

NON-GAAP FINANCIAL MEASURES

In this Annual Report, we discuss two important measures that are not calculated according to U.S. GAAP, value added sales and Adjusted EBITDA.

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Value added sales is a key measure that is not calculated according to GAAP. In the discussion of operating results, we provide information regarding value added sales. Value added sales represents net sales less the value of aluminum and services provided by outsourced service providers (OSPs) that are included in net sales. As discussed further below, arrangements with our customers allow us to pass on changes in aluminum prices and OSP costs; therefore, fluctuations in underlying aluminum price and the use of OSPs generally do not directly impact our profitability. Accordingly, value added sales is worthy of being highlighted for the benefit of users of our financial statements. Our intent is to allow users of the financial statements to consider our net sales information both with and without the aluminum and OSP cost components thereof. Management utilizes value added sales as a key metric to determine growth of the Company because it eliminates the volatility of aluminum prices.

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**	**2015**	**2014**
(Thousands of dollars)					
Net Sales	$ 1,501,827	$ 1,108,055	$ 732,677	$ 727,946	$ 745,447
Less, aluminum value and OSP	(704,640)	(491,302)	(323,987)	(367,100)	(376,092)
Value added sales	$ 797,187	$ 616,753	$ 408,690	$ 360,846	$ 369,355

Adjusted EBITDA is a key measure that is not calculated according to GAAP. Adjusted EBITDA is defined as earnings before interest income and expense, income taxes, depreciation, amortization, restructuring charges and other closure costs and impairments of long-lived assets and investments, changes in fair value of redeemable preferred stock embedded derivative liability, acquisition and integration costs, CEO separation related costs, and AR factoring fees. We use Adjusted EBITDA as an important indicator of the operating performance of our business. Adjusted EBITDA is used in our internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our Board of Directors and evaluating short-term and long-term operating trends in our operations. We believe the Adjusted EBITDA financial measure assists in providing a more complete understanding of our underlying operational measures to manage our business, to evaluate our performance compared to prior periods and the marketplace and to establish operational goals. Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies.

The following table reconciles our net income, the most directly comparable GAAP financial measure, to our Adjusted EBITDA:

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**	**2015**	**2014**
(Thousands of dollars)					
Net income (loss)	$ 25,961	$ (6,009)	$ 41,381	$ 23,944	$ 8,803
Interest expense (income), net	50,097	40,004	(245)	(103)	(1,095)
Income tax provision	6,291	6,875	13,340	11,339	6,899
Depreciation [1]	68,753	54,167	34,261	34,530	35,582
Amortization	26,303	15,168			
Acquisition, integration and CEO separation costs and factoring fees [2]	11,698	35,906			
	(3,480)	(6,164)			

Change in fair value of redeemable preferred stock embedded derivative liability [3]					
Closure costs (excluding accelerated depreciation) [4]		138	1,210	6,343	5,564
Gain on sale of facility [4]			(1,436)		
Adjusted EBITDA	$ 185,623	$ 140,085	$ 88,511	$ 76,053	$ 55,753
Adjusted EBITDA as a percentage of net sales	12.4%	12.6%	12.1%	10.4%	7.5%
Adjusted EBITDA as a percentage of value added sales	23.3%	22.7%	21.7%	21.1%	15.1%

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(1) Depreciation expense in 2016 and 2015 includes $0.2 million and $1.7 million, respectively, of accelerated depreciation charges as a result of shortened estimated useful lives due to restructuring activities.

(2) In 2018, we incurred approximately $9.7 million in integration costs, $1.5 million of CEO separation costs and $0.5 million of AR factoring fees. In 2017, we incurred $25.1 million of costs related to the acquisition of Uniwheels and $10.8 million in integration costs.

(3) The change in the fair value is mainly driven by the change in our stock price from the original valuation date in May 2017. Refer to Note 12, Redeemable Preferred Stock in the Notes to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data in this Annual Report.

(4) In the fourth quarter of 2016, we sold the Rogers facility for total proceeds of $4.3 million, resulting in a $1.4 million gain on sale. Prior to the sale in 2016, Rogers incurred $1.5 million in closure and operating costs, which included $0.3 million in depreciation. The Rogers facility Adjusted EBITDA was a negative $0.2 million in 2016 due to the $1.4 million gain on sale. During 2015, we had completed the shutdown of the Rogers facility which resulted in a gross margin loss of $8.0 million due to $4.3 million in impairment of fixed assets, $2.0 million of further closure costs and $1.7 million in depreciation. The Adjusted EBITDA impact of the Rogers facility closure for 2015 was $6.3 million, which includes the $4.3 million of restructuring costs and $2.0 million of inefficiency costs related to the closure. During 2014, we recorded $3.1 million of restructuring costs excluding accelerated depreciation and we impaired an investment by $2.5 million.

Critical Accounting Policies and Estimates

Accounting estimates are an integral part of the consolidated financial statements. These estimates require the use of judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in the periods presented. We believe the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in developing estimates actual results could differ from the original estimates, requiring adjustments to these balances in future periods. Refer to Note 1 to our consolidated financial statements for our significant accounting policies related to our critical accounting estimates.

Wheel Revenue Recognition - Sales of our products and related costs are recognized when control transfers to the customer, generally upon shipment. Tooling reimbursement revenues, related to initial tooling reimbursed by our customers, are deferred and recognized over the expected life of the wheel program on a straight-line basis. A portion of our selling prices to OEM customers is attributable to the aluminum content of our wheels. Our selling prices are adjusted for changes in the current aluminum market based upon specified aluminum price indices during specific pricing periods, as agreed with our customers. Our selling prices also incorporate a wheel weight price component which is based on customer product specifications. Weights are monitored, and prices are adjusted as variations arise. Customer contract prices are generally adjusted quarterly to incorporate these retroactive price adjustments. Price adjustments due to production efficiencies are generally recognized as and when negotiated with customers.

Redeemable Preferred Stock Embedded Derivative - In addition to derivative financial instruments used in hedging activities, we issued redeemable preferred stock as a part of the financing for the acquisition of our European business. The redeemable preferred stock includes embedded derivatives relating to the conversion and early redemption options. Accordingly, we have recorded an embedded derivative liability representing the combined fair value of the right of holders to receive common stock upon conversion of redeemable preferred stock at any time (the conversion option) and the right of the holders to exercise their early redemption option upon the occurrence of a redemption event (the early redemption option). The embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in the Change in fair value of redeemable preferred stock embedded derivative liability financial statement line item of the Company s Consolidated Income Statement.

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A binomial option pricing model is used to estimate the fair value of the conversion and early redemption options embedded in the redeemable preferred stock. The binomial model utilizes a decision tree whereby future movement in the Company s common stock price is estimated based on the volatility factor. The binomial options pricing model requires the development and use of assumptions. These assumptions include estimated volatility of the value of our common stock, assumed possible conversion or early redemption dates, an appropriate risk-free interest rate, risky bond rate and dividend yield. See Note 5, Derivative Financial Instruments in the Notes to Consolidated Financial Statements in Item 8 for additional information pertaining to these embedded derivatives.

Fair Value Measurements - The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis, while other assets and liabilities are measured at fair value on a nonrecurring basis, such as when we have an asset impairment. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs that are generally unobservable and typically reflect management s estimate of assumptions that market participants would use in pricing the asset or liability.

Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, commodity prices and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. In certain cases, market data may not be available, and we may use broker quotes and models (e.g., Black-Scholes) to determine fair value. This includes situations where there is lack of liquidity for a particular currency or commodity or when the instrument is longer dated. The fair value measurements of the redeemable preferred shares embedded derivatives are based upon Level 3 unobservable inputs reflecting management s own assumptions about the inputs used in pricing the liability - refer to Note 5, Derivative Financial Instruments in the Notes to Consolidated Financial Statements in Item 8.

Impairment of Goodwill - As of December 31, 2018 and 2017, we had recorded goodwill of $291.4 million and 304.8 million, respectively, as a result of our acquisition of our European business on May 30, 2017. Goodwill is not amortized but is tested for impairment on at least an annual basis.

We conducted the annual goodwill impairment testing as of December 31, 2018. The Company evaluated its goodwill using a quantitative approach. The identification of potential impairment involves comparing our Europe reporting unit s estimated fair value to its carrying value, including goodwill. In performing our valuation, we utilized an income approach and a market approach to determine fair value. The income approach is based on projected debt-free cash flow, which is discounted to the present value using discount factors that consider the timing and risk of cash flows. The discount rate used is the weighted average of an estimated cost of equity and of debt (weighted average cost of capital). The weighted average cost of capital is adjusted as necessary to reflect risk associated with the business of the Europe reporting unit. Business forecasts are based on estimated production volumes, product prices and expenses, including raw material cost, wages, energy and other expenses. Other significant assumptions include terminal value cash flow and growth rates, future capital expenditures and changes in future working capital requirements. The market approach is based on the observed ratios of enterprise value to earnings before interest, taxes, depreciation and amortization (EBITDA) of comparable, publicly traded companies. The market approach fair value is determined by multiplying historical and anticipated financial metrics of the Europe reporting unit by the EBITDA pricing multiples derived from the comparable, publicly traded companies. Our assessment indicated that the fair value of the European reporting unit exceeded its respective carrying value by approximately $12.2 million, or approximately 2%, which is reasonable given the relative proximity of the goodwill impairment testing date to the acquisition date, as well as the business performance since acquisition.

Retirement Plans - Subject to certain vesting requirements, our unfunded retirement plan generally provides for a benefit based on final average compensation, which becomes payable on the employee s death or upon attaining age 65, if retired. The net periodic pension cost and related benefit obligations are based on, among other things, assumptions of the discount rate and the mortality of the participants. The net periodic pension costs and related obligations are measured using actuarial techniques and assumptions. See Note 18, Retirement Plans in the Notes to Consolidated Financial Statements in Item 8 for a description of these assumptions.

The following information illustrates the sensitivity to a change in certain assumptions of our unfunded retirement plans as of December 31, 2018. Note that these sensitivities may be asymmetrical and are specific to 2018. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown.

The effect of the indicated increase (decrease) in selected factors is shown below (in thousands):

		Increase (Decrease) in:	
Assumption	Percentage Change	Projected Benefit Obligation at December 31, 2018	2019 Net Periodic Pension Cost
Discount rate	+1.0%	$ (2,883)	$ (101)
Rate of compensation increase	+1.0%	$ 306	$ 41

Impairment of Long-Lived Assets and Investments - Management evaluates the recoverability and estimated remaining lives of long-lived assets whenever facts and circumstances suggest that the carrying value of the assets may not be recoverable or the useful life has changed. See Note 1, Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in Item 8 for further discussion of asset impairments.

Valuation of Deferred Tax Assets - The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. The assessment regarding whether a valuation allowance is required or should be adjusted is based on an evaluation of possible sources of taxable income and also considers all available positive and negative evidence factors. Our accounting for the valuation of deferred tax assets represents our best estimate of future events. Changes in our current estimates, due to unanticipated market conditions, governmental legislative actions or events, could have a material effect on our ability to utilize deferred tax assets. At December 31, 2018 total deferred tax assets were $84.6 million and valuation allowances against those deferred tax assets were $16.6 million. Refer to Note 15 to our consolidated financial statements for additional information.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency. We have business operations in the United States, Mexico, Germany and Poland. As a result, we have a certain degree of market risk with respect to our cash flows due to changes in foreign currency exchange rates when transactions are denominated in currencies other than our functional currency, including inter-company transactions.

In accordance with our corporate risk management policies, we may enter into foreign currency forward, swap and option contracts with financial institutions to mitigate foreign currency exposures associated with certain existing assets and liabilities, firmly committed transactions and forecasted future cash flows. We have implemented a program to hedge a portion of our Peso, Zloty and Euro foreign exchange exposure, for up to approximately 48 months. We do not use derivative contracts for trading, market-making, or speculative purposes. For additional information on our derivatives, see Note 5, Derivative Financial Instruments in the Notes to Consolidated Financial Statements in Item 8.

At December 31, 2018, the net fair value liability of foreign currency exchange derivatives with an aggregate notional value of $513.1 million was $3.1 million. The potential loss in fair value of such financial instruments from a 10 percent adverse change in quoted foreign currency exchange rates would be $51.7 million at December 31, 2018.

In addition to operational foreign currency exposure, we have issued notes with a face value of 250 million maturing June 15, 2025. We have entered into a cross currency swap with a notional value of $12.2 million to hedge a portion of the foreign currency exposure relating to this debt. At December 31, 2018, the fair value liability associated with this swap was $ 0.2 million. The potential loss in fair of this instrument from a 10 percent adverse change in the quoted foreign currency exchange rates would be $29.4 million.

Commodity Price Risk. When market conditions warrant, we may enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. Our OEM customer contracts generally provide for price adjustment based on fluctuations in aluminum costs, however our European aftermarket customer contracts do not include such price adjustments. As a consequence, our European business has entered into forward contracts to hedge price fluctuations in its aluminum raw materials for the aftermarket business. At December 31, 2018, the fair value liability of forward contracts for aluminum with a notional value of $10.8 million was $0.9 million. The potential loss in fair value for such financial instruments from a 10 percent adverse change in aluminum prices would be $1.1 million at December 31, 2018.

Interest Rate Risk. At December 31, 2018, approximately $382.8 million of our debt bears interest at variable rates, currently 6.3 percent. A 100 basis point change in our rate would result in an increase or decrease of $3.8 million. We have entered into interest rate swaps exchanging floating for fixed rate interest payments in order to reduce interest rate volatility. As of December 31, 2018, we have executed interest rate swaps for $90.0 million, maturing $25.0 million March 31, 2019, $30.0 million September 30, 2019, and $35.0 million December 31, 2019. In addition, on January 10, 2019 we entered into additional interest rate swaps for $200 million, maturing $50 million September 30, 2022 and $150 million December 31, 2022. In the future, we may again enter into interest rate swaps to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to the Consolidated Financial Statements of Superior Industries International, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Superior Industries International, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Superior Industries International, Inc. and subsidiaries (the Company) as of December 31, 2018 and December 31, 2017, the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows, for each of the three years in the periods ended December 31, 2018, December 31, 2017, and December 25, 2016, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the periods ended December 31, 2018, December 31, 2017, and December 25, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2019, expressed an unqualified opinion on the Company s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Detroit, Michigan

March 7, 2019

We have served as the Company s auditor since 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Superior Industries International, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Superior Industries International, Inc. and subsidiaries (the Company) as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2018, of the Company and our report dated March 7, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Detroit, Michigan

March 7, 2019

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED INCOME STATEMENTS

(Dollars in thousands, except per share data)

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**
NET SALES	$ 1,501,827	$ 1,108,055	$ 732,677
Cost of sales:			
Cost of sales	1,338,300	1,005,020	645,015
Restructuring costs		138	1,458
Total cost of sales	1,338,300	1,005,158	646,473
GROSS PROFIT	163,527	102,897	86,204
Selling, general and administrative expenses	77,722	81,379	31,602
INCOME FROM OPERATIONS	85,805	21,518	54,602
Interest (expense) income, net	(50,097)	(40,004)	245
Other (expense) income, net	(6,936)	13,188	(126)
Change in fair value of redeemable preferred stock embedded derivative liability	3,480	6,164	
CONSOLIDATED INCOME BEFORE INCOME TAXES	32,252	866	54,721
Income tax provision	(6,291)	(6,875)	(13,340)
CONSOLIDATED NET INCOME (LOSS)	25,961	(6,009)	41,381
Less: Net (income) attributable to non-controlling interest		(194)	
NET INCOME (LOSS) ATTRIBUTABLE TO SUPERIOR	$ 25,961	$ (6,203)	$ 41,381
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SUPERIOR BASIC	$ 0.29	$ (1.01)	$ 1.63
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO SUPERIOR DILUTED	$ 0.29	$ (1.01)	$ 1.62

The accompanying notes are an integral part of these consolidated financial statements.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**
Net income (loss) attributable to Superior	$ 25,961	$ (6,203)	$ 41,381
Other comprehensive (loss) income, net of tax:			
Foreign currency translation (loss) gain	(23,924)	29,822	(16,904)
Change in unrecognized gains (losses) on derivative instruments:			
Change in fair value of derivatives	7,221	14,067	(11,062)
Tax (provision) benefit	(1,928)	(6,464)	4,250
Change in unrecognized gains (losses) on derivative instruments, net of tax	5,293	7,603	(6,812)
Defined benefit pension plan:			
Actuarial gains (losses) on pension obligation, net of curtailments and amortization	2,924	(1,931)	799
Tax (provision) benefit	(667)	310	(295)
Pension changes, net of tax	2,257	(1,621)	504
Other comprehensive (loss) income, net of tax	(16,374)	35,804	(23,212)
Comprehensive income attributable to Superior	$ 9,587	$ 29,601	$ 18,169

The accompanying notes are an integral part of these consolidated financial statements.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

Fiscal Year Ended December 31,	**2018**	**2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,464	$ 46,360
Short-term investments	750	750
Accounts receivable, net	104,649	160,167
Inventories, net	175,578	173,999
Income taxes receivable	6,791	6,929
Other current assets	35,189	29,178
Total current assets	370,421	417,383
Property, plant and equipment, net	532,767	536,686
Non-current deferred income tax assets, net	42,105	54,302
Goodwill	291,434	304,805
Intangibles, net	168,369	203,473
Other non-current assets	46,520	34,603
Total assets	$ 1,451,616	$ 1,551,252
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 107,274	$ 118,424
Short-term debt	3,052	4,000
Accrued expenses	65,662	68,786
Income taxes payable	2,475	3,849
Total current liabilities	178,463	195,059
Long-term debt (less current portion)	661,426	679,552
Embedded derivative liability	3,134	4,685
Non-current income tax liabilities	9,046	5,731
Non-current deferred income tax liabilities, net	18,664	28,539
Other non-current liabilities	49,306	47,269
Commitments and contingent liabilities (Note 22)		
Mezzanine equity:		
Preferred stock, $0.01 par value		
Authorized - 1,000,000 shares		
Issued and outstanding - 150,000 shares outstanding at December 31, 2018 and December 31, 2017	144,463	144,694
European non-controlling redeemable equity	13,849	

Shareholders equity:		
Common stock, $0.01 par value		
Authorized - 100,000,000 shares		
Issued and outstanding - 25,019,237 and 24,917,025 shares at December 31, 2018 and December 31, 2017)	87,723	89,755
Accumulated other comprehensive loss	(105,495)	(89,121)
Retained earnings	391,037	393,146
Superior shareholders equity	373,265	393,780
Non-controlling interests		51,943
Total shareholders equity	373,265	445,723
Total liabilities, mezzanine equity and shareholders equity	$ 1,451,616	$ 1,551,252

The accompanying notes are an integral part of these consolidated financial statements.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars in thousands, except per share data)

	Common Stock		Accumulated Other Comprehensive Income (Loss)				
	Number of Shares	Amount	Unrecognized Gains (Losses) on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2015	26,098,895	$ 88,108	$ (9,289)	$ (4,140)	$ (88,284)	$ 427,517	$ 413,912
Net income						41,381	41,381
Change in unrecognized gains/losses on derivative instruments, net of tax			(6,812)				(6,812)
Change in employee benefit plans, net of taxes				504			504
Net foreign currency translation adjustment					(16,904)		(16,904)
Stock options exercised	86,908	1,641					1,641
Common stock issued, net of shares withheld for employee taxes	(1,165)						
Stock-based compensation		3,618					3,618
Tax impact of stock options		92					92
Common stock repurchased	(1,040,688)	(3,543)				(17,176)	(20,719)
Cash dividends declared ($0.72 per share)						(18,487)	(18,487)
BALANCE AT DECEMBER 31, 2016	25,143,950	$ 89,916	$ (16,101)	$ (3,636)	$ (105,188)	$ 433,235	$ 398,226

The accompanying notes are an integral part of these consolidated financial statements.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars in thousands, except per share data)

	Common Stock		Accumulated Other Comprehensive Income (Loss)					
	Number of Shares	Amount	Unrecognized Gains (Losses) on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment	Retained Earnings	Non-Controlling Interest	Total
BALANCE AT DECEMBER 31, 2016	25,143,950	$ 89,916	$ (16,101)	$ (3,636)	$ (105,188)	$ 433,235	$	$ 398,226
Consolidated net income (loss)						(6,203)	194	(6,009)
Change in unrecognized gains/losses on derivative instruments, net of tax			7,603					7,603
Change in employee benefit plans, net of taxes				(1,621)				(1,621)
Net foreign currency translation adjustment					29,822		4,267	34,089
Stock options exercised	2,000	41						41
Common stock issued, net of shares withheld for employee taxes	(13,084)							
Stock-based compensation		889						889
Common stock repurchased	(215,841)	(777)				(4,237)		(5,014)
Cash dividends declared						(10,737)		(10,737)
($0.45 per share)								
Redeemable preferred dividend						(18,912)		(18,912)

and accretion								
Non-controlling interest							63,200	63,200
Uniwheels additional tenders		(314)					(15,718)	(16,032)
BALANCE AT DECEMBER 31, 2017	24,917,025	$ 89,755	$ (8,498)	$ (5,257)	$ (75,366)	$ 393,146	$ 51,943	$ 445,723

The accompanying notes are an integral part of these consolidated financial statements.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars in thousands, except per share data)

(Unaudited)	Common Stock		Accumulated Other Comprehensive (Loss) Income					
	Number of Shares	Amount	Unrecognized Gains (Losses) on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment	Retained Earnings	Non-controlling Interest	Total
BALANCE AT DECEMBER 31, 2017	24,917,025	$ 89,755	$ (8,498)	$ (5,257)	$ (75,366)	$ 393,146	$ 51,943	$ 445,723
Net income						25,961		25,961
Change in unrecognized gains/losses on derivative instruments, net of tax			5,293					5,293
Change in employee benefit plans, net of taxes				2,257				2,257
Net foreign currency translation adjustment					(23,924)			(23,924)
Stock options exercised	4,500	68						68
Common stock issued, net of shares withheld for employee taxes	97,712							
Stock-based compensation		1,525						1,525
Cash dividends declared ($0.36 per share)						(9,353)		(9,353)
Redeemable preferred dividend and accretion						(32,462)		(32,462)
Preferred stock modification						15,257		15,257

Reclassification to European non-controlling redeemable equity							(51,943)	(51,943)
Adjust European non-controlling redeemable equity to redemption value		(3,625)						(3,625)
European non-controlling redeemable equity dividend						(1,512)		(1,512)
BALANCE AT DECEMBER 31, 2018	25,019,237	$ 87,723	$ (3,205)	$ (3,000)	$ (99,290)	$ 391,037	$	$ 373,265

The accompanying notes are an integral part of these consolidated financial statements.

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

Fiscal Year Ended December 31,	**2018**	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 25,961	$ (6,009)	$ 41,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	95,056	69,335	34,261
Income tax, non-cash changes	(1,048)	(3,395)	(4,669)
Stock-based compensation	2,131	2,576	3,618
Debt amortization	3,868	7,328	
Other non-cash items	5,733	1,133	812
Changes in operating assets and liabilities:			
Accounts receivable	42,829	4,599	8,043
Inventories	(6,125)	(1,264)	(22,339)
Other assets and liabilities	(7,732)	(8,214)	6,244
Accounts payable	(9,132)	1,411	15,880
Income taxes	4,575	(3,790)	(4,740)
NET CASH PROVIDED BY OPERATING ACTIVITIES	156,116	63,710	78,491
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(77,697)	(70,937)	(39,575)
Acquisition of Uniwheels, net of cash acquired		(706,733)	
Proceeds from sales and maturities of investments	600		200
Proceeds from sales of fixed assets		56	4,337
NET CASH USED IN INVESTING ACTIVITIES	(77,097)	(777,614)	(35,038)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt		975,571	
Proceeds from issuance of redeemable preferred shares		150,000	
Debt repayment	(7,936)	(323,177)	
Cash dividends paid	(28,816)	(19,473)	(18,340)
Purchase of non-controlling redeemable shares	(39,048)		
Cash paid for common stock repurchase		(5,014)	(20,719)
Payments related to tax withholdings for stock-based compensation	(606)	(1,687)	
Net decrease in short term debt		(10,877)	
Proceeds from borrowings on revolving credit facility	324,450	71,750	
Repayments of borrowings on revolving credit facility	(324,450)	(100,650)	
Proceeds from exercise of stock options	68	41	1,641
Redeemable preferred shares issuance costs		(3,737)	

Financing costs paid		(31,640)	
Excess tax benefits from exercise of stock options			91
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(76,338)	701,107	(37,327)
Effect of exchange rate changes on cash	(1,577)	1,371	(376)
Net increase (decrease) in cash and cash equivalents	1,104	(11,426)	5,750
Cash and cash equivalents at the beginning of the period	46,360	57,786	52,036
Cash and cash equivalents at the end of the period	$ 47,464	$ 46,360	$ 57,786

The accompanying notes are an integral part of these consolidated financial statements.

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Superior Industries International, Inc. (referred to herein as the Company or we, us and our) designs and manufactu aluminum wheels for sale to original equipment manufacturers (OEMs) and aftermarket customers. We are one of the largest suppliers of cast aluminum wheels to the world s leading automobile and light truck manufacturers, with manufacturing operations in the United States, Mexico, Germany and Poland. Our OEM aluminum wheels are sold primarily for factory installation, as either standard equipment or optional equipment, on vehicle models manufactured by BMW-Mini, Daimler AG Company (Mercedes-Benz, AMG, Smart), FCA, Ford, GM, Honda, Jaguar-Land Rover, Mazda, Mitsubishi, Nissan, PSA, Subaru, Suzuki, Toyota, VW Group (Volkswagen, Audi, Skoda, Porsche, Bentley) and Volvo. We also sell aluminum wheels to the European aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO. North America and Europe represent the principal markets for our products, but we have a global presence and influence with North American, European and Asian OEMs. We have determined that our North American and European operations should be treated as separate operating segments as further described in Note 6, Business Segments.

Presentation of Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions are eliminated in consolidation.

Accounting estimates are an integral part of the consolidated financial statements. These estimates require the use of judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in the periods presented. We believe that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, certificates of deposit, fixed deposits and money market funds with original maturities of three months or less. Certificates of deposit and fixed deposits whose original maturity is greater than three months and is one year or less are classified as short-term investments. At December 31, 2018 and 2017, certificates of deposit totaling $0.8 million were restricted in use (to collateralize letters of credit securing workers compensation obligations) and were classified as short-term investments on our consolidated balance sheet.

Derivative Financial Instruments and Hedging Activities

We account for our derivative instruments as either assets or liabilities and carry them at fair value. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the gain or loss on the derivative instrument (including changes in time value for forward contracts) is reported as a component of accumulated other comprehensive income or loss in shareholders equity and reclassified into income in the same period or periods during which the hedged transaction affects earnings. Derivatives that do not qualify or have not been designated as hedges are adjusted to fair value through current income. See Note 5, Derivative Financial Instruments for additional information pertaining to our derivative instruments.

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We enter into contracts to purchase certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. These contracts are considered to be derivative instruments under U.S. GAAP; however, these purchase contracts are not accounted for as derivatives because they qualify for the normal purchase normal sale exemption.

Cash Paid for Interest and Taxes and Non-Cash Investing Activities

Cash paid for interest was $43.8 million, $24.3 million and $0.3 million for the years ended December 31, 2018, 2017 and 2016. Cash paid for income taxes was $6.5 million, $11.1 million and $21.9 million for the years ended December 31, 2018, 2017 and 2016.

As of December 31, 2018, 2017 and 2016, $10.3 million, $15.1 million and $4.0 million, respectively, of equipment had been purchased but not yet paid for and are included in accounts payable and accrued expenses in our consolidated balance sheets.

Accounts Receivable

Accounts receivable primarily consists of amounts that are due and payable from our customers for the sale of aluminum wheels. We evaluate the collectability of receivables each reporting period and record an allowance for doubtful accounts representing our estimate of probable losses. Additions to the allowance are charged to bad debt expense reported in selling, general and administrative expense.

Inventory

Inventories, which are categorized as raw materials, work-in-process or finished goods, are stated at the lower of cost or net realizable value. Inventories are reviewed to determine if inventory quantities are in excess of forecasted usage or if they have become obsolete. Aluminum is the primary material component in our inventories. Currently our three primary vendors make up more than 10 percent of our aluminum purchases in 2018 and 2017.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. The cost of additions, improvements and interest during construction, if any, are capitalized. Our maintenance and repair costs are charged to expense when incurred. Depreciation is calculated generally on the straight-line method based on the estimated useful lives of the assets.

Classification	Expected Useful Life
Computer equipment	3 to 5 years
Production machinery and technical equipment	3 to 20 years
Buildings	15 to 50 years
Other equipment, operating and office equipment	3 to 20 years

When property, plant and equipment is replaced, retired or disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is recorded as a component of cost of sales or other income or expense.

Impairment of Long-Lived Assets

The carrying amount of long-lived assets and finite-lived intangible assets to be held and used in the business is evaluated for impairment when events and circumstances warrant. If the carrying amount of a long-lived asset group is considered impaired, a loss is recorded based on the amount by which the carrying amount exceeds fair value. Fair value is determined primarily using anticipated cash flows.

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Impairment of Goodwill

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our annual impairment testing as of December 31, 2018.

Foreign Currency Transactions and Translation

The assets and liabilities of foreign subsidiaries that use local currency as their functional currency are translated to U.S. dollars based on the current exchange rate prevailing at each balance sheet date and any resulting translation adjustments are included in accumulated other comprehensive income (loss). The assets and liabilities of foreign subsidiaries whose local currency is not their functional currency are remeasured from their local currency to their functional currency and then translated to U.S. dollars. Revenues and expenses are translated into U.S. dollars using the average exchange rates prevailing for each period presented.

Gains and losses arising from foreign currency transactions and the effects of remeasurement discussed in the preceding paragraph are recorded in other income (expense), net. We had foreign currency transaction gains (losses) of ($1.0) million, $12.9 million, ($0.4) million in 2018, 2017 and 2016, respectively.

Revenue Recognition

On January 1, 2018, we adopted *ASU 2014-09, Topic ASC 606, Revenue from Contracts with Customers.* Under this new standard, revenue is recognized when performance obligations under our contracts are satisfied. Generally, this occurs upon shipment when control of products transfers to our customers. At this point, revenue is recognized in an amount reflecting the consideration we expect to be entitled to under the terms of our contract.

The Company maintains long term business relationships with our OEM customers and aftermarket distributors; however, there are no definitive long-term volume commitments under these arrangements. Volume commitments are limited to near-term customer requirements authorized under purchase orders or production releases generally with delivery periods of less than a month. Sales do not involve any significant financing component since customer payment is generally due 40-60 days after shipment. Contract assets and liabilities consist of customer receivables and deferred revenues related to tooling.

At contract inception, the Company assesses goods and services promised in its contracts with customers and identifies a performance obligation for each promise to deliver a good or service (or bundle of goods or services) that is distinct. Principal performance obligations under our customer contracts consist of the manufacture and delivery of aluminum wheels, including production wheels, service wheels and replacement wheels. As a part of the manufacture of the wheels, we develop tooling necessary to produce the wheels. Accordingly, tooling costs, which are explicitly recoverable from our customers, are capitalized as preproduction costs and amortized to cost of sales over the average life of the vehicle wheel program. Similarly, customer reimbursement for tooling costs is deferred and amortized to net sales over the average life of the vehicle wheel program.

In the normal course of business, the Company s warranties are limited to product specifications and the Company does not accept product returns unless the item is defective as manufactured. Accordingly, warranty costs are treated as a cost of fulfillment subject to accrual, rather than a performance obligation. The Company establishes provisions for both estimated returns and warranties when revenue is recognized. In addition, the Company does not typically provide customers with the right to a refund but provides for product replacement.

Prices allocated to production, service and replacement wheels are based on prices established in our customer purchase orders which represent the standalone selling price. Prices for service and replacement wheels are commensurate with production wheels with adjustment for any special packaging. In addition, prices are subject to retrospective adjustment for changes in commodity prices for certain raw materials, aluminum and silicon, as well as production efficiencies and wheel weight variations from specifications used in pricing. These price adjustments are treated as variable consideration. Customer tooling reimbursement is generally based on quoted prices or cost not to exceed quoted prices.

We estimate variable consideration by using the most likely amount estimation approach. For commodity prices, initial estimates are based on the commodity index at contract inception. Changes in commodity prices are monitored and revenue is adjusted as changes in the commodity index occur. Prices incorporate the wheel weight price component based on product specifications. Weights are monitored, and prices are adjusted as variations arise. Price adjustments due to production efficiencies are generally recognized as and when negotiated with customers. Customer contract prices are generally adjusted quarterly to incorporate retroactive price adjustments.

Under the Company s policies, shipping costs are treated as a cost of fulfillment. In addition, as permitted under a practical expedient relating to disclosure of performance obligations, the Company does not disclose remaining performance obligations under its contracts since contract terms are substantially less than a year (generally less than one month). Our revenue recognition practices and related transactions and balances are further described in Note 3, Revenue.

Research and Development

Research and development costs (primarily engineering and related costs) are expensed as incurred and are included in cost of sales in the consolidated income statements. Amounts expensed during 2018, 2017 and 2016 were $5.7 million, $7.7 million and $3.8 million, respectively.

Stock-Based Compensation

We account for stock-based compensation using the estimated fair value recognition method. We recognize these compensation costs net of the applicable forfeiture rate on a straight-line basis for only those shares expected to vest over the requisite service period of the award, which is generally the vesting term of three years. We estimate the forfeiture rate based on our historical experience. See Note 20, Stock-Based Compensation for additional information concerning our stock-based compensation awards.

Income Taxes

We account for income taxes using the asset and liability method. The asset and liability method requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities. We calculate current and deferred tax provisions based on estimates and assumptions that could differ from actual results reflected on the income tax returns filed during the following years. Adjustments based on filed returns are recorded when identified in the subsequent years.

The effect on deferred taxes for a change in tax rates is recognized in income in the period that the tax rate change is enacted. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized. A valuation allowance is provided for deferred income tax assets when, in our judgment, based upon currently available information and other factors, it is more likely than not that all or a portion of such deferred income tax assets will not be realized. The determination of the need for a valuation allowance is based on an on-going evaluation of current information including, among other things, historical operating results, estimates of future earnings in different taxing jurisdictions and the expected timing of the reversals of temporary differences. We believe that the determination to record a valuation allowance to reduce a deferred income tax asset is a significant accounting estimate because it is based, among other things, on an estimate of future taxable income in the U.S. and certain other jurisdictions, which is susceptible to change and may or may not occur, and because the impact of adjusting a valuation allowance may be material.

In determining when to release the valuation allowance established against our net deferred income tax assets, we consider all available evidence, both positive and negative. Consistent with our policy, the valuation allowance against our net deferred income tax assets will not be reversed until such time as we have generated three years of cumulative pre-tax income and have reached sustained profitability, which we define as two consecutive one year periods of pre-tax income.

We account for uncertain tax positions utilizing a two-step approach to evaluate tax positions. Step one, recognition, requires evaluation of the tax position to determine if based solely on technical merits it is more likely than not to be sustained upon examination. Step two, measurement, is addressed only if a position is more likely than not to be sustained. In step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more-likely-than-not to be realized upon ultimate settlement with tax authorities. If a position does not meet the more-likely-than-not threshold for recognition in step one, no benefit is recorded until the first subsequent period in which the more likely than not standard is met, the issue is resolved with the taxing authority, or the statute of limitations expires. Positions previously recognized are derecognized when we subsequently determine the position no longer is more likely than not to be sustained. Evaluation of tax positions, their technical merits, and measurements using cumulative probability are highly subjective management estimates. Actual results could differ materially from these estimates.

Presently, we have not recorded a deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in duration. These temporary differences may become taxable upon a repatriation of earnings from the subsidiaries or a sale or liquidation of the subsidiaries. At this time the Company does not have any plans to repatriate income from its foreign subsidiaries.

New Accounting Standards

Adoption of New Accounting Standards

Accounting Standards Update (ASU) 2014-09, Topic 606, Revenue Revenue from Contracts with Customers (including all related amendments). On January 1, 2018, we adopted Revenue from Contracts with Customers and all the related amendments (the new revenue standard) using the modified retrospective method. Adoption of the new revenue standard did not have a material effect on our financial position or results of operations as the Company s method for recognizing revenue under the new revenue standard does not vary significantly from revenue recognition practices under the prior standard.

ASU 2017-12 Improvements to Hedge Accounting Activities. On January 1, 2018, we adopted the Targeted Improvements to Accounting for Hedging Activities. The principal change in accounting for hedges under this standard is that hedge ineffectiveness (for qualifying hedges subject to hedge accounting) will be recognized in other comprehensive income (rather than earnings) until the hedged item is recognized in earnings, at which point accumulated gains or losses will be recognized in earnings and classified with the underlying hedged transaction. Other than the accounting for hedge ineffectiveness, the provisions of this standard apply prospectively. Gains and losses arising from hedge ineffectiveness previously recognized in earnings have been immaterial. Accordingly, there is no cumulative balance sheet adjustment or restatement associated with adoption of this standard.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. We adopted this standard as of January 1, 2018. The objective of the ASU is to address the diversity in practice in the presentation of certain cash receipts and cash payments in the statement of cash flows. Adoption of this standard did not have a material effect on our statements of cash flows for the years ended 2018, 2017, or 2016.

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued this standard to improve the reporting of net benefit cost in the financial statements. We adopted this standard as of January 1, 2018. Adoption of this standard did not have a material effect on our results of operations.

ASU 2017-01, Clarifying the Definition of a Business. We have adopted this standard as of January 1, 2018 on a prospective basis as required. The objective of the ASU is to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Adoption of this standard did not have a material effect on our financial condition or results of operations since we have no imminent acquisitions or disposals.

ASU 2016-16, Intra-Entity Transfers of Assets Other than Inventory. The objective of the ASU is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This standard was adopted January 1, 2018 and did not have a material effect on our financial condition or results of operations since we have no significant intra-entity transfers other than inventory.

Accounting Standards Issued But Not Yet Adopted

ASU 2017-04, Simplifying the Test for Goodwill Impairment. The objective of the ASU is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit s goodwill with the carrying amount of that goodwill. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. We are evaluating the impact this new standard will have on our financial statements and disclosures.

ASU 2016-02, Topic 842, Leases (including all related amendments). In February of 2016, the FASB issued an ASU 2016-02, Leases (Topic 842). The ASU requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. We adopted this standard as of January 1, 2019, using the optional transition method, which resulted in capitalization of right of use assets and recognition of lease obligations of approximately $20 million. We have elected the package of practical expedients that will allow us to 1) not reassess whether existing or expired contracts contain or contained a lease; 2) not reassess the classification (operating or financing) of our existing leases; and 3) not reassess initial direct costs for existing leases; as well as the accounting policy election not to apply balance sheet recognition to leases with terms of 12 months or less. Our assessment and adoption of the new accounting standard are based on a global review of our leasing arrangements. Our lease portfolio principally includes leases of real estate, such as office buildings, and leases of personal property, such as equipment used in our manufacturing processes. We have refined our internal policies to include criteria for evaluating the impact of the new standard and related internal controls to support the requirements of the new standard. We do not anticipate that the adoption of this standard will have a significant impact on our results of operations or cash flows.

ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. In January 2018, the FASB issued ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which gives entities the option to reclassify to retained earnings the tax effects resulting from the Tax Cut and Jobs Act (the Act) related to items in accumulated other comprehensive income (AOCI) that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. The Company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The guidance, when adopted, will require new disclosures regarding a company s accounting policy for releasing the tax effects in AOCI. The Company has elected to not reclassify the income tax effects of the Tax Cut and Jobs Act from

AOCI. The Company has decided it will not prospectively implement ASU 2018-02.

ASU 2018-13, *Fair Value Measurement.* In August 2018, the FASB issued an ASU entitled Fair Value Measurement (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which is designed to improve the effectiveness of disclosures by removing, modifying and adding disclosures related to fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The ASU allows for early adoption in any interim period after issuance of the update. We are evaluating the impact this guidance will have on our notes to the consolidated financial statements.

ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans.* In August 2018, the FASB issued an ASU entitled *Compensation - Retirement Benefits - Defined Benefit Plans - General Subtopic 715-20 - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans,* which is designed to improve the effectiveness of disclosures by removing and adding disclosures related to defined benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020. The new standard allows for early adoption in any year end after issuance of the update. We are evaluating the impact this new standard will have on our financial statement disclosures.

NOTE 2 - ACQUISITION

On May 30, 2017, the Company acquired 92.3 percent of the outstanding stock of Uniwheels (now referred to as our Europe segment, Europe business , Europe operations or European operations) for approximately $703.0 million (based on an exchange rate of 1.00 U.S. dollar = 3.74193 Polish Zloty) via a tender offer. On June 30, 2017, the Company commenced the delisting and associated tender process for the remaining outstanding shares of Uniwheels. As of December 31, 2018, a total of 12,213,079 shares have been tendered and the Company now owns 98.5 percent of the outstanding shares of Uniwheels. Superior pursued a Domination and Profit and Loss Transfer Agreement (DPLTA) which became effective on January 17, 2018, with retroactive effect as of January 1, 2018. Under the DPLTA, the Company offered to purchase any further tendered shares for cash consideration of Euro 62.18, or approximately Polish Zloty 264 per share. This cash consideration may be subject to change based on appraisal proceedings that the minority shareholders of Uniwheels have initiated. Because the aggregate equity purchase price of the Acquisition (assuming an exchange rate of 1.00 U.S. dollar = 3.74193 Polish Zloty) was determined at the time of the initial tender offer, any increase in the resulting price must be reflected as a reduction of paid in capital (common stock). Upon Uniwheels shareholder approval each year beginning in 2019, The Company must pay an annual dividend of Euro 3.38 on any then outstanding shares as long as the DPLTA is in effect. For any shares tendered prior to approval of the dividend each year, the Company must pay interest at a statutory rate, currently 4.12 percent, at the time the shares are redeemed.

As a result of the effectiveness of the DPLTA as of January 1, 2018, the carrying value of the non-controlling interest related to Uniwheels common shares outstanding of $51.9 million, which was presented as a component of stockholders equity as of December 31, 2017, was reclassified to European non-controlling redeemable equity during the first quarter of 2018. The non-controlling interest shares may be tendered at any time and are, therefore, immediately redeemable and must be classified outside stockholders equity. For the period of time that the DPLTA is in effect, the non-controlling interests will continue to be presented in European non-controlling redeemable equity outside of stockholders equity in the consolidated balance sheets.

The Company s consolidated financial statements include the results of our European operations subsequent to May 30, 2017 (see Note 6, Business Segments for the more information). The Company s consolidated financial statements reflect the purchase accounting adjustments in accordance with ASC 805 Business Combinations , whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their fair values on the acquisition date.

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The following is the allocation of the purchase price:

(Dollars in thousands)	
Estimated purchase price	
Cash consideration	$ 703,000
Non-controlling interest	63,200
Preliminary purchase price allocation	
Cash and cash equivalents	12,296
Accounts receivable	60,580
Inventories	83,901
Prepaid expenses and other current assets	11,859
Total current assets	168,636
Property and equipment	259,784
Intangible assets	205,000
Goodwill	286,249
Other assets	32,987
Total assets acquired	952,656
Accounts payable	61,883
Other current liabilities	40,903
Total current liabilities	102,786
Other long-term liabilities	83,670
Total liabilities assumed	186,456
Net assets acquired	$ 766,200

Acquired intangible assets were recorded at estimated fair value, as determined through the use of the income approach, specifically the relief from royalty and multi-period excess earnings methods. The major assumptions used in arriving at the estimated identifiable intangible asset values included estimates of future cash flows, discounted at an appropriate rate of return which is based on the weighted average cost of capital for both the Company and other market participants. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to our future cash flows. The estimated fair value of intangible assets and related useful lives as included in the purchase price allocation include:

	Estimated Fair Value	**Estimated Useful Life (in Years)**

(Dollars in thousands)		
Brand name	$ 9,000	4-6
Technology	15,000	4-6
Customer relationships	167,000	7-11
Trade names	14,000	Indefinite
	$ 205,000	

Goodwill represents future economic benefits expected to be recognized from the Company s expansion into the European wheel market, as well as expected future synergies and operating efficiencies. The purchase price allocation of goodwill, which was finalized in the second quarter of 2018, yielding an amount of $286.2 million, was allocated to the Europe segment.

The following unaudited combined pro forma information is for informational purposes only. The pro forma information is not necessarily indicative of what the combined Company s results actually would have been had the acquisition been completed as of the beginning of the periods as indicated. In addition, the unaudited pro forma information does not purport to project the future results of the combined Company.

	Twelve Months Ended December 31, 2017 Proforma	December 31, 2016 Proforma
(Dollars in thousands)		
Proforma combined sales	$ 1,351,799	$ 1,246,248
Proforma net income	$ 17,692	$ 38,809

NOTE 3 - REVENUE

In accordance with ASC 606, the Company disaggregates revenue from contracts with customers into our segments, North America and Europe. Revenues by segment for the year ended December 31, 2018 are summarized in Note 6, Business Segments .

The opening and closing balances of the Company s receivables and current and long-term contract liabilities are as follows (in thousands):

	December 31, 2018	January 1, 2018	Change
Customer receivables	$ 97,566	$ 150,151	$ (52,585)
Contract liabilities current	5,810	5,736	74
Contract liabilities noncurrent	8,354	5,222	3,132

The changes in the contract liability balances primarily result from timing differences between our performance and customer payment while the decline in customer receivables is primarily due to the sale of receivables (refer to Note 23, Receivables Factoring). During the year ended December 31, 2018, the Company recognized tooling reimbursement revenue of $8.5 million, which had been deferred in prior periods and was previously included in the current portion of the contract liability (deferred revenue). During the year ended December 31, 2018, the Company recognized revenue of $2.8 million from obligations satisfied in prior periods as a result of retrospective price adjustments arising from changes in commodity prices, production efficiencies and wheel weight variations.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis, while other assets and liabilities are measured at fair value on a nonrecurring basis, such as when we have an asset impairment. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs that are generally unobservable and typically reflect management s estimate of assumptions that market participants would use in pricing the asset or liability.

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The carrying amounts for cash and cash equivalents, investments in certificates of deposit, accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short period of time until maturity.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, certificates of deposit and fixed deposits and money market funds with original maturities of three months or less. Certificates of deposit and fixed deposits whose original maturity is greater than three months and is one year or less are classified as short-term investments.

Derivative Financial Instruments

Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, commodity prices and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. In certain cases, market data may not be available and we may use broker quotes and models (e.g., Black-Scholes) to determine fair value. This includes situations where there is lack of liquidity for a particular currency or commodity or when the instrument is longer dated. The fair value measurements of the redeemable preferred stock embedded derivative are based upon Level 3 unobservable inputs reflecting management s own assumptions about the inputs used in pricing the liability refer to Note 5, Derivative Financial Instruments.

Cash Surrender Value

We have an unfunded salary continuation plan, which was closed to new participants effective February 3, 2011. We purchased life insurance policies on certain participants to provide, in part, for future liabilities. Refer to Note 18, Retirement Plans. The amount of the asset recorded for the investment in the life insurance contracts is equal to the cash surrender value which is the amount that will be realized under the contract as of the balance sheet date if the insured event occurs.

The following tables categorize items measured at fair value at December 31, 2018 and 2017:

		Fair Value Measurement at Reporting Date Using		
December 31, 2018		**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(Dollars in thousands)				
Assets				
Certificates of deposit	$ 750	$	$ 750	$
Cash surrender value	8,057		8,057	

Derivative contracts	4,218				4,218		
Total	13,025				13,025		
Liabilities							
Derivative contracts	8,836				8,836		
Embedded derivative liability	3,134						3,134
Total	$ 11,970	$		$	8,836	$	3,134

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December 31, 2017		Fair Value Measurement at Reporting Date Using	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)			
Assets			
Certificates of deposit	$ 750	$ 750	
Cash surrender value	8,040	8,040	
Derivative contracts	6,342	6,342	
Total	15,132	15,132	
Liabilities			
Derivative contracts	16,106	16,106	
Embedded derivative liability	4,685		4,685
Total	$ 20,791	$ 16,106	$ 4,685

The following table summarizes the changes during 2018 and 2017 in level 3 fair value measurement of the embedded derivative liability relating to the redeemable preferred stock issued May 22, 2017 in connection with the acquisition of our European operations:

January 1, 2017 December 31, 2018	
(Dollars in thousands)	
Beginning fair value January 1, 2017	$
Change in fair value of redeemable preferred stock embedded derivative liability	4,685
Ending fair value December 31, 2017	4,685
Change in fair value of redeemable preferred stock embedded derivative liability	(3,480)
Effect of redeemable preferred stock modification	1,929
Ending fair value December 31, 2018	3,134

Debt Instruments

The carrying values of the Company s debt instruments vary from their fair values. The fair values were determined by reference to transacted prices of these securities (Level 2 input based on the GAAP fair value hierarchy). The estimated fair value, as well as the carrying value, of the Company s debt instruments are shown below (in thousands):

	December 31, 2018	December 31, 2017
(Dollars in thousands)		
Estimated aggregate fair value	$ 624,943	$ 704,005
Aggregate carrying value [1]	684,922	707,864

[1] Long-term debt excluding the impact of unamortized debt issuance costs.

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NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Instruments and Hedging Activities

We use derivatives to partially offset our exposure to foreign currency, interest rates, aluminum and other commodity risk. We may enter into forward contracts, option contracts, swaps, collars or other derivative instruments to offset some of the risk on expected future cash flows and on certain existing assets and liabilities. However, we may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates, interest rates, and aluminum as well as natural gas commodity prices.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of our subsidiaries, whose functional currency is the U.S. dollar or the Euro, hedge a portion of their forecasted foreign currency costs denominated in the Mexican Peso and Polish Zloty, respectively. We may hedge portions of our forecasted foreign currency exposure up to 48 months.

We record all derivatives in the consolidated balance sheets at fair value. Our accounting treatment for these instruments is based on the hedge designation. The cash flow hedges that are designated as hedging instruments are recorded in Accumulated Other Comprehensive Income (AOCI) until the hedged item is recognized in earnings, at which point accumulated gains or losses will be recognized in earnings and classified with the underlying hedged transaction. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates. The Company has derivatives that are designated as hedging instruments as well as derivatives that did not qualify for designation as hedging instruments.

Redeemable Preferred Stock Embedded Derivative

We have determined that the conversion option embedded in our redeemable preferred stock is required to be accounted for separately from the redeemable preferred stock as a derivative liability. Separation of the conversion option as a derivative liability is required because its economic characteristics are considered more akin to an equity instrument and therefore the conversion option is not considered to be clearly and closely related to the economic characteristics of the redeemable preferred stock. This is because the economic characteristics of the redeemable preferred stock are considered more akin to a debt instrument due to the fact that the shares are redeemable at the holder s option, the redemption value is significantly greater than the face amount, the shares carry a fixed mandatory dividend and the stock price necessary to make conversion more attractive than redemption ($56.324) is significantly greater than the price at the date of issuance ($19.05), all of which lead to the conclusion that redemption is more likely than conversion.

We also have determined that the embedded early redemption option upon the occurrence of a redemption event (e.g. change of control, etc.) must also be bifurcated and accounted for separately from the redeemable preferred stock, because the debt host contract involves a substantial discount (face of $150.0 million as compared to the redemption value of $300.0 million) and exercise of the early redemption option would accelerate the holder s option to redeem the shares.

Accordingly, we have recorded an embedded derivative liability representing the combined fair value of the right of holders to receive common stock upon conversion of redeemable preferred stock at any time (the conversion option) and the right of the holders to exercise their early redemption option upon the occurrence of a redemption event (the early redemption option). The embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in the Change in fair value of redeemable preferred stock embedded derivative financial statement line item of the Company s consolidated income statements (see Note 12, Redeemable Preferred Stock.)

A binomial option pricing model is used to estimate the fair value of the conversion and early redemption options embedded in the redeemable preferred stock. The binomial model utilizes a decision tree whereby future movement in the Company s common stock price is estimated based on a volatility factor. The binomial option pricing model requires the development and use of assumptions. These assumptions include estimated volatility of the value of our common stock, assumed possible conversion or early redemption dates, an appropriate risk-free interest rate, risky bond rate and dividend yield.

The expected volatility of the Company s common stock is estimated based on historical volatility. The assumed base case term used in the valuation model is the period remaining until September 14, 2025 (the earliest date at which the holder may exercise its unconditional redemption option). A number of other scenarios incorporate earlier redemption dates to address the possibility of early redemption upon the occurrence of a redemption event. The risk-free interest rate is based on the yield on the U.S. Treasury zero coupon yield curve with a remaining term equal to the expected term of the conversion and early redemption options. The significant assumptions utilized in the Company s valuation of the embedded derivative at December 31, 2018 are as follows: valuation scenario terms between 3.00 and 6.70 years, volatility of 58 percent, risk-free rate of 2.5 percent to 2.6 percent related to the respective assumed terms, a risky bond rate of 22 percent and a dividend yield of 7.5 percent.

The following tables display the fair value of derivatives by balance sheet line item at December 31, 2018 and December 31, 2017:

	December 31, 2018			
(Dollars in thousands)	**Other Current Assets**	**Other Non-current Assets**	**Accrued Liabilities**	**Other Non-current Liabilities**
Foreign exchange forward contracts designated as hedging instruments	$ 2,599	1,011	659	6,202
Foreign exchange forward contracts not designated as hedging instruments	333		207	
Aluminum forward contracts designated as hedging instruments			927	
Cross currency swap not designated as hedging instrument			227	
Natural gas forward contracts designated as hedging instruments	275		355	
Interest rate swap contracts designated as hedging instruments			131	128
Embedded derivative liability				3,134
Total derivative financial instruments	$ 3,207	1,011	2,506	9,464

December 31, 2017

(Dollars in thousands)	Other Current Assets	Other Non-current Assets	Accrued Liabilities	Other Non-current Liabilities
Foreign exchange forward contracts and collars designated as hedging instruments	$ 3,065	723	4,922	8,405
Foreign exchange forward contracts not designated as hedging instruments	721		206	
Aluminum forward contracts not designated as hedging instruments	1,833			
Cross currency swap not designated as hedging instrument			1,467	1,106
Embedded derivative liability				4,685
Total derivative financial instruments	$ 5,619	723	6,595	14,196

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The following table summarizes the notional amount and estimated fair value of our derivative financial instruments:

(Dollars in thousands)	December 31, 2018 Notional U.S. Dollar Amount	December 31, 2018 Fair Value	December 31, 2017 Notional U.S. Dollar Amount	December 31, 2017 Fair Value
Foreign currency forward contracts and collars designated as hedging instruments	$ 467,253	$ (3,251)	$ 397,744	$ (9,539)
Foreign exchange forward contracts not designated as hedging instruments	45,905	126	23,305	515
Aluminum forward contracts not designated as hedges	10,810	(927)	15,564	1,833
Cross currency swap not designated as hedging instrument	12,151	(227)	36,454	(2,573)
Natural gas forward contracts designated as hedging instrument	2,165	(80)		
Interest rate swap contracts designated as hedging instrument	90,000	(259)		
Total derivative financial instruments	$ 628,284	$ (4,618)	$ 473,067	$ (9,764)

Notional amounts are presented on a gross basis. The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or commodity volumes and prices.

The following tables summarize the gain or loss recognized in accumulated other comprehensive income (loss) (AOCI) as of December 31, 2018, 2017 and 2016 the amounts reclassified from AOCI into earnings and the amounts recognized directly into earnings for the years ended December 31, 2018, 2017 and 2016:

Year ended December 31, 2018 (Dollars in thousands)	Amount of Gain or (Loss) Recognized in AOCI on Derivatives	Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives
Derivative Contracts	$ 5,293	$ 728	$ (406)
Total	$ 5,293	$ 728	$ (406)

Year ended December 31, 2017	Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness

						Testing)
(Dollars in thousands)						
Derivative Contracts	$	7,603	$	(4,539)	$	(538)
Total	$	7,603	$	(4,539)	$	(538)

Year ended December 31, 2016	**Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)**		**Amount of Pre-tax Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)**		**Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	
(Dollars in thousands)						
Derivative Contracts	$	(6,812)	$	(13,597)	$	(156)
Total	$	(6,812)	$	(13,597)	$	(156)

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NOTE 6 - BUSINESS SEGMENTS

As a result of our 2017 acquisition of Uniwheels, the Company expanded into the European market and extended its customer base to include the principal European OEMs. As a consequence, we have realigned our executive management structure, organization and operations to focus on our performance in the North American and European regions. In accordance with the requirements of ASC Topic 280, Segment Reporting, we have concluded that our North American and European businesses represent separate operating segments in view of significantly different markets, customers and products within each of these regions. Each operating segment has discrete financial information which is evaluated regularly by the Company s CEO in determining resource allocation and assessing performance. Within each of these regions, markets, customers, products and production processes are similar and production can be readily transferred between production facilities. Moreover, our business within each region leverages common systems, processes and infrastructure. Accordingly, North America and Europe comprise the Company s reportable segments for purposes of segment reporting.

(Dollars in thousands)	**Net Sales**			**Income from Operations**		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
North America	$ 800,383	$ 732,418	$ 732,677	$ 29,702	$ 9,808	$ 54,602
Europe	701,444	375,637		56,103	11,710	
	$ 1,501,827	$ 1,108,055	$ 732,677	$ 85,805	$ 21,518	$ 54,602

(Dollars in thousands)	**Depreciation and Amortization**			**Capital Expenditures**		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
North America	$ 33,588	$ 35,931	$ 34,261	$ 37,476	$ 47,493	$ 39,575
Europe	61,468	33,404		40,221	23,444	
	$ 95,056	$ 69,335	$ 34,261	$ 77,697	$ 70,937	$ 39,575

(Dollars in thousands)	**Property, Plant, and Equipment, net**		**Goodwill and Intangible Assets**	
	2018	**2017**	**2018**	**2017**
North America	$ 249,791	$ 245,178	$	$
Europe	282,976	291,508	459,803	508,278
	$ 532,767	$ 536,686	$ 459,803	$ 508,278

(Dollars in thousands)	**Total Assets**	
	2018	**2017**
North America	$ 484,682	$ 519,192

Europe	966,934	1,032,060
	$ 1,451,616	$ 1,551,252

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Geographic information

Net sales by geographic location:

Year Ended December 31,	2018	2017	2016
(Dollars in thousands)			
Net sales:			
U.S.	$ 127,178	$ 124,711	$ 120,395
Mexico	673,205	607,707	612,282
Germany	279,631	155,227	
Poland	421,813	220,410	
Consolidated net sales	$ 1,501,827	$ 1,108,055	$ 732,677

NOTE 7 - ACCOUNTS RECEIVABLE

December 31,	2018	2017
(Dollars in thousands)		
Trade receivables	$ 101,864	$ 152,476
Other receivables	7,083	10,016
	108,947	162,492
Allowance for doubtful accounts	(4,298)	(2,325)
Accounts receivable, net	$ 104,649	$ 160,167

	2018 Percent of Net Sales	2017 Percent of Net Sales	2016 Percent of Net Sales
Ford	18%	22%	38%
GM	18%	20%	30%
VW Group	12%	9%	<1%
Toyota	8%	9%	14%

The accounts receivable from GM, Ford, VW Group and Toyota at December 31, 2018 represented approximately 24 percent, 11 percent, 8 percent and 6 percent of the total accounts receivable, respectively. The accounts receivable from GM, Ford and Toyota represented approximately 26 percent, 20 percent and 4 percent at December 31, 2017.

NOTE 8 - INVENTORIES

December 31,	**2018**	**2017**
(Dollars in thousands)		
Raw materials	$ 49,571	$ 59,353
Work in process	42,886	48,803
Finished goods	83,121	65,843
Inventories, net	$ 175,578	$ 173,999

Service wheel and supplies inventory included in other non-current assets in the consolidated balance sheets totaled $8.9 million and $8.1 million at December 31, 2018 and 2017, respectively.

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NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

December 31,	2018	2017
(Dollars in thousands)		
Land and buildings	$ 140,471	$ 136,918
Machinery and equipment	769,451	720,175
Leasehold improvements and others	12,883	12,192
Construction in progress	67,559	58,753
	990,364	928,038
Accumulated depreciation	(457,597)	(391,352)
Property, plant and equipment, net	$ 532,767	$ 536,686

Depreciation expense was $68.8 million, $54.2 million and $34.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 10 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and indefinite-lived assets, such as certain trade names acquired in connection with the acquisition of our European operations on May 30, 2017, are not amortized, but are instead evaluated for impairment on an annual basis at the end of the fiscal year, or more frequently if events or circumstances indicate that impairment may be more likely than not.

We conducted the annual goodwill impairment testing as of December 31, 2018. The Company evaluated its goodwill using a quantitative approach. The identification of potential impairment involves comparing the Company s Europe reporting unit s estimated fair value to its carrying value, including goodwill. In performing our valuation, we utilized an income approach and a market approach to determine fair value. The income approach is based on projected debt-free cash flow, which is discounted to the present value using discount factors that consider the timing and risk of cash flows. The discount rate used is the weighted average of an estimated cost of equity and of debt (weighted average cost of capital). The weighted average cost of capital is adjusted as necessary to reflect risk associated with the business of the Europe reporting unit. Business forecasts are based on estimated production volumes, product prices and expenses, including raw material cost, wages, energy and other expenses. Other significant assumptions include terminal value cash flow and growth rates, future capital expenditures and changes in future working capital requirements. The market approach is based on the observed ratios of enterprise value to earnings before interest, taxes, depreciation and amortization (EBITDA) of comparable, publicly traded companies. The market approach fair value is determined by multiplying historical and anticipated financial metrics of the Europe reporting unit by the EBITDA pricing multiples derived from the comparable, publicly traded companies. Our assessment indicated that the fair value of the European reporting unit exceeded its respective carrying value.

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The Company s finite lived intangible assets are amortized on a straight-line basis over their estimated useful lives. Following is a summary of the Company s finite-lived and indefinite-lived intangible assets and goodwill as of December 31, 2018 and 2017.

Year Ended December 31, 2018	Gross Carrying Amount	Accumulated Amortization	Currency Translation	Net Carrying Amount	Remaining Weighted Average Amortization Period
(Dollars in thousands)					
Brand name	$ 9,000	$ (2,979)	$ 237	$ 6,258	4-5
Technology	15,000	(4,964)	394	10,430	3-5
Customer relationships	167,000	(33,468)	3,823	137,355	5-10
Total finite	191,000	(41,411)	4,454	154,043	
Trade names	14,000		326	14,326	Indefinite
Total intangibles	$ 205,000	$ (41,411)	$ 4,780	$ 168,369	

Year Ended December 31, 2018	Beginning Balance	Currency Translation	Ending Balance
(Dollars in thousands)			
Goodwill	$ 304,805	$ (13,371)	$ 291,434

Year Ended December 31, 2017	Gross Carrying Amount	Accumulated Amortization	Currency Translation	Net Carrying Amount	Remaining Weighted Average Amortization Period
(Dollars in thousands)					
Brand name	$ 9,000	$ (1,091)	$ 581	$ 8,490	5-6
Technology	15,000	(1,818)	968	14,150	4-6
Customer relationships	167,000	(12,259)	11,005	165,746	6-11
Total finite	191,000	(15,168)	12,554	188,386	
Trade names	14,000		1,087	15,087	Indefinite

Total intangibles	$ 205,000	$ (15,168)	$ 13,641	$ 203,473

Year Ended December 31, 2017	Beginning Balance	Currency Translation	Ending Balance
(Dollars in thousands)			
Goodwill	$ 286,249	$ 18,556	$ 304,805

Amortization expense for these intangible assets was $26.3 million and $15.2 million for the years ended December 31, 2018 and 2017, respectively. The anticipated annual amortization expense for these intangible assets is $25.0 million for 2019 to 2021, $22.2 million for 2022 and $20.2 million for 2023.

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NOTE 11 - DEBT

A summary of long-term debt and the related weighted average interest rates is shown below:

	December 31, 2018 (Dollars in Thousands)			
Debt Instrument	**Total Debt**	**Debt Issuance Costs [1]**	**Total Debt, Net**	**Weighted Average Interest Rate**
Term Loan Facility	$ 382,800	$ (13,078)	$ 369,722	6.3%
6.00% Senior Notes due 2025	286,100	(7,366)	278,734	6.0%
Other	16,022		16,022	2.2%
	$ 684,922	$ (20,444)	664,478	
Less: Current portion			(3,052)	
Long-term debt			$ 661,426	

	December 31, 2017 (Dollars in Thousands)			
Debt Instrument	**Total Debt**	**Debt Issuance Costs [1]**	**Total Debt, Net**	**Weighted Average Interest Rate**
Term Loan Facility	$ 386,800	$ (15,802)	$ 370,998	5.6%
6.00% Senior Notes due 2025	300,250	(8,510)	291,740	6.0%
Other	20,814		20,814	1.0%
	$ 707,864	$ (24,312)	683,552	
Less: Current portion			(4,000)	
Long-term debt			$ 679,552	

(1) Unamortized portion

Senior Notes

On June 15, 2017, Superior issued Euro 250.0 million aggregate principal amount of 6.00% Senior Notes (the Notes) due June 15, 2025. Interest on the Notes is payable semiannually, on June 15 and December 15. Superior may redeem the Notes, in whole or in part, on or after June 15, 2020 at redemption prices of 103.000% and 101.500% of the principal amount thereof if the redemption occurs during the 12-month period beginning June 15, 2020 or 2021, respectively, and a redemption price of 100% of the principal amount thereof on or after June 15, 2022, in each case plus accrued and unpaid interest to, but not including, the applicable redemption date. In addition, the Company may redeem some or all of the Notes prior to June 15, 2020 at a price equal to 100.0% of the principal amount thereof plus a make-whole premium and accrued and unpaid interest, if any, up to, but not including, the redemption date. Prior to June 15, 2020, the Company may redeem up to 40% of the aggregate principal amount of the Notes using the proceeds of certain equity offerings at a certain redemption price. If we experience a change of control or sell certain assets, the Company may be required to offer to purchase the Notes from the holders. The Notes are senior unsecured obligations ranking equally in right of payment with all of its existing and future senior indebtedness and senior in right of payment to any subordinated indebtedness. The Notes are effectively subordinated in right of payment to the existing and future secured indebtedness of the Company, including the Senior Secured Credit Facilities (as defined below), to the extent of the assets securing such indebtedness.

Guarantee

The Notes are unconditionally guaranteed by all material wholly-owned direct and indirect domestic restricted subsidiaries of the Company (the Subsidiary Guarantors), with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in adverse tax consequences.

Covenants

Subject to certain exceptions, the indenture governing the Notes contains restrictive covenants that, among other things, limit the ability of Superior and the Subsidiary Guarantors to: (i) incur additional indebtedness or issue certain preferred stock; (ii) pay dividends on, or make distributions in respect of, their capital stock; (iii) make certain investments or other restricted payments; (iv) sell certain assets or issue capital stock of restricted subsidiaries; (v) create liens; (vi) merge, consolidate, transfer or dispose of substantially all of their assets; and (vii) engage in certain transactions with affiliates. These covenants are subject to several important limitations and exceptions that are described in the indenture.

The indenture provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) nonpayment of principal, premium, if any, and interest, when due; (ii) breach of covenants in the indenture; (iii) a failure to pay certain judgments; and (iv) certain events of bankruptcy and insolvency. If an event of default occurs and is continuing, the Bank of New York Mellon, London Branch (the Trustee) or holders of at least 30% in principal amount of the then outstanding Notes may declare the principal, premium, if any, and accrued and unpaid interest on all the Notes to be due and payable. These events of default are subject to several important qualifications, limitations and exceptions that are described in the indenture. As of December 31, 2018, the Company was in compliance with all covenants under the indenture governing the Notes.

Senior Secured Credit Facilities

On March 22, 2017, Superior entered into a senior secured credit agreement (the Credit Agreement) with Citibank, N.A, as Administrative Agent, Collateral Agent and Issuing Bank, JP Morgan Chase N.A., Royal Bank of Canada and Deutsche Bank A.G. New York Branch as Joint Lead Arrangers and Joint Book Runners, and the other lenders party thereto (collectively, the Lenders). The Credit Agreement consisted of a $400.0 million senior secured term loan facility (the Term Loan Facility), which matures on May 22, 2022, and a $160.0 million revolving credit facility maturing on May 23, 2024 (the Revolving Credit Facility and, together with the Term Loan Facility, the Senior Secured Credit Facilities).

On June 29, 2018, the Company entered into an amendment to the Credit Agreement pursuant to which the interest rate under the Term Loan Facility was reduced to LIBOR plus 4.00 percent (from LIBOR plus 4.50 percent), subject to a LIBOR floor of 0.00 percent (in place of the previous LIBOR floor of 1.00 percent). Substantially all of the original loans under the Term Loan Facility were replaced with loans from existing lenders under terms that were not substantially different than those of the original loans. As a result, this transaction did not result in any debt extinguishment and the unamortized debt issuance costs associated with the original loans will continue to be amortized over the remaining term of the replacement loans (which is unchanged from the original term). Borrowings under the Term Loan Facility will bear interest at a rate equal to, at the Company s option, either (a) LIBOR for the relevant interest period, adjusted for statutory reserve requirements, subject to a floor of 0.00 percent per annum, plus an applicable rate of 4.00 percent or (b) a base rate, subject to a floor of 2.00 percent per annum, equal to the highest of (1) the rate of interest in effect as publicly announced by the administrative agent as its prime rate, (2) the federal funds rate plus 0.50 percent and (3) LIBOR for an interest period of one month plus 1.00 percent, in each case, plus an applicable rate of 3.50 percent. Borrowings under the Revolving Credit Facility initially bear interest at a rate equal to, at the Company s option, either (a) LIBOR for the relevant interest period, adjusted for statutory reserve requirements, subject to a floor of 1.00 percent per annum, plus an applicable rate of 3.50 percent or (b) a base rate, equal to the highest of (1) the rate of interest in effect as publicly announced by the administrative agent as its prime rate, (2) the federal funds effective rate plus 0.50 percent and (3) LIBOR for an interest period of one month plus 1.00 percent, in each case, plus an applicable rate of 2.50 percent provided such rate may not be less than zero. The initial commitment fee for unused commitments under the Revolving Credit Facility shall be 0.50 percent. The applicable rates for borrowings under the Revolving Credit Facility and commitment fees for unused commitments under the Revolving Credit Facility are based upon the First Lien Net Leverage Ratio effective for the preceding quarter with LIBOR applicable rates between 3.50 percent and 3.00 percent, base rate applicable rates between 2.50 percent and 2.00 percent and commitment fees between 0.50 percent and 0.25 percent. Commitment fees are included in our consolidated financial statements line, interest (expense) income, net.

As of December 31, 2018, the Company had repaid $17.2 million under the Term Loan Facility resulting in a balance of $382.8 million. As of December 31, 2018, the Company had no outstanding borrowings under the Revolving Credit Facility, had outstanding letters of credit of $3.4 million and available unused commitments under this facility of $156.6 million.

Guarantees and Collateral Security

Our obligations under the Credit Agreement are unconditionally guaranteed by all material wholly-owned direct and indirect domestic restricted subsidiaries of the Company, with customary exceptions including, among other things, where providing such guarantees is not permitted by law, regulation or contract or would result in adverse tax consequences. The guarantees of such obligations, will be secured, subject to permitted liens and other exceptions, by substantially all of our assets and the Subsidiary Guarantors assets, including but not limited to: (i) a perfected pledge of all of the capital stock issued by each of the Company s direct wholly-owned domestic restricted subsidiaries or any guarantor (subject to certain exceptions) and up to 65 percent of the capital stock issued by each direct wholly-owned foreign restricted subsidiary of the Company or any guarantor (subject to certain exceptions) and (ii) perfected security interests in and mortgages on substantially all tangible and intangible personal property and material fee-owned real property of the Company and the guarantors (subject to certain exceptions and exclusions).

Covenants

The Senior Secured Credit Facilities contain a number of restrictive covenants that, among other things, restrict, subject to certain exceptions, our ability to incur additional indebtedness and guarantee indebtedness, create or incur liens, engage in mergers or consolidations, sell, transfer or otherwise dispose of assets, make investments, acquisitions, loans or advances, pay dividends, distributions or other restricted payments, or repurchase our capital stock, prepay, redeem, or repurchase any subordinated indebtedness, enter into agreements which limit our ability to incur liens on our assets or that restrict the ability of restricted subsidiaries to pay dividends or make other restricted payments to us, and enter into certain transactions with our affiliates.

In addition, the Credit Agreement contains customary default provisions, representations and warranties and other covenants. The Credit Agreement also contains a provision permitting the Lenders to accelerate the repayment of all loans outstanding under the Senior Secured Credit Facilities during an event of default. As of December 31, 2018, the Company was in compliance with all covenants under the Credit Agreement.

14,268

Employee benefit obligations (see Note 10)
830

790

800

810

780

10,920

14,930

Aircraft purchase commitments (see Note 9)
215

530

745

760

760

3,810

6,820

Capital lease obligations (see Note 8)
221

196

168

155

163

323

1,226

Other obligations
510

230

210

120

70

170

1,310

Total
$
7,880

$
7,462

$
8,293

$
7,273

$
6,559

$
34,752

$
72,219

(1) For additional information, see the Notes to the Consolidated Financial Statements referenced in the table above.

Long-Term Debt, Principal Amount. Represents scheduled principal payments on long-term debt. The table excludes amounts received from American Express for its advance purchase of SkyMiles because this obligation will be satisfied by American Express' use of SkyMiles over a specified period rather than by cash payments from us. For additional information about our agreements with American Express, see Note 6 of the Notes to the Consolidated Financial Statements.

Long-Term Debt, Interest Payments. Represents estimated interest payments under our long-term debt based on the interest rates specified in the applicable debt agreements. Interest payments on variable interest rate debt were calculated using LIBOR at December 31, 2011.

Contract Carrier Obligations. Represents our estimated minimum fixed obligations under capacity purchase agreements with regional carriers (excluding Comair). The reported amounts are based on (1) the required minimum levels of flying by our contract carriers under the applicable agreements and (2) assumptions regarding the costs associated with such minimum levels of flying.

Employee Benefit Obligations. Represents primarily (1) our estimated minimum required funding for our qualified defined benefit pension plans based on actuarially determined estimates and (2) projected future benefit payments from our unfunded postretirement and postemployment plans. For additional information about our employee benefit obligations, see “Critical Accounting Policies and Estimates”.

Aircraft Purchase Commitments. Represents primarily our commitments to purchase 100 B-737-900ER aircraft, 18 B-787-8 aircraft and nine previously owned MD-90 aircraft.

Other Obligations. Represents primarily estimated purchase obligations under which we are required to make minimum payments for goods and services, including but not limited to insurance, marketing, maintenance, technology, sponsorships and other third party services and products.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are those that require significant judgments and estimates. Accordingly, the actual results may differ materially from these estimates. For a discussion of these and other accounting policies, see Note 1 of the Notes to the Consolidated Financial Statements.

Frequent Flyer Program

Our frequent flyer program (the “SkyMiles Program”) offers incentives to travel on Delta. This program allows customers to earn mileage credits by flying on Delta, regional air carriers with which we have contract carrier agreements and airlines that participate in the SkyMiles Program, as well as through participating companies such as credit card companies, hotels and car rental agencies. We also sell mileage credits to non-airline businesses, customers and other airlines.

The SkyMiles Program includes two types of transactions that are considered revenue arrangements with multiple deliverables. As discussed below, these are (1) passenger ticket sales earning mileage credits and (2) the sale of mileage credits to participating companies with which we have marketing agreements. Mileage credits are a separate unit of accounting as they can be redeemed by customers in future periods for air travel on Delta and participating airlines, membership in our Sky Club and other program awards.

Passenger Ticket Sales Earning Mileage Credits. Passenger ticket sales earning mileage credits under our SkyMiles Program provide customers with two deliverables: (1) mileage credits earned and (2) air transportation. Effective January 1, 2011, we began applying the provisions of Revenue Arrangements with Multiple Deliverables ("ASU 2009-13") to passenger tickets earning mileage credits. Under ASU 2009-13, we value each deliverable on a standalone basis. Our estimate of the standalone selling price of a mileage credit is based on an analysis of our sales of mileage credits to other airlines and customers and is re-evaluated at least annually. We use established ticket prices to determine the standalone selling price of air transportation. We allocate the total amount collected from passenger ticket sales between the deliverables based on their relative selling prices.

We defer revenue from the mileage credit component of passenger ticket sales and recognize it as passenger revenue when miles are redeemed and services are provided. We record the portion of the passenger ticket sales for air transportation in air traffic liability and recognize these amounts in passenger revenue when we provide transportation or when the ticket expires unused. The adoption of ASU 2009-13 did not have a material impact on the timing of revenue recognition or its classification with regard to passenger tickets earning mileage credits. A hypothetical 10% increase in our estimate of the standalone selling price of a mileage credit would decrease passenger revenue by approximately $50 million, as a result of an increase in the amount of revenue deferred from the mileage component of passenger ticket sales.

Prior to the adoption of ASU 2009-13, we used the residual method for revenue recognition. Under the residual method, we determined the fair value of the mileage credit component based on prices at which we sold mileage credits to other airlines and then considered the remainder of the amount collected to be the air transportation deliverable.

Sale of Mileage Credits. Customers may earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have two deliverables: (1) the mileage credits redeemable for future travel and (2) the marketing component.

ASU 2009-13 does not apply to contracts to sell mileage credits entered into prior to January 1, 2011 unless those contracts are materially modified. As of December 31, 2011, we had not materially modified any of our significant agreements. Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. For additional information about this relationship, see Note 6. For contracts entered into prior to January 1, 2011 that have not been materially modified since January 1, 2011, we continue to use the residual method for revenue recognition and value only the mileage credits. Under the residual method, the portion of the revenue from the mileage component is deferred and recognized as passenger revenue when miles are redeemed and services are provided. The portion of the revenue received in excess of the fair value of mileage credits sold, the marketing component, is recognized in income as other revenue when the related marketing services are provided. The fair value of a mileage credit is determined based on prices at which we sell mileage credits to other airlines and is re-evaluated at least annually.

If we enter into new contracts or materially modify existing contracts to sell mileage credits related to our SkyMiles Program, we will value the standalone selling price of the marketing component and allocate the revenue from the contract based on the relative selling price of the mileage credits and the marketing component. A material modification of an existing contract could impact our deferral rate or cause an adjustment to our deferred revenue balance, which could materially impact our future financial results.

Breakage. For mileage credits which we estimate are not likely to be redeemed (“Breakage”), we recognize the associated value proportionally during the period in which the remaining mileage credits are expected to be redeemed. The estimate of Breakage is based on historical redemption patterns. A change in assumptions as to the period over which mileage credits are expected to be redeemed, the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on our revenue in the year in which the change occurs and in future years. At December 31, 2011, the aggregate deferred revenue balance associated with the SkyMiles Program was $4.5 billion. A hypothetical 1% change in the number of outstanding miles estimated to be redeemed would result in a $31 million impact on our deferred revenue liability at December 31, 2011.

Goodwill and Other Intangible Assets

We apply a fair value-based impairment test to the net book value of goodwill and indefinite-lived intangible assets on an annual basis (as of October 1) and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. In September 2011, the FASB issued "Testing Goodwill for Impairment." The standard revises the way in which entities test goodwill for impairment. We adopted this standard and applied its provisions to our annual goodwill impairment test in the December 2011 quarter.

Key Assumptions. The key assumptions in our impairment tests include (1) our projected revenues, expenses and cash flows, (2) an estimated weighted average cost of capital, (3) assumed discount rates depending on the asset and (4) a tax rate. These assumptions are consistent with those hypothetical market participants would use. Since we are required to make estimates and assumptions when evaluating goodwill and indefinite-lived intangible assets for impairment, the actual amounts may differ materially from these estimates.

Changes in assumptions or circumstances could result in impairment. Factors which could cause impairment include, but are not limited to, (1) negative trends in our market capitalization, (2) an increase in fuel prices, (3) declining passenger mile yields, (4) lower passenger demand as a result of the weakened U.S. and global economy, (5) interruption to our operations due to an employee strike, terrorist attack, or other reasons, (6) changes to the regulatory environment and (7) consolidation of competitors in the airline industry.

Goodwill. As of December 31, 2011 and 2010, our goodwill balance was $9.8 billion. In evaluating goodwill for impairment, we estimate the fair value of our reporting unit by considering market capitalization and other factors if it is more likely than not that the fair value of our reporting unit is less than its carrying value. If the reporting unit's fair value exceeds its carrying value, no further testing is required. If, however, the reporting unit's carrying value exceeds its fair value, we then determine the amount of the impairment charge, if any. We recognize an impairment charge if the carrying value of the reporting unit's goodwill exceeds its estimated fair value.

Identifiable Intangible Assets. Our identifiable intangible assets had a net carrying amount of $4.8 billion at December 31, 2011. Indefinite-lived assets are not amortized and consist primarily of routes, slots, the Delta tradename and assets related to SkyTeam. Definite-lived intangible assets consist primarily of marketing agreements and contracts and are amortized on a straight-line basis or under the undiscounted cash flows method over the estimated economic life of the respective agreements and contracts.

We perform the impairment test for indefinite-lived intangible assets by comparing the asset's fair value to its carrying value. Fair value is estimated based on (1) recent market transactions, where available, (2) the lease savings method for certain airport slots (which reflects potential lease savings from owning the slots rather than leasing them from another airline at market rates), (3) the royalty method for the Delta tradename (which assumes hypothetical royalties generated from using our tradename) or (4) projected discounted future cash flows. We recognize an impairment charge if the asset's carrying value exceeds its estimated fair value.

Long-Lived Assets

Our flight equipment and other long-lived assets have a recorded value of $20.2 billion at December 31, 2011. This value is based on various factors, including the assets' estimated useful lives and salvage values. We record impairment losses on flight equipment and other long-lived assets used in operations when events and circumstances indicate the assets may be impaired and the estimated future cash flows generated by those assets are less than their carrying amounts. Factors which could cause impairment include, but are not limited to, (1) a decision to permanently remove flight equipment or other long-lived assets from operations, (2) significant changes in the estimated useful life, (3) significant changes in projected cash flows, (4) permanent and significant declines in fleet fair values and (5) changes to the regulatory environment. For long-lived assets held for sale, we discontinue depreciation and record impairment losses when the carrying amount of these assets is greater than the fair value less the cost to sell.

To determine whether impairments exist for aircraft used in operations, we group assets at the fleet-type level (the lowest level for which there are identifiable cash flows) and then estimate future cash flows based on projections of capacity, passenger mile yield, fuel costs, labor costs and other relevant factors. If an impairment occurs, the impairment loss recognized is the amount by which the aircraft's carrying amount exceeds its estimated fair value. We estimate aircraft fair values using published sources, appraisals and bids received from third parties, as available.

Income Tax Valuation Allowance

We periodically assess whether it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets and establish valuation allowances if it is not likely we will 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 financial results, our industry's historically cyclical financial results and potential current and future tax planning strategies. We cannot presently determine when we will be able to generate sufficient taxable income to realize our deferred tax assets. Accordingly, we have recorded a full valuation allowance totaling $10.7 billion against our net deferred tax assets. If we determine that it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets, we will reverse our valuation allowance (in full or in part), resulting in a significant income tax benefit in the period such a determination is made.

Defined Benefit Pension Plans

We sponsor defined benefit pension plans for eligible employees and retirees. These plans are closed to new entrants and frozen for future benefit accruals. As of December 31, 2011, the unfunded benefit obligation for these plans recorded on our Consolidated Balance Sheet was $11.5 billion. During 2011, we contributed $598 million to these plans and recorded $300 million of expense in salaries and related costs on our Consolidated Statement of Operations. In 2012, we estimate we will contribute approximately $700 million to these plans and that our expense will be approximately $370 million. The most critical assumptions impacting our defined benefit pension plan obligations and expenses are the weighted average discount rate and the expected long-term rate of return on the plan assets.

Weighted Average Discount Rate. We determine our weighted average discount rate on our measurement date primarily by reference to annualized rates earned on high quality fixed income investments and yield-to-maturity analysis specific to our estimated future benefit payments. We used a weighted average discount rate to value the obligations of 4.94% and 5.69% at December 31, 2011 and 2010, respectively. Our weighted average discount rate for net periodic pension benefit cost in each of the past three years has varied from the rate selected on our measurement date, ranging from 5.70% to 6.49% between 2009 and 2011, due to remeasurements throughout the year.

Expected Long-Term Rate of Return. The expected long-term rate of return on plan assets is based primarily on plan-specific investment studies using historical market return and volatility data. Modest excess return expectations versus some public market indices are incorporated into the return projections based on the actively managed structure of the investment programs and their records of achieving such returns historically. We also expect to receive a premium for investing in less liquid private markets. We review our rate of return on plan asset assumptions annually. Our annual investment performance for one particular year does not, by itself, significantly influence our evaluation. Our actual historical annualized three and five year rate of return on plan assets for our defined benefit pension plans was approximately 11% and 2%, respectively, as of December 31, 2011. Our annualized five year return includes a -26% return during 2008. The investment strategy for our defined benefit pension plan assets is to utilize a diversified mix of global public and private equity portfolios, public and private fixed income portfolios, and private real estate and natural resource investments to earn a long-term investment return that meets or exceeds our annualized return target. Our expected long-term rate of return on assets for net periodic pension benefit cost for the year ended December 31, 2011was 9%.

The impact of a 0.50% change in these assumptions is shown in the table below:

Change in Assumption	Effect on 2012 Pension Expense	Effect on Accrued Pension Liability at December 31, 2011
0.50% decrease in weighted average discount rate	-$1 million	+$1.2 billion
0.50% increase in weighted average discount rate	- $4 million	- $1.1 billion
0.50% decrease in expected long-term rate of return on assets	+$39 million	—
0.50% increase in expected long-term rate of return on assets	- $39 million	—

Funding. Our funding obligations for qualified defined benefit plans are governed by the Employee Retirement Income Security Act. The Pension Protection Act of 2006 allows commercial airlines to elect alternative funding rules (“Alternative Funding Rules”) for defined benefit plans that are frozen. Delta elected the Alternative Funding Rules under which the unfunded liability for a frozen defined benefit plan may be amortized over a fixed 17-year period and is calculated using an 8.85% interest rate.

While the Pension Protection Act makes our funding obligations for these plans more predictable, factors outside our control continue to have an impact on the funding requirements. Estimates of future funding requirements are based on various assumptions and can vary materially from actual funding requirements. Assumptions include, among other things, the actual and projected market performance of assets; statutory requirements; and demographic data for participants. For additional information, see Note 10 of the Notes to the Consolidated Financial Statements.

Recent Accounting Standards

Revenue Arrangements with Multiple Deliverables. In October 2009, the Financial Accounting Standards Board ("FASB") issued ASU 2009-13. The standard (1) revises guidance on when individual deliverables may be treated as separate units of accounting, (2) establishes a selling price hierarchy for determining the selling price of a deliverable, (3) eliminates the residual method for revenue recognition and (4) provides guidance on allocating consideration among separate deliverables. It applies only to contracts entered into or materially modified after December 31, 2010. We adopted this standard on a prospective basis beginning January 1, 2011. We determined that the only revenue arrangements impacted by the adoption of this standard are those associated with our SkyMiles Program.

Fair Value Measurement and Disclosure Requirements. In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective prospectively for fiscal years beginning after December 15, 2011. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

Supplemental Information

We sometimes use information that is derived from the Consolidated Financial Statements, but that is not presented in accordance with accounting principles generally accepted in the U.S. (“GAAP”). Certain of this information are considered to be “non-GAAP financial measures” under the U.S. Securities and Exchange Commission rules. The non-GAAP financial measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results.

The following tables show reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures.

We exclude the following items from CASM to determine CASM-Ex:

- Aircraft fuel and related taxes. Management believes the volatility in fuel prices impacts the comparability of year-over-year financial performance.

- Ancillary businesses. Ancillary businesses are not related to the generation of a seat mile. These businesses include aircraft maintenance and staffing services we provide to third parties and our vacation wholesale operations.

- Profit sharing. Management believes the exclusion of this item provides a more meaningful comparison of our results to the airline industry.

- Restructuring and other items. Management believes the exclusion of this item is helpful to investors to evaluate our recurring core operational performance.

- Mark-to-market ("MTM") adjustments for fuel hedges recorded in periods other than the settlement period. Management believes these adjustments are helpful to evaluate our financial results in the period shown.

	Year Ended December 31,			
	2011		2010	
CASM	14.12	¢	12.69	¢
Items excluded:				
Aircraft fuel and related taxes	(5.00	)	(3.82	)
Ancillary businesses	(0.37	)	(0.28	)

Profit sharing	(0.11)	(0.13)
Restructuring and other items	(0.10)	(0.19)
MTM adjustments for fuel hedges recorded in periods other than the settlement period	(0.01)	—
CASM-Ex	8.53 ¢	8.27 ¢

The following table reconciles average price per fuel gallon to average price per fuel gallon, adjusted for MTM adjustments for fuel hedges recorded in periods other than the settlement period. These mark-to-market adjustments are based on market prices as of the end of the reporting period. Such market prices are not necessarily indicative of the actual future cash value of the underlying hedge in the contract settlement period. Therefore, Delta adjusts fuel expense for these items to arrive at a more meaningful measure of fuel cost.

	Year Ended December 31,	
	2011	2008
Average price per fuel gallon[1]	$3.06	$3.16
MTM adjustments for fuel hedges recorded in periods other than the settlement period	(0.01)	(0.03)
Average price per fuel gallon, adjusted	$3.05	$3.13

[1] Includes fuel expense incurred under contract carriers arrangements and the impact of fuel hedge activity

Glossary of Defined Terms

ASM - Available Seat Mile. A measure of capacity. ASMs equal the total number of seats available for transporting passengers during a reporting period multiplied by the total number of miles flown during that period.

CASM - (Operating) Cost per Available Seat Mile. The amount of operating cost incurred per ASM during a reporting period.

CASM-Ex - The amount of operating cost incurred per ASM during a reporting period, excluding aircraft fuel and related taxes, ancillary businesses, profit sharing, restructuring and other items and MTM adjustments for fuel hedges recorded in periods other than the settlement period.

Passenger Load Factor - A measure of utilized available seating capacity calculated by dividing RPMs by ASMs for a reporting period.

Passenger Mile Yield or Yield - The amount of passenger revenue earned per RPM during a reporting period.

PRASM - Passenger Revenue per ASM. The amount of passenger revenue earned per ASM during a reporting period. PRASM is also referred to as “unit revenue.”

RPM - Revenue Passenger Mile. One revenue-paying passenger transported one mile. RPMs equal the number of revenue passengers during a reporting period multiplied by the number of miles flown by those passengers during that period. RPMs are also referred to as “traffic.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have market risk exposure related to aircraft fuel prices, interest rates, and foreign currency exchange rates. Market risk is the potential negative impact of adverse changes in these prices or rates on our Consolidated Financial Statements. In an effort to manage our exposure to these risks, we enter into derivative contracts and may adjust our derivative portfolio as market conditions change. We expect adjustments to the fair value of financial instruments to result in ongoing volatility in earnings and stockholders' equity.

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

Aircraft Fuel Price Risk

Our results of operations are materially impacted by changes in aircraft fuel prices. We actively manage our fuel price risk through a hedging program intended to provide an offset against increases in jet fuel prices. This fuel hedging program utilizes several different contract and commodity types, which are used together to create a risk mitigating hedge portfolio. The economic effectiveness of this hedge portfolio is frequently tested against our financial targets. The hedge portfolio is rebalanced from time to time according to market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates.

Our fuel hedge portfolio generally consists of call options; put options, combinations of two or more call options and put options; swap contracts; and futures contracts. The products underlying the hedge contracts are derivatives of jet fuel, such as heating oil, crude oil and low sulfur diesel. Our fuel hedge contracts contain margin funding requirements, which are driven by changes in price of the underlying commodity and the contracts used. The margin funding requirements may cause us to post margin to counterparties or may cause counterparties to post margin to us as market prices in the underlying hedged items change. If fuel prices decrease significantly from the levels existing at the time we enter into fuel hedge contracts, we may be required to post a significant amount of margin. We may adjust our hedge portfolio from time to time in response to margin posting requirements.

For the year ended December 31, 2011, aircraft fuel and related taxes, including our contract carriers under capacity purchase agreements, accounted for $11.8 billion, or 36%, of our total operating expense, including $420 million of net fuel hedge gains.

The following table shows the projected cash impact to fuel cost, on both an unhedged and hedged basis, assuming 10% and 20% increases or decreases in fuel prices. The hedge gain (loss) reflects the change in the projected cash settlement value of our open fuel hedge contracts at December 31, 2011 based on their contract settlement dates, assuming the same 10% and 20% changes.

(in millions)	Year Ending December 31, 2012 Decrease (Increase) to Unhedged Fuel Cost[1]	Hedge Gain (Loss)[2]	Net Impact	Fuel Hedge Margin (Posted to) Received from Counterparties
+ 20%	$(2,200)	$120	$(2,080)	$40
+ 10%	(1,100)	90	(1,010)	$10
- 10%	1,100	(100)	1,000	$—
- 20%	2,200	(230)	1,970	$(60)

(1)

Projections based upon the (increase) decrease to unhedged fuel cost as compared to the jet fuel price per gallon of $2.94, excluding transportation costs and taxes, at December 31, 2011 and estimated fuel consumption of 3.8 billion gallons for the year ending December 31, 2012.

(2) Projections based on average futures prices by contract settlement month compared to futures prices at December 31, 2011.

Interest Rate Risk

Our exposure to market risk from adverse changes in interest rates is primarily associated with our long-term debt obligations. Market risk associated with our fixed and variable rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates.

At December 31, 2011, we had $7.7 billion of fixed-rate long-term debt and $6.1 billion of variable-rate long-term debt. An increase of 100 basis points in average annual interest rates would have decreased the estimated fair value of our fixed-rate long-term debt by $300 million at December 31, 2011 and would have increased the annual interest expense on our variable-rate long-term debt by $40 million, inclusive of the impact of our interest rate hedge contracts.

Foreign Currency Exchange Risk

We are subject to foreign currency exchange rate risk because we have revenue and expense denominated in foreign currencies with our primary exposures being the Japanese yen and Canadian dollar. To manage exchange rate risk, we execute both our international revenue and expense transactions in the same foreign currency to the extent practicable. From time to time, we may also enter into foreign currency option and forward contracts. At December 31, 2011, we had open foreign currency forward contracts totaling an $89 million liability position. We estimate that a 10% increase or decrease in the price of the Japanese yen and Canadian dollar in relation to the U.S. dollar would change the projected cash settlement value of our open hedge contracts by a $90 million gain or $110 million loss, respectively, for the year ending December 31, 2012.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Delta Air Lines, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delta Air Lines, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Delta Air Lines, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 10, 2012

DELTA AIR LINES, INC.
Consolidated Balance Sheets

(in millions, except share data)	December 31, 2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,657	$2,892
Short-term investments	958	718
Restricted cash, cash equivalents and short-term investments	305	409
Accounts receivable, net of an allowance for uncollectible accounts of $33 and $40 at December 31, 2011 and 2010, respectively	1,563	1,456
Expendable parts and supplies inventories, net of an allowance for obsolescence of $101 and $104 at December 31, 2011 and 2010, respectively	367	318
Deferred income taxes, net	461	355
Prepaid expenses and other	1,418	1,159
Total current assets	7,729	7,307
Property and Equipment, Net:		
Property and equipment, net of accumulated depreciation and amortization of $5,472 and $4,164 at December 31, 2011 and 2010, respectively	20,223	20,307
Other Assets:		
Goodwill	9,794	9,794
Identifiable intangibles, net of accumulated amortization of $600 and $530 at December 31, 2011 and 2010, respectively	4,751	4,749
Other noncurrent assets	1,002	1,031
Total other assets	15,547	15,574
Total assets	$43,499	$43,188
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	$1,944	$2,073
Air traffic liability	3,480	3,306
Accounts payable	1,600	1,713
Frequent flyer deferred revenue	1,849	1,690
Accrued salaries and related benefits	1,367	1,370
Taxes payable	594	579
Other accrued liabilities	1,867	654
Total current liabilities	12,701	11,385
Noncurrent Liabilities:		
Long-term debt and capital leases	11,847	13,179
Pension, postretirement and related benefits	14,200	11,493
Frequent flyer deferred revenue	2,700	2,777
Deferred income taxes, net	2,028	1,924
Other noncurrent liabilities	1,419	1,533
Total noncurrent liabilities	32,194	30,906
Commitments and Contingencies		
Stockholders' (Deficit) Equity:		
Common stock at $0.0001 par value; 1,500,000,000 shares authorized, 861,499,734 and 847,716,723	—	—

shares issued at December 31, 2011 and 2010, respectively		
Additional paid-in capital	13,999	13,926
Accumulated deficit	(8,398)	(9,252)
Accumulated other comprehensive loss	(6,766)	(3,578)
Treasury stock, at cost, 16,253,791 and 12,993,100 shares at December 31, 2011 and 2010, respectively	(231)	(199)
Total stockholders' (deficit) equity	(1,396)	897
Total liabilities and stockholders' (deficit) equity	$43,499	$43,188

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

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DELTA AIR LINES, INC.
Consolidated Statements of Operations

	Year Ended December 31,		
(in millions, except per share data)	2011	2010	2009
Operating Revenue:			
Passenger:			
Mainline	$23,864	$21,408	$18,522
Regional carriers	6,393	5,850	5,285
Total passenger revenue	30,257	27,258	23,807
Cargo	1,027	850	788
Other	3,831	3,647	3,468
Total operating revenue	35,115	31,755	28,063
Operating Expense:			
Aircraft fuel and related taxes	9,730	7,594	7,384
Salaries and related costs	6,894	6,751	6,838
Contract carrier arrangements	5,470	4,305	3,823
Aircraft maintenance materials and outside repairs	1,765	1,569	1,434
Passenger commissions and other selling expenses	1,682	1,509	1,405
Contracted services	1,642	1,549	1,595
Depreciation and amortization	1,523	1,511	1,536
Landing fees and other rents	1,281	1,281	1,289
Passenger service	721	673	638
Aircraft rent	298	387	480
Profit sharing	264	313	—
Restructuring and other items	242	450	407
Other	1,628	1,646	1,558
Total operating expense	33,140	29,538	28,387
Operating Income (Loss)	1,975	2,217	(324)
Other (Expense) Income:			
Interest expense, net	(901)	(969)	(881)
Amortization of debt discount, net	(193)	(216)	(370)
Loss on extinguishment of debt	(68)	(391)	(83)
Miscellaneous, net	(44)	(33)	77
Total other expense, net	(1,206)	(1,609)	(1,257)
Income (Loss) Before Income Taxes	769	608	(1,581)
Income Tax Benefit (Provision)	85	(15)	344
Net Income (Loss)	$854	$593	$(1,237)
Basic Earnings (Loss) Per Share	$1.02	$0.71	$(1.50)
Diluted Earnings (Loss) Per Share	$1.01	$0.70	$(1.50)

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

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DELTA AIR LINES, INC.
Consolidated Statements of Cash Flows

	Year Ended December 31,		
(in millions)	2011	2010	2009
Cash Flows From Operating Activities:			
Net income (loss)	$854	$593	$(1,237)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,523	1,511	1,536
Amortization of debt discount, net	193	216	370
Loss on extinguishment of debt	68	391	83
Fuel hedge derivative contracts	135	(136)	(148)
Deferred income taxes	(2)	9	(329)
Pension, postretirement and postemployment expense (less than) in excess of payments	(308)	(301)	307
Equity-based compensation expense	72	89	108
Restructuring and other items	142	182	—
Changes in certain assets and liabilities:			
Receivables	(76)	(141)	147
Hedge margin receivables	(24)	—	1,132
Restricted cash and cash equivalents	153	16	79
Prepaid expenses and other current assets	(16)	(7)	(61)
Air traffic liability	174	232	(286)
Frequent flyer deferred revenue	82	(345)	(298)
Accounts payable and accrued liabilities	303	516	143
Other assets and liabilities	(373)	(98)	(138)
Other, net	(66)	105	(29)
Net cash provided by operating activities	$2,834	$2,832	$1,379
Cash Flows From Investing Activities:			
Property and equipment additions:			
Flight equipment, including advance payments	(907)	(1,055)	(951)
Ground property and equipment, including technology	(347)	(287)	(251)
Purchase of investments	(1,078)	(815)	—
Redemption of investments	844	149	256
Other, net	(10)	(18)	(62)
Net cash used in investing activities	(1,498)	(2,026)	(1,008)
Cash Flows From Financing Activities:			
Payments on long-term debt and capital lease obligations	(4,172)	(3,722)	(2,891)
Proceeds from long-term obligations	2,395	1,130	2,966
Fuel card obligation	318	—	—
Debt issuance costs	(63)	(19)	—
Restricted cash and cash equivalents	(51)	—	—
Other, net	2	90	(94)
Net cash used in financing activities	(1,571)	(2,521)	(19)
Net (Decrease) Increase in Cash and Cash Equivalents	(235)	(1,715)	352
Cash and cash equivalents at beginning of period	2,892	4,607	4,255
Cash and cash equivalents at end of period	$2,657	$2,892	$4,607
Supplemental disclosure of cash paid for interest	$925	$1,036	$867
Non-cash transactions:			

Flight equipment under capital leases	$117	$329	$57
JFK redevelopment project funded by third parties	126	—	—
Debt relief through vendor negotiations	—	160	—
Debt discount on American Express agreements	—	110	—
Aircraft delivered under seller financing	—	20	139

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

DELTA AIR LINES, INC.
Consolidated Statements of Stockholders' (Deficit) Equity

(in millions, except per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total
Balance at January 1, 2009	703	$ —	$ 13,714	$ (8,608)	$ (4,080)	8	$ (152)	$ 874
Comprehensive loss:								
Net loss	—	—	—	(1,237)	—	—	—	(1,237)
Other comprehensive income	—	—	—	—	517	—	—	517
Total comprehensive loss								(720)
Shares of common stock issued to settle bankruptcy claims under Delta's Plan of Reorganization	36	—	—	—	—	—	—	—
Shares of common stock issued to settle bankruptcy claims under Northwest's Plan of Reorganization	3	—	—	—	—	—	—	—
Shares of common stock issued to pilots in connection with the merger with Northwest (Treasury shares withheld for payment of taxes, $4.55 per share)(1)	50	—	—	—	—	—	(2)	(2)
Shares of common stock issued and compensation expense associated with equity awards (Treasury shares withheld for payment of taxes, $6.77 per share)(1)	3	—	108	—	—	3	(20)	88
Stock options exercised	—	—	5	—	—	—	—	5
Balance at December 31, 2009	795	—	13,827	(9,845)	(3,563)	11	(174)	245
Comprehensive income:								
Net income	—	—	—	593	—	—	—	593
Other comprehensive loss	—	—	—	—	(15)	—	—	(15)
Total comprehensive income								578
Shares of common stock issued to settle bankruptcy claims under Delta's Plan of Reorganization	44	—	—	—	—	—	—	—
Shares of common stock issued to settle bankruptcy claims under Northwest's Plan of Reorganization	5	—	—	—	—	—	—	—
Shares of common stock issued and compensation expense associated with equity awards (Treasury shares withheld for payment of taxes, $12.41 per share)(1)	3	—	89	—	—	2	(25)	64
Stock options exercised	1	—	10	—	—	—	—	10
Balance at December 31, 2010	848	—	13,926	(9,252)	(3,578)	13	(199)	897
Comprehensive loss:								
Net income	—	—	—	854	—	—	—	854
Other comprehensive loss	—	—	—	—	(3,188)	—	—	(3,188)
Total comprehensive loss								(2,334)
Shares of common stock issued to settle bankruptcy claims under Delta's Plan of	9	—	—	—	—	—	—	—

Reorganization								
Shares of common stock issued to settle bankruptcy claims under Northwest's Plan of Reorganization	1	—	—	—	—	—	—	—
Shares of common stock issued and compensation expense associated with equity awards (Treasury shares withheld for payment of taxes, \$9.63 per share)[1]	3	—	72	—	—	3	(32)	40
Stock options exercised	—	—	1	—	—	—	—	1
Balance at December 31, 2011	861	\$ —	\$ 13,999	\$ (8,398)	\$ (6,766)	16	\$ (231)	\$ (1,396)

(1) Weighted average price per share

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Delta Air Lines, Inc., a Delaware corporation, provides scheduled air transportation for passengers and cargo throughout the United States (“U.S.”) and around the world. Our Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”). We do not consolidate the financial statements of any company in which we have an ownership interest of 50% or less. We are not the primary beneficiary of, nor do we have a controlling financial interest in, any variable interest entity. Accordingly, we have not consolidated any variable interest entity. We reclassified certain prior period amounts, none of which were material, to conform to the current period presentation.

We have marketing alliances with other airlines to enhance our access to domestic and international markets. These arrangements may include codesharing, reciprocal frequent flyer program benefits, shared or reciprocal access to passenger lounges, joint promotions, common use of airport gates and ticket counters, ticket office co-location and other marketing agreements. We have received antitrust immunity for certain marketing arrangements, which enables us to offer a more integrated route network and develop common sales, marketing and discount programs for customers. Some of our marketing arrangements provide for the sharing of revenues and expenses. Revenues and expenses associated with collaborative arrangements are presented on a gross basis in the applicable line items on our Consolidated Statements of Operations.

On July 1, 2010, we sold Compass Airlines, Inc. (“Compass”) and Mesaba Aviation, Inc. (“Mesaba”), our wholly-owned subsidiaries, to Trans States Airlines, Inc. (“Trans States”) and Pinnacle Airlines Corp. (“Pinnacle”), respectively. Upon the closing of these transactions, we entered into new or amended long-term capacity purchase agreements with Compass, Mesaba and Pinnacle. Prior to these sales, expenses related to Compass and Mesaba as our wholly-owned subsidiaries were reported in the applicable expense line items. Subsequent to these sales, expenses related to Compass and Mesaba are reported as contract carrier arrangements expense.

Use of Estimates

We are required to make estimates and assumptions when preparing our Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the amounts reported in our Consolidated Financial Statements and the accompanying notes. Actual results could differ materially from those estimates.

Recent Accounting Standards

Revenue Arrangements with Multiple Deliverables ("ASU 2009-13"). In October 2009, the Financial Accounting Standards Board ("FASB") issued "Revenue Arrangements with Multiple Deliverables." The standard (1) revises guidance on when individual deliverables may be treated as separate units of accounting, (2) establishes a selling price hierarchy for determining the selling price of a deliverable, (3) eliminates the residual method for revenue recognition and (4) provides guidance on allocating consideration among separate deliverables. It applies only to contracts entered into or materially modified after December 31, 2010. We adopted this standard on a prospective basis beginning January 1, 2011. We determined that the only revenue arrangements impacted by the adoption of this standard are those associated with our frequent flyer program (the "SkyMiles Program"). See "Frequent Flyer Program" below.

Fair Value Measurement and Disclosure Requirements. In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective prospectively for fiscal years beginning after December 15, 2011. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

Cash and Cash Equivalents and Short-Term Investments

Short-term, highly liquid investments with maturities of three months or less when purchased are classified as cash and cash equivalents. Investments with maturities of greater than three months, but not in excess of one year, when purchased are classified as short-term investments.

Accounts Receivable

Accounts receivable primarily consist of amounts due from credit card companies from the sale of passenger airline tickets, customers of our aircraft maintenance and cargo transportation services and other companies for the purchase of mileage credits under our SkyMiles Program. We provide an allowance for uncollectible accounts equal to the estimated losses expected to be incurred based on historical chargebacks, write-offs, bankruptcies and other specific analyses. Bad debt expense was not material in any period presented.

Derivatives

Our results of operations are impacted by changes in aircraft fuel prices, interest rates and foreign currency exchange rates. In an effort to manage our exposure to these risks, we enter into derivative contracts and may adjust our derivative portfolio as market conditions change. We recognize derivative contracts at fair value on our Consolidated Balance Sheets.

Not Designated as Accounting Hedges. Effective June 2011, we stopped designating new fuel derivative contracts as accounting hedges and discontinued hedge accounting for our then existing fuel derivative contracts that previously had been designated as accounting hedges. As a result, we record market adjustments for changes in fair value to earnings in aircraft fuel and related taxes. Prior to this change in accounting designation, gains or losses on these contracts were deferred in accumulated other comprehensive loss until contract settlement.

Designated as Cash Flow Hedges. For derivative contracts designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period in which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in other (expense) income.

Designated as Fair Value Hedges. For derivative contracts designated as fair value hedges (interest rate contracts), the gain or loss on the derivative and the offsetting loss or gain on the hedge item attributable to the hedged risk are recognized in current earnings. We include the gain or loss on the hedged item in the same account as the offsetting loss or gain on the related derivative contract, resulting in no impact to our Consolidated Statements of Operations.

The following table summarizes the risk each type of derivative contract is hedging and the classification of related gains and losses on our Consolidated Statements of Operations:

Derivative Type	Hedged Risk	Classification of Gains and Losses
Fuel hedge contracts	Increases in jet fuel prices	Aircraft fuel and related taxes
Interest rate contracts	Increases in interest rates	Interest expense, net
Foreign currency exchange contracts	Fluctuations in foreign currency exchange rates	Passenger revenue

The following table summarizes the accounting treatment of our derivative contracts:

	Impact of Unrealized Gains and Losses	
Accounting Designation	Effective Portion	Ineffective Portion
Not designated as hedges	Change in fair value of hedge is recorded in earnings	
Designated as cash flow hedges	Market adjustments are recorded in accumulated other comprehensive loss	Excess, if any, over effective portion of hedge is recorded in other (expense) income
Designated as fair value hedges		

	Market adjustments are recorded in long-term debt and capital leases	Excess, if any, over effective portion of hedge is recorded in other (expense) income

We perform, at least quarterly, both a prospective and retrospective assessment of the effectiveness of our derivative contracts designated as hedges, including assessing the possibility of counterparty default. If we determine that a derivative is no longer expected to be highly effective, we discontinue hedge accounting prospectively and recognize subsequent changes in the fair value of the hedge in earnings. We believe our derivative contracts that continue to be designated as hedges, consisting of interest rate and foreign currency exchange contracts, will continue to be highly effective in offsetting changes in cash flow attributable to the hedged risk.

Hedge Margin. In accordance with our fuel, interest rate and foreign currency hedge contracts, we may require counterparties to fund the margin associated with our gain position and/or counterparties may require us to fund the margin associated with our loss position on these contracts. The amount of the margin, if any, is periodically adjusted based on the fair value of the hedge contracts. The margin requirements are intended to mitigate a party's exposure to the risk of contracting party default. We do not offset margin funded to counterparties or margin funded to us by counterparties against fair value amounts recorded for our hedge contracts.

The hedge margin we receive from counterparties is recorded in cash and cash equivalents or restricted cash, cash equivalents and short-term investments, with the offsetting obligation in accounts payable. The hedge margin we provide to counterparties is recorded in accounts receivable. All cash flows associated with purchasing and settling hedge contracts are classified as operating cash flows.

Passenger Tickets

We record sales of passenger tickets in air traffic liability. Passenger revenue is recognized when we provide transportation or when the ticket expires unused, reducing the related air traffic liability. We periodically evaluate the estimated air traffic liability and record any adjustments in our Consolidated Statements of Operations. These adjustments relate primarily to refunds, exchanges, transactions with other airlines and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

Taxes and Fees

We are required to charge certain taxes and fees on our passenger tickets, including U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are assessments on the customer for which we act as a collection agent. Because we are not entitled to retain these taxes and fees, we do not include such amounts in passenger revenue. We record a liability when the amounts are collected and reduce the liability when payments are made to the applicable government agency or operating carrier.

Frequent Flyer Program

The SkyMiles Program offers incentives to travel on Delta. This program allows customers to earn mileage credits by flying on Delta, regional air carriers with which we have contract carrier agreements (“Contract Carriers”) and airlines that participate in the SkyMiles Program, as well as through participating companies such as credit card companies, hotels and car rental agencies. We also sell mileage credits to non-airline businesses, customers and other airlines.

The SkyMiles Program includes two types of transactions that are considered revenue arrangements with multiple deliverables. As discussed below, these are (1) passenger ticket sales earning mileage credits and (2) the sale of mileage credits to participating companies with which we have marketing agreements. Mileage credits are a separate unit of accounting as they can be redeemed by customers in future periods for air travel on Delta and participating airlines, membership in our Sky Club and other program awards.

Passenger Ticket Sales Earning Mileage Credits. Passenger ticket sales earning mileage credits under our SkyMiles Program provide customers with two deliverables: (1) mileage credits earned and (2) air transportation. Effective January 1, 2011, we began applying the provisions of ASU 2009-13 to passenger tickets earning mileage credits. Under ASU 2009-13, we value each deliverable on a standalone basis. Our estimate of the standalone selling price of a mileage credit is based on an analysis of our sales of mileage credits to other airlines and customers and is re-evaluated at least annually. We use established ticket prices to determine the standalone selling price of air transportation. We allocate the total amount collected from passenger ticket sales between the deliverables based on their relative selling prices.

We defer revenue from the mileage credit component of passenger ticket sales and recognize it as passenger revenue when miles are redeemed and services are provided. We record the portion of the passenger ticket sales for air transportation in air traffic liability and recognize these amounts in passenger revenue when we provide transportation or when the ticket expires unused. The adoption of ASU 2009-13 did not have a material impact on the timing of revenue recognition or its classification with regard to passenger tickets earning mileage credits.

Prior to the adoption of ASU 2009-13, we used the residual method for revenue recognition. Under the residual method, we determined the fair value of the mileage credit component based on prices at which we sold mileage credits to other airlines and then considered the remainder of the amount collected to be the air transportation deliverable.

Sale of Mileage Credits. Customers may earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have two deliverables: (1) the mileage credits redeemable for future travel and (2) the marketing component.

ASU 2009-13 does not apply to contracts to sell mileage credits entered into prior to January 1, 2011 unless those contracts are materially modified. As of December 31, 2011, we had not materially modified any of our significant agreements. Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. For additional information about this relationship, see Note 6. For contracts entered into prior to January 1, 2011 that have not been materially modified since January 1, 2011, we continue to use the residual method for revenue recognition and value only the mileage credits. Under the residual method, the portion of the revenue from the mileage component is deferred and recognized as passenger revenue when miles are redeemed and services are provided. The portion of the revenue received in excess of the fair value of mileage credits sold, the marketing component, is recognized in income as other revenue when the related marketing services are provided. The fair value of a mileage credit is determined based on prices at which we sell mileage credits to other airlines and is re-evaluated at least annually.

If we enter into new contracts or materially modify existing contracts to sell mileage credits related to our SkyMiles Program, we will value the standalone selling price of the marketing component and allocate the revenue from the contract based on the relative selling price of the mileage credits and the marketing component. A material modification of an existing contract could impact our deferral rate or cause an adjustment to our deferred revenue balance, which could materially impact our future financial results.

Breakage. For mileage credits which we estimate are not likely to be redeemed ("Breakage"), we recognize the associated value proportionally during the period in which the remaining mileage credits are expected to be redeemed. The estimate of Breakage is based on historical redemption patterns. A change in assumptions as to the period over which mileage credits are expected to be redeemed, the actual redemption activity for mileage credits or the estimated fair value of mileage credits expected to be redeemed could have a material impact on our revenue in the year in which the change occurs and in future years.

Regional Carriers Revenue

During the year ended December 31, 2011, we had contract carrier agreements with nine Contract Carriers, including our wholly-owned subsidiary, Comair, Inc. ("Comair"). Our Contract Carrier agreements are structured as either (1) capacity purchase agreements where we purchase all or a portion of the Contract Carrier's capacity and are responsible for selling the seat inventory we purchase or (2) revenue proration agreements, which are based on a fixed dollar or percentage division of revenues for tickets sold to passengers traveling on connecting flight itineraries. We record revenue related to all of our Contract Carrier agreements as regional carriers passenger revenue. We record expenses related to our Contract Carrier agreements, excluding Comair, as contract carrier arrangements expense.

Cargo Revenue

Cargo revenue is recognized when we provide the transportation.

Other Revenue

Other revenue is primarily comprised of (1) the marketing component of the sale of mileage credits discussed above, (2) baggage fee revenue, (3) other miscellaneous service revenue, including ticket change fees and (4) revenue from ancillary businesses, such as the aircraft maintenance and repair and staffing services we provide to third parties.

Long-Lived Assets

The following table shows our property and equipment:

		December 31,	
(in millions, except for estimated useful life)	Estimated Useful Life	2011	2010
Flight equipment	21-30 years	$21,001	$20,312
Ground property and equipment	3-40 years	3,256	3,123
Flight and ground equipment under capital leases	Shorter of lease term or estimated useful life	1,127	988
Assets constructed for others	30 years	234	—
Advance payments for equipment		77	48
Less: accumulated depreciation and amortization		(5,472)	(4,164)
Total property and equipment, net		$20,223	$20,307

We record property and equipment at cost and depreciate or amortize these assets on a straight-line basis to their estimated residual values over their estimated useful lives. The estimated useful life for leasehold improvements is the shorter of lease term or estimated useful life. Depreciation expense for the years ended December 31, 2011, 2010 and 2009 was $1.4 billion, $1.4 billion and $1.3 billion, respectively. Residual values for owned spare parts and simulators are generally 5% of cost except when guaranteed by a third party for a different amount.

We capitalize certain internal and external costs incurred to develop and implement software, and amortize those costs over an estimated useful life of three to seven years. For the years ended December 31, 2011, 2010 and 2009, we recorded $64 million, $71 million and $95 million, respectively, for amortization of capitalized software. The net book value of these assets totaled $200 million and $153 million at December 31, 2011 and 2010, respectively.

We record impairment losses on flight equipment and other long-lived assets used in operations when events and circumstances indicate the assets may be impaired and the estimated future cash flows generated by those assets are less than their carrying amounts. Factors which could cause impairment include, but are not limited to, (1) a decision to permanently remove flight equipment or other long-lived assets from operations, (2) significant changes in the estimated useful life, (3) significant changes in projected cash flows, (4) permanent and significant declines in fleet fair values and (5) changes to the regulatory environment. For long-lived assets held for sale, we discontinue depreciation and record impairment losses when the carrying amount of these assets is greater than the fair value less the cost to sell.

To determine whether impairments exist for aircraft used in operations, we group assets at the fleet-type level (the lowest level for which there are identifiable cash flows) and then estimate future cash flows based on projections of capacity, passenger mile yield, fuel costs, labor costs and other relevant factors. If an impairment occurs, the impairment loss recognized is the amount by which the aircraft's carrying amount exceeds its estimated fair value. We estimate aircraft fair values using published sources, appraisals and bids received from third parties, as available.

Goodwill and Other Intangible Assets

We apply a fair value-based impairment test to the net book value of goodwill and indefinite-lived intangible assets on an annual basis (as of October 1) and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. In September 2011, the FASB issued "Testing Goodwill for Impairment." The standard revises the way in which entities test goodwill for impairment. We adopted this standard and applied its provisions to our annual goodwill impairment test in the December 2011 quarter.

We value goodwill and identified intangible assets primarily using market capitalization and income approach valuation techniques. These measurements include the following significant unobservable inputs: (1) our projected revenues, expenses and cash flows, (2) an estimated weighted average cost of capital, (3) assumed discount rates depending on the asset and (4) a tax rate. These assumptions are consistent with those hypothetical market participants would use. Since we are required to make estimates and assumptions when evaluating goodwill and indefinite-lived intangible assets for impairment, the actual amounts may differ materially from these estimates.

Changes in assumptions or circumstances could result in impairment. Factors which could cause impairment include, but are not limited to, (1) negative trends in our market capitalization, (2) an increase in fuel prices, (3) declining passenger mile yields, (4) lower passenger demand as a result of the weakened U.S. and global economy, (5) interruption to our operations due to an employee strike, terrorist attack, or other reasons, (6) changes to the regulatory environment and (7) consolidation of competitors in the airline industry.

Goodwill. As of December 31, 2011 and 2010, our goodwill balance was $9.8 billion. In evaluating goodwill for impairment, we estimate the fair value of our reporting unit by considering market capitalization and other factors if it is more likely than not that the fair value of our reporting unit is less than its carrying value. If the reporting unit's fair value exceeds its carrying value, no further testing is required. If, however, the reporting unit's carrying value exceeds its fair value, we then determine the amount of the impairment charge, if any. We recognize an impairment charge if the carrying value of the reporting unit's goodwill exceeds its estimated fair value.

Identifiable Intangible Assets. Our identifiable intangible assets had a net carrying amount of $4.8 billion at December 31, 2011. Indefinite-lived assets are not amortized and consist primarily of routes, slots, the Delta tradename and assets related to SkyTeam. Definite-lived intangible assets consist primarily of marketing agreements and contracts and are amortized on a straight-line basis or under the undiscounted cash flows method over the estimated economic life of the respective agreements and contracts. Costs incurred to renew or extend the term of an intangible asset are expensed as incurred.

We perform the impairment test for indefinite-lived intangible assets by comparing the asset's fair value to its carrying value. Fair value is estimated based on (1) recent market transactions, where available, (2) the lease savings method for certain airport slots (which reflects potential lease savings from owning the slots rather than leasing them from another airline at market rates), (3) the royalty method for the Delta tradename (which assumes hypothetical royalties generated from using our tradename) or (4) projected discounted future cash flows. We recognize an impairment charge if the asset's carrying value exceeds its estimated fair value.

Income Taxes

We account for deferred income taxes under the liability method. We recognize deferred tax assets and liabilities based on the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by current enacted tax rates. Deferred tax assets and liabilities are recorded net as current and noncurrent deferred income taxes. A valuation allowance is recorded to reduce deferred tax assets when necessary. For additional information about our valuation allowance, see Note 11.

Manufacturers' Credits

We periodically receive credits in connection with the acquisition of aircraft and engines. These credits are deferred until the aircraft and engines are delivered, and then applied on a pro rata basis as a reduction to the cost of the related equipment.

Maintenance Costs

We record maintenance costs to aircraft maintenance materials and outside repairs. Maintenance costs are expensed as incurred, except for costs incurred under power-by-the-hour contracts, which are expensed based on actual hours flown. Power-by-the-hour contracts transfer certain risk to third party service providers and fix the amount we pay per flight hour to the service provider in exchange for maintenance and repairs under a predefined maintenance program. Modifications that enhance the operating performance or extend the useful lives of airframes or engines are capitalized and amortized over the remaining estimated useful life of the asset or the remaining lease term, whichever is shorter.

Inventories

Inventories of expendable parts related to flight equipment are carried at moving average cost and charged to operations as consumed. An allowance for obsolescence is provided over the remaining useful life of the related fleet for spare parts expected to be available at the date aircraft are retired from service. We also provide allowances for parts identified as excess or obsolete to reduce the carrying costs to the lower of cost or net realizable value. These parts are assumed to have an estimated residual value of 5% of the original cost.

Advertising Costs

We expense advertising costs as other selling expenses in the year incurred. Advertising expense was $214 million, $169 million and $176 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Commissions

Passenger commissions are recognized in operating expense when the related revenue is recognized.

NOTE 2. FAIR VALUE MEASUREMENTS

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than 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 are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

(a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

(b) Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost); and

(c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

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

(in millions)	December 31, 2011	Level 1	Level 2	Level 3	Valuation Technique
Cash equivalents	$ 2,357	$2,357	$—	$—	(a)
Short-term investments	958	958	—	—	(a)
Restricted cash equivalents and short-term investments	341	341	—	—	(a)

Long-term investments	188	55	24	109	(a)(c)
Hedge derivatives, net					
Fuel hedge contracts	70	—	70	—	(a)(c)
Interest rate contracts	(91	) —	(91	) —	(a)(c)
Foreign currency exchange contracts	(89	) —	(89	) —	(a)

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(in millions)	December 31, 2010	Level 1	Level 2	Level 3	Valuation Technique
Cash equivalents	$ 2,696	$2,696	$—	$—	(a)
Short-term investments	718	718	—	—	(a)
Restricted cash equivalents and short-term investments	440	440	—	—	(a)
Long-term investments	144	—	25	119	(a)(c)
Hedge derivatives, net					
Fuel hedge contracts	351	—	351	—	(a)(c)
Interest rate contracts	(74)	—	(74)	—	(a)(c)
Foreign currency exchange contracts	(96)	—	(96)	—	(a)

Cash Equivalents, Short-term Investments and Restricted Cash Equivalents and Short-term Investments. Cash equivalents and short-term investments generally consist of money market funds and treasury bills. Restricted cash equivalents and short-term investments are primarily held to meet certain projected self-insurance obligations and generally consist of money market funds and time deposits. A portion of our restricted cash equivalents and short-term investments are recorded in other noncurrent assets. Cash equivalents, short-term investments and restricted cash equivalents and short-term investments are recorded at cost, which approximates fair value. Fair value is based on the market approach using prices and other relevant information generated by market transactions involving identical or comparable assets.

Long-term Investments. Investments with maturities of greater than one year when purchased are recorded at fair value in other noncurrent assets. Our long-term investments are comprised primarily of student loan backed auction rate securities classified as available-for-sale and insured auction rate securities classified as trading securities. Any change in the fair value of these securities is recorded in accumulated other comprehensive loss or earnings, as appropriate. At December 31, 2011 and 2010, the fair value of our auction rate securities was $109 million and $119 million, respectively. The cost of these investments was $133 million and $143 million, respectively. These investments are classified in other noncurrent assets due to the protracted failure in the auction process and long-term nature of these contractual maturities.

Because auction rate securities are not actively traded, fair values were estimated by discounting the cash flows expected to be received over the remaining maturities of the underlying securities. We based the valuations on our assessment of observable yields on instruments bearing comparable risks and considered the creditworthiness of the underlying debt issuer. Changes in market conditions could result in further adjustments to the fair value of these securities.

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

• Fuel Derivatives. Our fuel hedge portfolio generally consists of call options; put options, combinations of two or more call options and put options; swap contracts; and futures contracts. The products underlying the hedge contracts are derivatives of jet fuel, such as heating oil, crude oil and low sulfur diesel. Option contracts are valued under the income approach using option pricing models based on data either readily observable in public markets, derived from public markets or provided by counterparties who regularly trade in public markets. Volatilities used in these valuations ranged from 16% to 47% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap contracts are valued under the income approach using a discounted cash flow model based on data either readily observable or derived from public markets. Discount rates used in these valuations ranged from 0.295% to 0.676% based on interest rates applicable to the maturity dates of the respective contracts. Futures contracts are traded on a public exchange and are valued based on quoted market prices.

- Interest Rate Derivatives. Our interest rate derivatives consist of swap contracts and are valued primarily based on data readily observable in public markets.

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

- Changes in Level 3. During 2011 and 2010, we did not have any hedge derivatives classified in Level 3. The following table shows the changes in our hedge derivatives, net classified in Level 3 during 2009:

(in millions)	Hedge Derivatives, Net
Balance at January 1, 2009	$(1,091)
Change in fair value included in other comprehensive income	1,230
Change in fair value included in earnings:	
Aircraft fuel and related taxes	(1,263)
Miscellaneous, net	31
Purchases and settlements, net	1,199
Transfers from Level 3[(1)]	(106)
Balance at December 31, 2009	$—

(1) During 2009, we implemented systems that better provide for the evaluation of certain inputs against market data. As a result, we reclassified our option contracts to Level 2.

For additional information regarding the composition and classification of our derivative contracts, see Note 3.

Benefit Plan Assets. Benefit plan assets relate to our defined benefit pension plans and certain of our postemployment benefit plans that are funded through trusts. The following table shows our benefit plan assets by asset class. These investments are presented net of the related benefit obligation in pension, postretirement, and related benefits. For additional information regarding benefit plan assets, see Note 10.

	December 31, 2011					December 31, 2010				
(in millions)	Total	Level 1	Level 2	Level 3	Valuation Technique	Total	Level 1	Level 2	Level 3	Valuation Technique
Common stock										
U.S.	$796	$796	$—	$—	(a)	$1,427	$1,402	$25	$—	(a)
Non-U.S.	910	875	—	35	(a)	1,090	1,058	—	32	(a)
Mutual funds										
U.S.	18	—	18	—	(a)	1	1	—	—	(a)
Non-U.S.	246	21	225	—	(a)	—	—	—	—	(a)
Non-U.S. emerging markets	2	—	2	—	(a)	314	—	314	—	(a)
Diversified fixed income	426	—	426	—	(a)	222	—	222	—	(a)
High yield	58	—	58	—	(a)(c)	209	—	209	—	(a)(c)
Commingled funds										
U.S.	917	—	917	—	(a)	1,776	—	1,776	—	(a)
Non-U.S.	783	—	783	—	(a)	514	—	514	—	(a)
Non-U.S. emerging markets	—	—	—	—	(a)	135	—	135	—	(a)
Diversified fixed income	776	—	776	—	(a)	458	—	458	—	(a)
High yield	92	—	92	—	(a)	93	—	93	—	(a)
Alternative investments										
Private equity	1,620	—	—	1,620	(a)(c)	1,559	—	—	1,559	(a)(c)
Real estate and natural resources	424	—	—	424	(a)(c)	396	—	—	396	(a)(c)
Hedge Funds	432	—	—	432	(a)(c)	—	—	—	—	
Fixed income	764	—	753	11	(a)(c)	551	—	511	40	(a)(c)
Foreign currency derivatives										

Assets	738	—	738	—	(a)	879	—	879	—	(a)
Liabilities	(735)	—	(735)	—	(a)	(874)	—	(874)	—	(a)
Cash equivalents and other	447	46	401	—	(a)	609	52	557	—	(a)
Total benefit plan assets	$8,714	$1,738	$4,454	$2,522		$9,359	$2,513	$4,819	$2,027	

Common Stock. Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Mutual and Commingled Funds. These funds are valued using the net asset value divided by the number of shares outstanding, which is based on quoted market prices of the underlying assets owned by the fund.

Alternative Investments. The valuation of alternative investments requires significant judgment due to the absence of quoted market prices as well as the inherent lack of liquidity and the long-term nature of these assets. Accordingly, these assets are generally classified in Level 3. Alternative investments include private equity, real estate, energy and timberland. Investments are valued based on valuation models where one or more of the significant inputs into the model cannot be observed and which require the development of assumptions. We also assess the potential for adjustment to the fair value of these investments due to the lag in the availability of data. In these cases, we solicit preliminary valuation updates at year-end from the investment managers and use that information and corroborating data from public markets to determine any needed adjustments to fair value.

Fixed Income. Investments include corporate bonds, government bonds, collateralized mortgage obligations and other asset backed securities. These investments are generally valued at the bid price or the average of the bid and ask price. Prices are based on pricing models, quoted prices of securities with similar characteristics, or broker quotes.

Hedge Funds. Our hedge fund investments are primarily made through shares of limited partnerships or similar limited liability structures for which a liquid secondary market does not exist. Hedge funds are considered Level 3 assets. Hedge funds are valued monthly by a third-party administrator that has been appointed by the fund's general partner.

Foreign Currency Derivatives. Our foreign currency derivatives consist of various forward contracts and are valued based on data readily observable in public markets.

Cash Equivalents and Other. These investments primarily consist of short term investment funds which are valued using the net asset value. Cash is not included in the table above.

Changes in Level 3. The following table shows the changes in our benefit plan assets classified in Level 3:

(in millions)	Private Equity	Real Estate	Hedge Funds	Common Stock	Fixed Income	Total
Balance at January 1, 2010	$1,216	$336	$—	$35	$46	$1,633
Actual return on plan assets:						
Related to assets still held at the reporting date	160	34	—	(1)	1	194
Related to assets sold during the period	64	4	—	—	4	72
Purchases and settlements, net	53	22	—	(2)	(11)	62
Transfers to Level 3	66	—	—	—	—	66
Balance at December 31, 2010	1,559	396	—	32	40	2,027
Actual return on plan assets:						
Related to assets still held at the reporting date	36	20	(8)	3	(10)	41
Related to assets sold during the period	42	5	—	(6)	12	53
Purchases and settlements, net	(17)	3	440	6	(31)	401
Balance at December 31, 2011	$1,620	$424	$432	$35	$11	$2,522

Assets Measured at Fair Value on a Nonrecurring Basis

(in millions)	Significant Unobservable Inputs (Level 3) December 31, 2011	December 31, 2010	Valuation Technique
Goodwill[1]	$9,794	$9,794	(a)(b)(c)
Indefinite-lived intangible assets[1] (see Note 5)	4,375	4,303	(a)(c)

[1] See Note 1, “Goodwill and Other Intangible Assets”, for a description of how these assets are tested for impairment.

In the September 2010 quarter, we recorded a $146 million impairment charge primarily related to our decision to substantially reduce Comair's fleet over the two years ending December 31, 2012 by retiring older, less-efficient CRJ-100/200 50-seat aircraft. In evaluating these aircraft for impairment, we estimated their fair value by utilizing a market approach considering (1) published market data generally accepted in the airline industry, (2) recent market transactions, where available, (3) the current and projected supply of and demand for these aircraft and (4) the condition and age of the aircraft. Based on our fair value assessments, these aircraft had an estimated fair value of $97 million and are classified in Level 3 of the three-tier fair value hierarchy.

NOTE 3. DERIVATIVES

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

Aircraft Fuel Price Risk

Our results of operations are materially impacted by changes in aircraft fuel prices. We actively manage our fuel price risk through a hedging program intended to provide an offset against increases in jet fuel prices. This fuel hedging program utilizes several different contract and commodity types, which are used together to create a risk mitigating hedge portfolio. The economic effectiveness of this hedge portfolio is frequently tested against our financial targets. The hedge portfolio is rebalanced from time to time according to market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates.

Effective June 2011, we stopped designating new fuel derivative contracts as accounting hedges and discontinued hedge accounting for our then existing fuel derivative contracts that previously had been designated as accounting hedges. As a result, we record market adjustments for changes in fair value to earnings in aircraft fuel and related taxes. Prior to this change in accounting designation, gains or losses on these contracts were deferred in accumulated other comprehensive loss until contract settlement.

The following table shows the impact of fuel hedge gains (losses) for both designated and undesignated contracts on aircraft fuel and related taxes on our Consolidated Statements of Operations:

(in millions)	Year Ended December 31, 2011	2010	2009
Effective portion reclassified from accumulated other comprehensive loss to earnings	$233	$(87)	$(1,344)
Market adjustments for changes in fair value	187	(2)	(15)
Gain (loss) recorded in aircraft fuel and related taxes	$420	$(89)	$(1,359)

Interest Rate Risk

Our exposure to market risk from adverse changes in interest rates is primarily associated with our long-term debt obligations. Market risk associated with our fixed and variable rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates.

In an effort to manage our exposure to the risk associated with our variable rate long-term debt, we periodically enter into derivative contracts comprised of interest rate swaps and call option agreements. We designate our interest rate contracts used to convert our interest rate exposure on a portion of our debt portfolio from a floating rate to a fixed rate as cash flow hedges, while those contracts converting our interest rate exposure from a fixed rate to a floating rate are designated as fair value hedges.

We also have exposure to market risk from adverse changes in interest rates associated with our cash and cash equivalents and benefit plan obligations. Market risk associated with our cash and cash equivalents relates to the potential decline in interest income from a decrease in interest rates. Pension, postretirement, postemployment, and worker's compensation obligation risk relates to the potential increase in our future obligations and expenses from a decrease in interest rates used to discount these obligations.

Foreign Currency Exchange Rate Risk

We are subject to foreign currency exchange rate risk because we have revenue and expense denominated in foreign currencies with our primary exposures being the Japanese yen and Canadian dollar. To manage exchange rate risk, we execute both our international revenue and expense transactions in the same foreign currency to the extent practicable. From time to time, we may also enter into foreign currency option and forward contracts. These foreign currency exchange contracts are designated as cash flow hedges.

Hedge Position

The following tables reflect the fair value asset (liability) positions, notional balances and maturity dates of our hedge contracts:

As of December 31, 2011:

(in millions)	Notional	Balance	Final Maturity Date	Prepaid Expenses and Other Assets	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges								
Interest rate contracts (cash flow hedges)	$989	U.S. dollars	May 2019	$—	$ —	$(27)	$ (57)	$ (84)
Interest rate contracts (fair value hedges)	$500	U.S. dollars	August 2022	—	—	—	(7)	(7)
Foreign currency exchange contracts	126,993 313	Japanese yen Canadian dollars	April 2014	7	5	(58)	(43)	(89)
Not designated as hedges								
Fuel hedge contracts	1,225	gallons - heating oil, crude oil, and jet fuel	December 2012	570	—	(500)	—	70
Total derivative contracts				$577	$ 5	$(585)	$ (107)	$ (110)

As of December 31, 2010:

(in millions)	Notional	Balance	Final Maturity Date	Prepaid Expenses and Other Assets	Other Noncurrent Assets	Other Accrued Liabilities	Other Noncurrent Liabilities	Hedge Derivatives, net
Designated as hedges								
Fuel hedge contracts	1,500	gallons - crude oil	February 2012	$328	$ 24	$—	$ —	$ 352
Interest rate contracts (cash flow hedges)	$1,143	U.S. dollars	May 2019	—	—	(35)	(39)	(74)

Foreign currency exchange contracts	141,100 233	Japanese yen Canadian dollars	November 2013	—	—	(60)	(36)	(96)
Not designated as hedges								
Fuel hedge contracts	192	gallons - crude oil and crude oil products	June 2012	27	14	(19)	(8)	14
Total derivative contracts				$ 355	$ 38	$ (114)	$ (83)	$ 196

Hedge Gains (Losses)

Gains (losses) related to our designated hedge contracts, including those previously designated as accounting hedges, are as follows:

	Effective Portion Reclassified from Accumulated Other Comprehensive Loss to Earnings			Effective Portion Recognized in Other Comprehensive Income (Loss)		
	Year Ended December 31,					
(in millions)	2011	2010	2009	2011	2010	2009
Fuel hedge contracts	$233	$(87)	$(1,344)	$(166)	$153	$1,268
Interest rate contracts	—	(5)	—	(8)	(28)	51
Foreign currency exchange contracts	(61)	(31)	(6)	7	(73)	11
Total designated	$172	$(123)	$(1,350)	$(167)	$52	$1,330

As of December 31, 2011, we recorded in accumulated other comprehensive loss $36 million of net losses on our hedge contracts scheduled to settle in the next 12 months.

Credit Risk

To manage credit risk associated with our aircraft fuel price, interest rate and foreign currency hedging programs, we select counterparties based on their credit ratings and limit our exposure to any one counterparty. We monitor our relative market position with each counterparty.

Our hedge contracts contain margin funding requirements, which are driven by changes in the price of the underlying hedged items and the contracts used. The margin funding requirements may cause us to post margin to counterparties or may cause counterparties to post margin to us as market prices in the underlying hedged items change. Due to the fair value position of our hedge contracts, we paid $30 million and received $119 million of net hedge margin from counterparties as of December 31, 2011 and 2010, respectively.

Our accounts receivable are generated largely from the sale of passenger airline tickets and cargo transportation services. The majority of these sales are processed through major credit card companies, resulting in accounts receivable that may be subject to certain holdbacks by the credit card processors. We also have receivables from the sale of mileage credits under our SkyMiles Program to participating airlines and non-airline businesses such as credit card companies, hotels, and car rental agencies. The credit risk associated with our receivables is minimal.

Self-Insurance Risk

We self-insure a portion of our losses from claims related to workers' compensation, environmental issues, property damage, medical insurance for employees and general liability. Losses are accrued based on an estimate of the ultimate aggregate liability for claims incurred, using independent actuarial reviews based on standard industry practices and our historical experience. A portion of our projected workers' compensation liability is secured with restricted cash collateral.

NOTE 4. JFK REDEVELOPMENT

During 2010, we began a redevelopment project at John F. Kennedy International Airport (“JFK”). At JFK, we currently operate domestic flights primarily at Terminal 2 and international flights at Terminal 3 under leases with the Port Authority of New York and New Jersey (“Port Authority”), which operates JFK. We also conduct flights from Terminal

4, which is operated by JFK International Air Terminal LLC (“IAT”), a private party, under its lease with the Port Authority.

We estimate the redevelopment project, which will be completed in stages over five years, will cost approximately $1.2 billion. The project currently includes the (1) enhancement and expansion of Terminal 4, including the construction of nine new international gates; (2) construction of a passenger connector between Terminal 2 and Terminal 4; (3) demolition of the outdated Terminal 3, which was constructed in 1960; and (4) development of the Terminal 3 site for aircraft parking positions. Construction at Terminal 4 has commenced and is scheduled to be completed in 2013. Upon completion of the Terminal 4 expansion, we will relocate our operations from Terminal 3 to Terminal 4, proceed with with the demolition of Terminal 3, and thereafter conduct coordinated flight operations from Terminals 2 and 4. Once our project is complete, we expect that passengers will benefit from an enhanced customer experience and improved operational performance, including reduced taxi times and better on-time performance.

In December 2010, the Port Authority issued approximately $800 million principal amount of special project bonds to fund the substantial majority of the project. Also in December 2010, we entered into a 33 year agreement with IAT (“Sublease”) to sublease space in Terminal 4. IAT is unconditionally obligated under its lease with the Port Authority to pay rentals from the revenues it receives from its operation and management of Terminal 4, including among others our rental payments under the Sublease, in an amount sufficient to pay principal and interest on the bonds. We do not guarantee payment of the bonds. The balance of the project costs will be provided by Port Authority passenger facility charges, Transportation Security Administration funding, and our contributions. Our future rental payments will vary based on our share of total passenger and baggage counts at Terminal 4, the number of gates we occupy in Terminal 4, IAT's actual expenses of operating Terminal 4 and other factors.

We will be responsible for the management and construction of the project and bear construction risk, including cost overruns. We record an asset for project costs as construction takes place regardless of funding source. These costs include design fees, labor, and construction permits, as well as physical construction costs such as paving, systems, utilities, and other costs generally associated with construction projects. The project will also include capitalized interest based on amounts we spend calculated based on our weighted average incremental borrowing rate. The related construction obligation is recorded as a non-current liability and is equal to project costs funded by parties other than us. Future rental payments will reduce the construction obligation and result in the recording of interest expense, calculated using the effective interest method. During the construction period, we will also incur costs for construction site ground rental expense and any remediation and abatement activities, all of which will be expensed as incurred. As of December 31, 2011, we have recorded $234 million as a fixed asset as if we owned the asset and $170 million as the related construction obligation.

We have an equity-method investment in the entity which owns IAT, our sublessor at Terminal 4. The Sublease requires us to pay certain fixed management fees. We determined the investment is a variable interest and assessed whether we have a controlling financial interest in IAT. Our rights under the Sublease with respect to management of Terminal 4 are consistent with rights granted to an anchor tenant under a standard airport lease. Accordingly, we do not consolidate the entity in which we have an investment in our Consolidated Financial Statements.

NOTE 5. INTANGIBLE ASSETS

Indefinite-Lived Intangible Assets

	Carrying Amount at December 31,	
(in millions)	2011	2010
International routes and slots	$2,240	$2,290
Delta tradename	850	850
SkyTeam	661	661
Domestic slots	624	502
Total	$4,375	$4,303

International Routes and Slots. In evaluating these assets for impairment, we estimated their fair value by utilizing an excess earnings method, which is an income approach. In the December 2011 quarter, we reduced flight frequencies between the U.S. and Moscow. Based primarily on our recent expectations regarding the use of our Moscow routes and slots, the carrying value of these routes and slots exceeded the estimated fair value. As a result of this decision, we recorded a $50 million impairment charge in restructuring and other items on our Consolidated Statement of Operations related to our international routes and slots. As of December 31, 2011, our remaining international routes and slots relate to our Japanese routes and slots.

In October 2010, the U.S. and Japan signed a bilateral agreement, which allows U.S. air carriers unlimited flying to and from Japan under route authorities granted by the U.S. Department of Transportation. Access to the primary Japanese airports (Haneda and Narita airports in Tokyo) continues to be regulated through allocations of slots, which limit the rights of carriers to operate at these airports. The U.S. and Japan have agreed on plans for a limited number of additional slots at these airports. The substantial number of slots we hold at Tokyo Narita Airport, combined with limited-entry rights we hold in other countries, enables us to operate a hub at Tokyo serving the Asia-Pacific region.

We currently believe that the current U.S.-Japan bilateral agreement and the March 2011 earthquake and tsunami will not have a significant long-term impact on our Pacific routes and slots; therefore, these assets continue to have an indefinite life and are not presently impaired. Negative changes to our operations could result in an impairment charge or a change from indefinite-lived to definite-lived in the period in which the changes occur or are projected to occur.

Domestic Slots. During December 2011, we closed the transactions contemplated under an agreement with US Airways including the exchange of takeoff and landing rights at LaGuardia Airport ("LaGuardia") and Reagan National airports. Under the agreement, (1) Delta acquired 132 slot pairs at LaGuardia from US Airways, (2) US Airways acquired from Delta 42 slot pairs at Reagan National; the rights to operate additional daily service to São Paulo, Brazil in 2015; and $66.5 million in cash. Additionally, Delta divested 16 slot pairs at LaGuardia and eight slot pairs at Reagan National to airlines with limited or no service at those airports and received $90 million in cash proceeds from the sale of the divested slot pairs. The divestiture of these slot pairs resulted in the recognition of a $43 million gain during the December 2011 quarter in restructuring and other items on our Consolidated Statement of Operations.

As of December 31, 2011, the 132 slot pairs acquired at LaGuardia were recorded at fair value. We estimated their fair value using a combination of limited market transactions and the lease savings method, which is an income approach. These assets are classified in Level 3 of the fair value hierarchy. The carrying value related to the 42 slot pairs at Reagan National acquired by US Airways was removed from our indefinite-lived intangible assets. In approving the transaction, the Department of Transportation restricted our use of the exchanged slots through July 2012. We recorded a deferred gain that will be recognized in 2012 as these restrictions lapse.

Definite-Lived Intangible Assets

	December 31, 2011		December 31, 2010	
(in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Marketing agreements	$730	$(486)	$730	$(428)
Contracts	193	(61)	193	(49)
Other	53	(53)	53	(53)
Total	$976	$(600)	$976	$(530)

Total amortization expense for the years ended December 31, 2011, 2010 and 2009 was $70 million, $79 million and $97 million, respectively. The following table summarizes the estimated aggregate amortization expense for each of the five succeeding fiscal years:

Years Ending December 31, (in millions)	
2012	$69
2013	68
2014	67
2015	67
2016	9

NOTE 6. AMERICAN EXPRESS RELATIONSHIP

General. Our agreements with American Express provide for joint marketing, grant certain benefits to Delta-American Express co-branded credit card holders ("Cardholders") and American Express Membership Rewards Program participants, and allow American Express to market to our customer database. Cardholders earn mileage credits for making purchases on their co-branded cards, may check their first bag for free on every Delta flight and enjoy other benefits while traveling with Delta. Additionally, participants in the American Express Membership Rewards program may exchange their points for mileage credits under the SkyMiles Program. As a result, we sell mileage credits at agreed upon rates to American Express for provision to their customers under the co-brand credit card program and the Membership Rewards program.

Advance Purchase of SkyMiles. In 2008, we entered into a multi-year extension of our American Express agreements and received $1.0 billion from American Express for an advance purchase of SkyMiles (the "prepayment"). The 2008 agreement provided that our obligations with respect to the advance purchase would be satisfied as American Express uses the purchased miles over a specified future period (“SkyMiles Usage Period”), rather than by cash payments from us to American Express. Due to the SkyMiles Usage Period and other restrictions placed upon American Express regarding the timing and use of the SkyMiles, we classified the $1.0 billion we received, the prepayment, as long-term debt.

In 2010, we amended our 2008 American Express agreement. The amendments, among other things, (1) provide that Cardholders may check their first bag for free on every Delta flight through June 2013 ("Baggage Fee Waiver Period"), (2) changed the SkyMiles Usage Period to a three-year period beginning in the December 2011 quarter from a two-year period beginning in December 2010 quarter, and (3) gave American Express the option to extend our agreements with them for one year.

During the SkyMiles Usage Period, which commenced during the December 2011 quarter, American Express will draw down on the prepayment instead of paying cash to Delta for SkyMiles used. As of December 31, 2011, $952 million of the original $1.0 billion debt (or prepayment) remained, including $333 million which is classified in current maturities of long-term debt and capital leases. As SkyMiles are used by American Express, we recognize the two separate revenue components of these SkyMiles consistent with our accounting policy discussed in Note 1. We defer revenue related to the portion of the mileage credits redeemable for future travel and recognize it as passenger revenue when miles are redeemed and services are provided. The value of the marketing component is determined under the residual method and recognized as other revenue as related marketing services are provided.

Annual Sale of SkyMiles. In December 2011, we further amended our American Express agreements and sold American Express $675 million of SkyMiles. Under the December 2011 amendment, we anticipate American Express will make additional purchases of $675 million of SkyMiles in each of 2012, 2013, and 2014. The December 2011 amendment also extends the Baggage Fee Waiver Period. The SkyMiles purchased pursuant to the December 2011 amendment may be used immediately by American Express. The usage of these SkyMiles is not restricted in any way. These annual purchases of SkyMiles will be recorded as deferred revenue within current liabilities. The portion of each purchase of SkyMiles related to mileage credits redeemable for future travel will be classified within frequent flyer deferred revenue and the portion related to the marketing component will be classified within other accrued liabilities.

The December 2011 amendment does not change the number of miles that we expect American Express to purchase from us over the next four years. It only impacts the timing of those purchases. The December 2011 amendment did not make any significant changes to the deliverables (the mileage credits sold and the marketing component). Therefore, it is not a material modification of the American Express agreements under the accounting guidance. A future material modification of the American Express agreements could impact our deferral rate or cause an adjustment to our deferred revenue balance, which could materially impact our future financial results. For additional information, see "Frequent Flyer Program" in Note 1.

Fuel Card Obligation. In December 2011, we also obtained a purchasing card with American Express for the purpose of buying jet fuel. The card currently carries a maximum credit limit of $612 million and must be paid monthly. As of December 31, 2011, we had $318 million outstanding on this purchasing card, which was classified as other accrued liabilities.

NOTE 7. LONG-TERM DEBT

The following table summarizes our long-term debt:

(in millions)	Interest Rate(s) per Annum at December 31, 2011		December 31, 2011	December 31, 2010
Senior Secured Credit Facilities:				
Term Loan Facility, due 2017	5.50%	variable [1]	$1,368	$—
Revolving Credit Facility, due 2016	undrawn	variable [1]	—	—
Senior Secured Exit Financing Facilities, due 2012 and 2014	n/a		—	1,450
Senior Secured Pacific Facilities:				
Pacific Routes Term Facility, due 2016	4.25%	variable [1]	248	247
Pacific Routes Revolving Facility, due 2013	undrawn	variable [1]	—	—
Senior Secured Notes, due 2014	9.50%	fixed	600	675
Senior Second Lien Notes, due 2015	12.25%	fixed	306	397
Bank Revolving Credit Facilities, due 2012	undrawn	variable [1]	—	—
Other Secured Financing Arrangements:				
Certificates, due in installments from 2012 to 2023	0.92% to 9.75%		4,677	5,310
Aircraft financings, due in installments from 2012 to 2025 [2]	0.86% to 6.76%		4,570	5,170
Other secured financings, due in installments from 2012 to 2031 [3]	2.25% to 6.12%		721	810
Total secured debt			12,490	14,059
American Express - Advance Purchase of SkyMiles [4]			952	1,000
Other unsecured debt, due in installments from 2012 to 2035	3.00% to 9.07%		355	383
Total unsecured debt			1,307	1,383
Total secured and unsecured debt			13,797	15,442
Unamortized discount, net			(737)	(935)
Total debt			13,060	14,507
Less: current maturities			(1,827)	(1,954)
Total long-term debt			$11,233	$12,553

(1) Interest rate equal to LIBOR (subject to a floor) or another index rate, in each case plus a specified margin.
(2) Secured by an aggregate of 269 aircraft.
(3) Primarily includes manufacturer term loans secured by spare parts, spare engines and aircraft, and real estate loans.
(4) For additional information about our debt associated with American Express, see Note 6.

Senior Secured Credit Facilities

In 2011, we entered into senior secured first-lien credit facilities (the “Senior Secured Credit Facilities”) to borrow up to $2.6 billion. The Senior Secured Credit Facilities consist of a $1.4 billion first-lien term loan facility (the “Term Loan Facility”) and a $1.2 billion first-lien revolving credit facility, up to $500 million of which may be used for the issuance of letters of credit (the “Revolving Credit Facility”).

Borrowings under the Term Loan Facility must be repaid annually in an amount equal to 1% of the original principal amount (to be paid in equal quarterly installments), with the balance due in April 2017. Borrowings under the Revolving Credit Facility are due in April 2016. At December 31, 2011, the Revolving Credit Facility was undrawn.

Our obligations under the Senior Secured Credit Facilities are guaranteed by substantially all of our domestic subsidiaries (the “Guarantors”). The Senior Secured Credit Facilities and the related guarantees are secured by liens on certain of our and the Guarantors' assets, including accounts receivable, inventory, flight equipment, ground property and equipment, certain non-Pacific international routes, domestic slots, real estate and certain investments (the "Collateral").

The Senior Secured Credit Facilities contain events of default customary for similar financings, including cross-defaults to other material indebtedness and certain change of control events. The Senior Secured Credit Facilities also include events of default specific to our business, including the suspension of all or substantially all of our flights and operations for more than five consecutive days (other than as a result of a Federal Aviation Administration suspension due to extraordinary events similarly affecting other major U.S. air carriers). Upon the occurrence of an event of default, the outstanding obligations may be accelerated and become due and payable immediately. For a discussion of related financial covenants, see "Key Financial Covenants" below.

Senior Secured Exit Financing Facilities

In connection with entering into the Senior Secured Credit Facilities, we retired the outstanding loans under our $2.5 billion senior secured exit financing facilities and terminated those facilities as well as an existing undrawn $100 million revolving credit facility. These retired senior secured exit financing facilities consisted of:

- $914 million first-lien revolving credit facility and an $86 million first-lien term loan due April 2012;
- $600 million first-lien synthetic revolving facility due April 2012; and
- $900 million second-lien term loan facility due April 2014.

Senior Secured Pacific Facilities

In 2009, we entered into a first-lien term loan facility in the aggregate principal amount of $250 million (the “Pacific Routes Term Facility”) and a first-lien revolving credit facility in the aggregate principal amount of $500 million (the “Pacific Routes Revolving Facility”), collectively the “Senior Secured Pacific Facilities.” The Senior Secured Pacific Facilities are guaranteed by the Guarantors and are secured by a first lien on our Pacific route authorities and certain related assets (the “Pacific Collateral”). Lenders under the Senior Secured Pacific Facilities and holders of the Senior Secured Notes (described below) have equal rights to payment and the Pacific Collateral.

During 2011, we refinanced and amended the Pacific Routes Term Facility to, among other things, (1) reduce the interest rate, (2) extend the maturity date from September 2013 to March 2016 and (3) modify certain negative covenants and default provisions to be substantially similar to those described above under “Senior Secured Credit Facilities.”

Borrowings under the Pacific Routes Term Facility must be repaid in an amount equal to 1% of the original principal amount of the term loans annually (to be paid in equal quarterly installments), with the balance due in March 2016. Borrowings under the Pacific Routes Revolving Facility are due in March 2013 and can be repaid and reborrowed without penalty. As of December 31, 2011, the Pacific Routes Revolving Facility was undrawn.

The Senior Secured Pacific Facilities contain mandatory prepayment provisions that require us in certain instances to prepay obligations under the Senior Secured Pacific Facilities in connection with dispositions of collateral. For a discussion of related financial covenants, see "Key Financial Covenants" below.

Senior Secured Notes

In 2009, we issued $750 million principal amount of Senior Secured Notes that mature in September 2014. We may redeem some or all of these notes at specified redemption prices. If we sell certain of our assets or if we experience specific kinds of changes in control, we must offer to repurchase the Senior Secured Notes. During 2011, we voluntarily redeemed $75 million principal amount of Senior Secured Notes. We also voluntarily redeemed $75 million principal amount of Senior Secured Notes in 2010.

The Senior Secured Notes are guaranteed by the Guarantors and are secured by the Pacific Collateral. Holders of the Senior Secured Notes and lenders under the Senior Secured Pacific Facilities (discussed above) have equal rights to payment and collateral.

The Senior Secured Notes contain events of default customary for similar financings, including cross-defaults to other material indebtedness. Upon the occurrence of an event of default, the outstanding obligations may be accelerated and become due and payable immediately. For a discussion of related financial covenants, see "Key Financial Covenants" below.

Senior Second Lien Notes

In conjunction with the issuance of the Senior Secured Notes, we issued $600 million principal amount of Senior Second Lien Notes that mature in March 2015. We may redeem some or all of the Senior Second Lien Notes on or after March 15, 2012 at specified redemption prices. If we sell certain of our assets or if we experience specific kinds of changes in control, we must offer to repurchase the Senior Second Lien Notes. During 2010, we repurchased in a cash tender offer $171 million principal amount of Senior Second Lien Notes.

Our obligations under the Senior Second Lien Notes are guaranteed by the Guarantors, and our obligations and the related guarantees are secured on a junior basis by security interests in the Pacific Collateral. The Senior Second Lien Notes include default provisions that are substantially similar to the ones described under “Senior Secured Notes due 2014” above. For a discussion of related financial covenants, see "Key Financial Covenants" below.

Key Financial Covenants

Our secured debt instruments discussed above include affirmative, negative and financial covenants that restrict our ability to, among other things, make investments, sell or otherwise dispose of collateral if we are not in compliance with the collateral coverage ratio tests described below, pay dividends or repurchase stock. We were in compliance with all covenants in our financing agreements at December 31, 2011. The financial covenants require us to maintain the minimum levels shown in the table below:

	Senior Secured Credit Facilities	Senior Secured Pacific Facilities	Senior Secured Notes	Senior Second Lien Notes
Minimum Fixed Charge Coverage Ratio (1)	1.20:1	1.20:1	n/a	n/a
Minimum Unrestricted Liquidity				
Unrestricted cash and permitted investments	$1.0 billion	n/a	n/a	n/a
Unrestricted cash, permitted investments, and undrawn revolving credit facilities	$2.0 billion	$2.0 billion	n/a	n/a
Minimum Collateral Coverage Ratio (2)	1.67:1 (3)	1.60:1	1.60:1	1.00:1

(1) Defined as the ratio of (a) earnings before interest, taxes, depreciation, amortization and aircraft rent, and other adjustments to net income to (b) the sum of gross cash interest expense (including the interest portion of our capitalized lease obligations) and cash aircraft rent expense, for the 12-month period ending as of the last day of each fiscal quarter.

(2) Defined as the ratio of (a) certain of the collateral that meets specified eligibility standards to (b) the sum of the aggregate outstanding obligations and certain other obligations.

(3) Excluding the non-Pacific international routes from the collateral for purposes of the calculation, the required minimum collateral coverage ratio is 0.75:1

Minimum Collateral Coverage Ratio. Under the Senior Secured Credit Facilities and the Senior Secured Pacific Facilities, if the collateral coverage ratios are not maintained, we must either provide additional collateral to secure our obligations, or we must repay the loans under the facilities by an amount necessary to maintain compliance with the collateral coverage ratios. Under the Senior Secured Notes and Senior Second Lien Notes, if the collateral coverage ratios are not maintained, we must generally pay additional interest on the notes at the rate of 2% per annum until the collateral coverage ratio equals at least the minimum. The value of the collateral that has been pledged in each facility may change over time, which may be reflected in appraisals of collateral required by our credit agreements and indentures. These changes could result from factors that are not under our control. A decline in the value of collateral could result in a situation where we may not be able to maintain the collateral coverage ratio.

Availability Under Revolving Credit Facilities

The table below shows our availability under revolving credit facilities as of December 31, 2011:

(in millions)	December 31, 2011
Revolving Credit Facility, due 2016	$1,225
Pacific Routes Revolving Facility, due 2013	500
Bank Revolving Credit Facility, due 2012	100
Total availability under revolving credit facilities	$1,825

Other Secured Financing Arrangements

During 2011, we retired $502 million of existing debt under our other secured financing arrangements prior to scheduled maturity. During 2010, we (1) repurchased in cash tender offers $129 million of Pass-Through Trust Certificates, (2) achieved $160 million of debt relief through vendor negotiations and (3) prepaid or repurchased $403 million of other existing debt.

In 2010, we also restructured $820 million of existing debt, including changes in applicable interest rates and other payment terms. To account for debt restructurings, we compare the net present value of future cash flows for each new debt instrument to the remaining cash flows of the existing debt. If there is at least a 10% change in cash flows, we treat the restructuring as a debt extinguishment. We record losses on extinguishment of debt for the difference between the fair value of the new debt and the carrying value of the existing debt. The carrying value of the existing debt includes any unamortized discounts or premiums, unamortized issuance costs, and any premiums paid to retire the existing debt.

Certificates. Pass-Through Trust Certificates and Enhanced Equipment Trust Certificates (“EETC”) (collectively, the “Certificates”) are secured by 262 aircraft. During the three years ended December 31, 2011, we received proceeds from offerings of EETC as shown in the table below.

(In millions, unless otherwise stated)	Proceeds Received 2011	2010	2009	Total Principal	Fixed Interest Rate	Offering Completion Date	Final Maturity Date	Collateral	
2011-1A	$293	$—	$—	$293	5.300%	April 2011	April 2019	26 aircraft	
2011-1B	102	—	—	102	7.125%	August 2011	October 2014	26 aircraft	(1)
2010-2A	204	270	—	474	4.950%	November 2010	May 2019	28 aircraft	
2010-2B	135	—	—	135	6.750%	February 2011	November 2015	28 aircraft	(1)
2010-1A	—	450	—	450	6.200%	July 2010	July 2018	24 aircraft	
2010-1B	100	—	—	100	6.375%	February 2011	January 2016	24 aircraft	(1)
2009-1A	—	288	281	569	7.750%	November 2009	December 2019	27 aircraft	
2009-1B	—	59	61	120	9.750%	November 2009	December 2016	27 aircraft	(1)
Total	$834	$1,067	$342	$2,243					

(1) Each of the B tranches are secured by the same aircraft that secure related A tranches.

As of December 31, 2010, $204 million held in escrow under the 2010-2A EETC was not recorded on the balance sheet as we had no right to these funds until the equipment notes securing the certificates were issued. We assessed whether the pass through trusts were variable interest entities required to be consolidated. Because our only obligation with respect to the trusts is to make interest and principal payments on the equipment notes held by the trusts and because we have no current rights to the escrowed funds, we concluded we do not have a variable interest in the related trusts. Accordingly, we did not consolidate them. As of December 31, 2011, no amounts remained in escrow.

Unamortized Discount, Net

Our unamortized discount, net results from fair value adjustments recorded in 2008 to reduce the carrying value of our long-term debt due to purchase accounting and an advance purchase of SkyMiles by American Express (see Note 6). As described in the table below, we amortize these adjustments over the remaining maturities of the respective debt to amortization of debt discount, net on our Consolidated Statements of Operations. During the years ended December 31, 2011, 2010 and 2009, we recorded $68 million, $391 million and $83 million in losses, respectively, from the early extinguishment of debt, which primarily related to the write-off of debt discounts.

Future Maturities

The following table summarizes scheduled maturities of our debt, including current maturities, at December 31, 2011:

Years Ending December 31, (in millions)	Total Secured and Unsecured Debt	Amortization of Debt Discount, net	
2012	$1,925	$(199)	
2013	1,558	(157)	
2014	2,286	(104)	
2015	1,347	(75)	
2016	1,240	(66)	
Thereafter	5,441	(136)	
Total	$13,797	$(737)	$13,060

Fair Value of Debt

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

	December 31,	
(in millions)	2011	2010
Total debt at par value	$13,797	$15,442
Unamortized discount, net	(737)	(935)
Net carrying amount	$13,060	$14,507
Fair value	$13,600	$15,400

NOTE 8. LEASE OBLIGATIONS

We lease aircraft, airport terminals, maintenance facilities, ticket offices and other property and equipment from third parties. Rental expense for operating leases, which is recorded on a straight-line basis over the life of the lease term, totaled $1.1 billion, $1.2 billion and $1.3 billion for the years ended December 31, 2011, 2010 and 2009, respectively. Amounts due under capital leases are recorded as liabilities, while assets acquired under capital leases are recorded as property and equipment. Amortization of assets recorded under capital leases is included in depreciation and amortization expense. Many of our aircraft, facility, and equipment leases include rental escalation clauses and/or renewal options. Our leases do not include residual value guarantees and we are not the primary beneficiary in or have other forms of variable interest with the lessor of the leased assets. As a result, we have not consolidated any of the entities that lease to us.

The following tables summarize, as of December 31, 2011, our minimum rental commitments under capital leases and noncancelable operating leases (including certain aircraft under Contract Carrier agreements) with initial or remaining terms in excess of one year:

Capital Leases

Years Ending December 31, (in millions)	Total
2012	$221
2013	196
2014	168
2015	155
2016	163
Thereafter	323
Total minimum lease payments	1,226
Less: amount of lease payments representing interest	(489)
Present value of future minimum capital lease payments	737
Plus: unamortized premium, net	(6)
Less: current obligations under capital leases	(117)
Long-term capital lease obligations	$614

Operating Leases

Years Ending December 31, (in millions)	Delta Lease Payments[1]	Contract Carrier Aircraft Lease Payments[2]	Total
2012	$926	$536	$1,462
2013	912	529	1,441
2014	862	518	1,380
2015	765	506	1,271
2016	677	449	1,126
Thereafter	6,660	928	7,588
Total minimum lease payments	$10,802	$3,466	$14,268

(1) Includes payments accounted for as construction obligations. See Note 4.

(2) Represents the minimum lease obligations under our Contract Carrier agreements with ExpressJet Airlines, Inc. (formerly Atlantic Southeast Airlines, Inc.), Chautauqua Airlines, Inc. (“Chautauqua”), Compass, Mesaba, Pinnacle, Shuttle America Corporation (“Shuttle America”) and SkyWest Airlines, Inc.

At December 31, 2011, we and our wholly-owned subsidiary Comair operated 111 aircraft under capital leases and 90 aircraft under operating leases. Our Contract Carriers under capacity purchase agreements (excluding Comair) operated 550 aircraft under operating leases.

NOTE 9. PURCHASE COMMITMENTS AND CONTINGENCIES

Aircraft Purchase Commitments

Future aircraft purchase commitments at December 31, 2011 are estimated to total approximately $6.8 billion and include 100 B-737-900ER aircraft, 18 B-787-8 aircraft and nine previously owned MD-90 aircraft. The following table shows the timing of these commitments:

Years Ending December 31, (in millions)	Total
2012	$215
2013	530
2014	745
2015	760
2016	760
Thereafter	3,810
Total	$6,820

During 2011, we entered into an agreement with The Boeing Company to purchase 100 B-737-900ER aircraft with deliveries beginning in 2013 and continuing through 2018. We have obtained committed long-term financing for a substantial portion of the purchase price of these aircraft.

Our aircraft purchase commitments do not include orders for five A319-100 aircraft and two A320-200 aircraft because we have the right to cancel these orders.

Contract Carrier Agreements

During the year ended December 31, 2011, we had contract carrier agreements with nine contract carriers, including our wholly-owned subsidiary, Comair. Our third-party contract carrier agreements have expiration dates ranging from 2016 to 2022.

Capacity Purchase Agreements. During the year ended December 31, 2011, seven Contract Carriers operated for us (in addition to Comair) under capacity purchase agreements. Under these agreements, the Contract Carriers operate some or all of their aircraft using our flight designator codes, and we control the scheduling, pricing, reservations, ticketing and seat inventories of those aircraft and retain the revenues associated with those flights. We pay those airlines an amount, as defined in the applicable agreement, which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services.

The following table shows our minimum fixed obligations under these capacity purchase agreements (excluding Comair). The obligations set forth in the table contemplate minimum levels of flying by the Contract Carriers under the respective agreements and also reflect assumptions regarding certain costs associated with the minimum levels of flying such as the cost of fuel, labor, maintenance, insurance, catering, property tax and landing fees. Accordingly, our actual payments under these agreements could differ materially from the minimum fixed obligations set forth in the table below.

Years Ending December 31, (in millions)	Amount[1]
2012	$2,340
2013	2,420
2014	2,430
2015	2,400
2016	2,100
Thereafter	5,700
Total	$17,390

(1) These amounts exclude Contract Carrier lease payments accounted for as operating leases, which are described in Note 8. The contingencies described below under “Contingencies Related to Termination of Contract Carrier Agreements” are also excluded from this table.

Revenue Proration Agreements. As of December 31, 2011, we had a revenue proration agreement with American Eagle Airlines, Inc. In addition, a portion of our Contract Carrier agreement with SkyWest Airlines, Inc. is structured as a revenue proration agreement. These revenue proration agreements establish a fixed dollar or percentage division of revenues for tickets sold to passengers traveling on connecting flight itineraries.

Contingencies Related to Termination of Contract Carrier Agreements

We may terminate without cause the Chautauqua agreement at any time and the Shuttle America agreement at any time after January 2016 by providing certain advance notice. If we terminate either the Chautauqua or Shuttle America agreements without cause, Chautauqua or Shuttle America, respectively, has the right to (1) assign to us leased aircraft that the airline operates for us, provided we are able to continue the leases on the same terms the airline had prior to the assignment and (2) require us to purchase or lease any aircraft the airline owns and operates for us at the time of the termination. If we are required to purchase aircraft owned by Chautauqua or Shuttle America, the purchase price would be equal to the amount necessary to (1) reimburse Chautauqua or Shuttle America for the equity it provided to purchase the aircraft and (2) repay in full any debt outstanding at such time that is not being assumed in connection with such purchase. If we are required to lease aircraft owned by Chautauqua or Shuttle America, the lease would have (1) a rate equal to the debt payments of Chautauqua or Shuttle America for the debt financing of the aircraft calculated as if 90% of the aircraft was debt financed by Chautauqua or Shuttle America and (2) other specified terms and conditions. Because these contingencies depend on our termination of the agreements without cause prior to their expiration dates, no obligation exists unless such termination occurs.

We estimate that the total fair values, determined as of December 31, 2011, of the aircraft Chautauqua or Shuttle America could assign to us or require that we purchase if we terminate without cause our contract carrier agreements with those airlines (the "Put Right") are approximately $134 million and $536 million, respectively. The actual amount we may be required to pay in these circumstances may be materially different from these estimates. If the Put Right is exercised, we must also pay the exercising carrier 10% interest (compounded monthly) on the equity the carrier provided when it purchased the put aircraft. These equity amounts for Chautauqua and Shuttle America total $25 million and $52 million, respectively.

Legal Contingencies

We are involved in various legal proceedings related to employment practices, environmental issues, antitrust matters and other matters concerning our business. We record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount of loss can be reasonably estimated. We cannot reasonably estimate the potential loss for certain legal proceedings because, for example, the litigation is in its early stages or the plaintiff does not specify the damages being sought. Although the outcome of the legal proceedings in which we are involved cannot be predicted with certainty, management believes that the resolution of these matters will not have a material adverse effect on our Consolidated Financial Statements.

Credit Card Processing Agreements

Our VISA/MasterCard and American Express credit card processing agreements provide that no cash reserve ("Reserve") is required, and no withholding of payment related to receivables collected will occur, except in certain circumstances, including when we do not maintain a required level of unrestricted cash. In circumstances in which the credit card processor can establish a Reserve or withhold payments, the amount of the Reserve or payments that may be withheld would be equal to the potential liability of the credit card processor for tickets purchased with VISA/MasterCard or American Express credit cards, as applicable, that had not yet been used for travel. There was no Reserve or amounts withheld as of December 31, 2011 and 2010.

Other Contingencies

General Indemnifications

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

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

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

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

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

Employees Under Collective Bargaining Agreements

At December 31, 2011, we had approximately 78,400 full-time equivalent employees. Approximately 16% of these employees were represented by unions, including the following domestic employee groups.

Employee Group	Approximate Number of Active Employees Represented	Union	Date on which Collective Bargaining Agreement Becomes Amendable
Delta Pilots	10,850	ALPA	December 31, 2012
Delta Flight Superintendents (Dispatchers)	340	PAFCA	December 31, 2013
Comair Pilots	790	ALPA	March 2, 2011
Comair Maintenance Employees	280	IAM	December 31, 2010
Comair Flight Attendants	550	IBT	December 31, 2010

All of our agreements with workgroups at our airline subsidiary, Comair, are currently amendable. Comair is in discussions with representatives of the respective unions and we cannot predict the outcome of those discussions.

Labor unions periodically engage in organizing efforts to represent various groups of our employees, including at our airline subsidiary, that are not represented for collective bargaining purposes.

War-Risk Insurance Contingency

As a result of the terrorist attacks on September 11, 2001, aviation insurers significantly (1) reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons (other than employees or passengers) for claims resulting from acts of terrorism, war or similar events and (2) increased the premiums for such coverage and for aviation insurance in general. Since September 24, 2001, the U.S. government has been providing U.S. airlines with war-risk insurance to cover losses, including those resulting from terrorism, to passengers, third parties (ground damage) and the aircraft hull. The coverage currently extends through September 30, 2012, and we expect the coverage to be further extended. The withdrawal of government support of airline war-risk insurance would require us to obtain war-risk insurance coverage commercially, if available. Such commercial insurance could have substantially less desirable coverage than that currently provided by the U.S. government, may not be adequate to protect our risk of loss from future acts of terrorism, may result in a material increase to our operating expenses or may not be obtainable at all, resulting in an interruption to our operations.

Other

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

NOTE 10. EMPLOYEE BENEFIT PLANS

We sponsor defined benefit and defined contribution pension plans, healthcare plans, and disability and survivorship plans for eligible employees and retirees and their eligible family members.

Defined Benefit Pension Plans. We sponsor defined benefit pension plans for eligible employees and retirees. These plans are closed to new entrants and frozen for future benefit accruals. The Pension Protection Act of 2006 allows commercial airlines to elect alternative funding rules ("Alternative Funding Rules") for defined benefit plans that are frozen. Delta elected the Alternative Funding Rules under which the unfunded liability for a frozen defined benefit plan may be amortized over a fixed 17-year period and is calculated using an 8.85% interest rate. We estimate the funding requirements under these plans will total approximately $700 million in 2012.

Defined Contribution Pension Plans. Delta sponsors several defined contribution plans. These plans generally cover different employee groups and employer contributions vary by plan. The cost associated with our defined contribution pension plans is shown in the tables below.

Postretirement Healthcare Plans. We sponsor healthcare plans that provide benefits to eligible retirees and their dependents who are under age 65. We have generally eliminated company-paid post age 65 healthcare coverage, except for (1) subsidies available to a limited group of retirees and their dependents and (2) a group of retirees who retired prior to 1987. Benefits under these plans are funded from current assets and employee contributions.

Postemployment Plans. We provide certain other welfare benefits to eligible former or inactive employees after employment but before retirement, primarily as part of the disability and survivorship plans. Substantially all employees are eligible for benefits under these plans in the event of a participant's death and/or disability.

Benefit Obligations, Fair Value of Plan Assets, and Funded Status

	Pension Benefits		Other Postretirement and Postemployment Benefits	
	December 31,		December 31,	
(in millions)	2011	2010	2011	2010
Benefit obligation at beginning of period	$17,506	$17,031	$3,298	$3,427
Service cost	—	—	52	58
Interest cost	969	982	180	196
Actuarial loss (gain)	1,860	570	311	(115)
Benefits paid, including lump sums and annuities	(1,042)	(1,013)	(328)	(333)
Participant contributions	—	—	54	59
Plan amendments	—	—	—	6
Special termination benefits	—	—	3	—
Settlements	—	(64)	—	—
Benefit obligation at end of period[1]	$19,293	$17,506	$3,570	$3,298
Fair value of plan assets at beginning of period	$8,249	$7,623	$1,120	$1,153
Actual (loss) gain on plan assets	(16)	975	(37)	140
Employer contributions	598	728	235	171
Participant contributions	—	—	54	59
Benefits paid, including lump sums and annuities	(1,042)	(1,013)	(400)	(403)
Settlements	—	(64)	—	—
Fair value of plan assets at end of period	$7,789	$8,249	$972	$1,120

Funded status at end of period	$(11,504)	$(9,257)	$(2,598)	$(2,178)

(1) At each period-end presented, our accumulated benefit obligations for our pension plans are equal to the benefit obligations shown above.

Balance Sheet Position

(in millions)	Pension Benefits December 31, 2011	Pension Benefits December 31, 2010	Other Postretirement and Postemployment Benefits December 31, 2011	Other Postretirement and Postemployment Benefits December 31, 2010
Current liabilities	$(16)	$(13)	$(137)	$(144)
Noncurrent liabilities	(11,488)	(9,244)	(2,460)	(2,034)
Total liabilities	$(11,504)	$(9,257)	$(2,597)	$(2,178)
Net actuarial (loss) gain	$(5,844)	$(3,299)	$(406)	$44
Prior service cost	—	—	(5)	(3)
Total accumulated other comprehensive (loss) income, pretax	$(5,844)	$(3,299)	$(411)	$41

During 2011, the net actuarial loss recorded in accumulated other comprehensive income related to our benefit plans increased to $6.3 billion from $3.3 billion. This increase is primarily due to (1) the decrease in discount rates from 2010 to 2011 and (2) a lower than expected actual return on plan assets in 2011.

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2012 are a net actuarial loss of $163 million. Amounts are generally amortized into accumulated other comprehensive income over the expected future lifetime of plan participants.

Net Periodic Cost

(in millions)	Pension Benefits Year Ended December 31, 2011	2010	2009	Other Postretirement and Postemployment Benefits Year Ended December 31, 2011	2010	2009
Service cost	$—	$—	$—	$52	$58	$53
Interest cost	969	982	1,002	180	196	207
Expected return on plan assets	(724)	(677)	(615)	(90)	(90)	(79)
Amortization of prior service benefit	—	—	—	(3)	(4)	18
Recognized net actuarial loss (gain)	55	48	33	(11)	(4)	(18)
Settlements	—	14	9	—	—	—
Special termination benefits	—	—	—	—	—	6
Net periodic cost	$300	$367	$429	$128	$156	$187
Defined contribution plan costs	377	334	306	—	—	—
Total cost	$677	$701	$735	$128	$156	$187

Assumptions

We used the following actuarial assumptions to determine our benefit obligations and our net periodic cost for the periods presented:

Benefit Obligations[(1)(2)]	December 31, 2011	December 31, 2010
Weighted average discount rate	4.94%	5.69%

	Year Ended December 31,		
Net Periodic Cost[(2)(4)]	2011	2010	2009
Weighted average discount rate - pension benefit	5.70%	5.93%	6.49%
Weighted average discount rate - other postretirement benefit	5.55%	5.75%	6.46%
Weighted average discount rate - other postemployment benefit	5.63%	5.88%	6.50%
Weighted average expected long-term rate of return on plan assets	8.93%	8.82%	8.83%
Assumed healthcare cost trend rate[(3)]	7.00%	7.50%	8.00%

(1) Our 2011 and 2010 benefit obligations are measured using a mortality table projected to 2015 and 2013, respectively.

(2) Future compensation levels do not impact our frozen defined benefit pension plans or other postretirement plans and impact only a small portion of our other postemployment liability.

(3) Assumed healthcare cost trend rate at December 31, 2011 is assumed to decline gradually to 5.00% by 2020 and remain level thereafter.

(4) Our assumptions reflect various remeasurements of certain portions of our obligations and represent the weighted average of the assumptions used for each measurement date.

Healthcare Cost Trend Rate. Assumed healthcare cost trend rates have an effect on the amounts reported for the other postretirement benefit plans. A 1% change in the healthcare cost trend rate used in measuring the accumulated plan benefit obligation for these plans at December 31, 2011, would have the following effects:

(in millions)	1% Increase	1% Decrease
Increase (decrease) in total service and interest cost	$5	$(5)
Increase (decrease) in the accumulated plan benefit obligation	$63	$(69)

Expected Long-Term Rate of Return. The expected long-term rate of return on plan assets is based primarily on plan-specific investment studies using historical market return and volatility data. Modest excess return expectations versus some public market indices are incorporated into the return projections based on the actively managed structure of the investment programs and their records of achieving such returns historically. We also expect to receive a premium for investing in less liquid private markets. We review our rate of return on plan asset assumptions annually. Our annual investment performance for one particular year does not, by itself, significantly influence our evaluation. The investment strategy for our defined benefit pension plan assets is to utilize a diversified mix of global public and private equity portfolios, public and private fixed income portfolios, and private real estate and natural resource investments to earn a long-term investment return that meets or exceeds our annualized return target.

Plan Assets

We have adopted and implemented investment policies for our defined benefit pension plans and disability and survivorship plan for pilots that incorporate strategic asset allocation mixes intended to best meet the plans' long-term obligations. This asset allocation policy mix utilizes a diversified mix of investments and is reviewed periodically. The weighted-average target and actual asset allocations for the plans are as follows:

	December 31, 2011	
	Target	Actual
Diversified fixed income	22%	23%
Domestic equity securities	21	20
Alternative investments	20	23
Non-U.S. developed equity securities	20	18
Non-U.S. emerging equity securities	6	5
Hedge funds	5	5
Cash equivalents	5	4

High yield fixed income	1	2
Total	100%	100%

The overall asset mix of the portfolios is more heavily weighted in equity-like investments. Active management strategies are utilized where feasible in an effort to realize investment returns in excess of market indices. For additional information regarding the fair value of pension assets, see Note 2.

Benefit Payments

Benefit payments in the table below are based on the same assumptions used to measure the related benefit obligations and are paid from both funded benefit plan trusts and current assets. Actual benefit payments may vary significantly from these estimates. Benefits earned under our pension plans and certain postemployment benefit plans are expected to be paid from funded benefit plan trusts, while our other postretirement benefits are funded from current assets.

The following table summarizes, the benefit payments that are scheduled to be paid in the years ending December 31:

(in millions)	Pension Benefits	Other Postretirement and Postemployment Benefits
2012	$1,060	$264
2013	1,070	263
2014	1,080	261
2015	1,097	261
2016	1,116	264
2017-2021	5,925	1,394

Other

We also sponsor defined benefit pension plans for eligible employees in certain foreign countries. These plans did not have a material impact on our Consolidated Financial Statements in any period presented.

Profit Sharing Program

Our broad based employee profit sharing program provides that, for each year in which we have an annual pre-tax profit, as defined, we will pay a specified portion of that profit to employees. Based on our pre-tax earnings for the years ended December 31, 2011 and 2010, we accrued $264 million and $313 million under the profit sharing program, respectively. We did not record an accrual under the profit sharing program in 2009.

NOTE 11. INCOME TAXES

Income Tax (Provision) Benefit

Our income tax (provision) benefit consisted of

	Year Ended December 31,		
(in millions)	2011	2010	2009
Current tax (provision) benefit	$83	$(7)	15
Deferred tax (provision) benefit	(349)	(265)	850
Decrease (increase) in valuation allowance	351	257	(521)
Income tax (provision) benefit	$85	$(15)	$344

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The following table presents the principal reasons for the difference between the effective tax rate and the U.S. federal statutory income tax rate:

	Year Ended December 31,		
	2011	2010	2009
U.S. federal statutory income tax rate	35.0 %	35.0 %	(35.0)%
State taxes	3.4	2.3	(1.8)
(Decrease) increase in valuation allowance	(45.7)	(42.3)	32.9
Release of uncertain tax position reserve	(9.0)	—	—
Income Tax Allocation[1]	—	—	(20.2)
Other, net	5.3	7.6	2.4
Effective income tax rate	(11.0)%	2.6 %	(21.7)%

(1) We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations (the "Income Tax Allocation"). For the year ended December 31, 2009, as a result of the Income Tax Allocation, we recorded a non-cash income tax benefit of $321 million on the loss from continuing operations, with an offsetting non-cash income tax expense of $321 million in other comprehensive income.

Deferred Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. The following table shows significant components of our deferred tax assets and liabilities:

	December 31,	
(in millions)	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	$6,647	$6,472
Pension, postretirement and other benefits	5,703	4,527
AMT credit carryforward	402	424
Deferred revenue	2,297	2,202
Rent expense	284	280
Reorganization items, net	395	674
Other	564	495
Valuation allowance	(10,705)	(9,632)
Total deferred tax assets	$5,587	$5,442
Deferred tax liabilities:		
Depreciation	$5,093	$4,837
Debt valuation	206	330
Intangible assets	1,755	1,731
Fuel hedge derivatives	32	73
Other	68	40
Total deferred tax liabilities	$7,154	$7,011

The following table shows the current and noncurrent deferred tax assets (liabilities):

	December 31,	
(in millions)	2011	2010
Current deferred tax assets, net	$461	$355
Noncurrent deferred tax liabilities, net	(2,028)	(1,924)
Total deferred tax liabilities, net	$(1,567)	$(1,569)

The current and noncurrent components of our deferred tax balances are generally 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 ("NOL") carryforwards, the classification is presented based on the expected reversal date of the temporary difference. Our valuation allowance has been allocated between current or noncurrent based on the percentages of current and noncurrent deferred tax assets to total deferred tax assets.

At December 31, 2011, we had (1) $402 million of federal alternative minimum tax ("AMT") credit carryforwards, which do not expire and (2) $16.8 billion of federal pretax NOL carryforwards, substantially all of which will not begin to expire until 2022.

Uncertain Tax Positions

The following table shows the amount of and changes to unrecognized tax benefits on our Consolidated Balance Sheets:

(in millions)	2011	2010	2009
Unrecognized tax benefits at beginning of period	$89	$66	$29
Gross increases-tax positions in prior period	1	—	1
Gross decreases-tax positions in prior period	(3)	(3)	(1)
Gross increases-tax positions in current period	1	29	40
Lapse of statute of limitations	(1)	(2)	—
Settlements	(65)	(1)	(3)
Unrecognized tax benefits at end of period[1]	$22	$89	$66

(1) Unrecognized tax benefits on our Consolidated Balance Sheets as of December 31, 2011, 2010 and 2009, include tax benefits of $5 million, $72 million, and $47 million, respectively, which will affect the effective tax rate when recognized.

We accrue interest and penalties related to unrecognized tax benefits in interest expense and operating expense, respectively. Interest and penalties are not material in any period presented.

We are currently under audit by the IRS for the 2010 and 2011 tax years.

Valuation Allowance

We periodically assess whether it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets and establish valuation allowances if it is not likely we will 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 financial results, our industry's historically cyclical financial results and potential current and future tax planning strategies. We cannot presently determine when we will be able to generate sufficient taxable income to realize our deferred tax assets. Accordingly, we have recorded a full valuation allowance against our net deferred tax assets. If we determine that it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets, we will reverse our valuation allowance (in full or in part), resulting in a significant income tax benefit in the period such a determination is made.

The following table shows the balance of our valuation allowance and the associated activity:

(in millions)	2011	2010	2009
Valuation allowance at beginning of period	$9,632	$9,897	$9,830

Income tax (provision) benefit	(351)	(257)	521
Other comprehensive income tax benefit (provision)	1,241	6	(308)
Other	183	(14)	(146)
Valuation allowance at end of period[1]	$10,705	$9,632	$9,897

(1) At December 31, 2011, 2010 and 2009, $2.5 billion, $1.2 billion and $1.2 billion of these balances were recorded in accumulated other comprehensive loss on our Consolidated Balance Sheets, respectively.

NOTE 12. EQUITY AND EQUITY COMPENSATION

Equity

We are authorized to issue 2.0 billion shares of capital stock, of which up to 1.5 billion may be shares of common stock, par value $0.0001 per share, and up to 500 million may be shares of preferred stock.

Preferred Stock. We may issue preferred stock in one or more series. The Board of Directors is authorized (1) to fix the descriptions, powers (including voting powers), preferences, rights, qualifications, limitations and restrictions with respect to any series of preferred stock and (2) to specify the number of shares of any series of preferred stock. We have not issued any preferred stock.

Treasury Stock. We generally withhold shares of Delta common stock to cover employees' portion of required tax withholdings when employee equity awards are issued or vest. These shares are valued at cost, which equals the market price of the common stock on the date of issuance or vesting. The weighted average cost of shares held in treasury was $14.19 and $15.33 as of December 31, 2011 and 2010, respectively.

Equity-Based Compensation

Our broad based equity and cash compensation plan provides for grants of restricted stock, stock options, performance awards, including cash incentive awards, and other equity-based awards (the "2007 Plan"). Shares of common stock issued under the 2007 Plan may be made available from authorized but unissued common stock or common stock we acquire. If any shares of our common stock are covered by an award that is canceled, forfeited or otherwise terminates without delivery of shares (including shares surrendered or withheld for payment of the exercise price of an award or taxes related to an award), such shares will again be available for issuance under the 2007 Plan. The 2007 Plan authorizes the issuance of up to 157 million shares of common stock. As of December 31, 2011, there were 34 million shares available for future grants.

We make long term incentive awards annually to eligible employees under the 2007 Plan. Generally, awards vest over time, subject to the employee's continued employment. Equity compensation expense for these awards is recognized in salaries and related costs over the employee's requisite service period (generally, the vesting period of the award) and totaled $72 million, $89 million and $108 million for the years ended December 31, 2011, 2010, and 2009, respectively. We record expense on a straight-line basis for awards with installment vesting. As of December 31, 2011, unrecognized costs related to unvested shares and stock options totaled $36 million. We expect substantially all unvested awards to vest.

Restricted Stock. Restricted stock is common stock that may not be sold or otherwise transferred for a period of time and is subject to forfeiture in certain circumstances. The fair value of restricted stock awards is based on the closing price of the common stock on the grant date. As of December 31, 2011, there were four million unvested restricted stock awards.

Stock Options. Stock options are granted with an exercise price equal to the closing price of Delta common stock on the grant date and generally have a 10-year term. We determine the fair value of stock options at the grant date using an option pricing model. As of December 31, 2011, there were 18 million outstanding stock option awards with a weighted average exercise price of $12.15, and 17 million were exercisable.

Performance Shares. Performance shares are long-term incentive opportunities which are payable in common stock or cash and are generally contingent upon our achieving certain financial goals.

Other. There was no tax benefit recognized in 2011, 2010 or 2009 related to equity-based compensation, as we record a full valuation allowance against our deferred tax assets due to the uncertainty regarding the ultimate realization of those assets.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table shows the components of accumulated other comprehensive income (loss):

(in millions)	Pension and Other Benefits Liabilities	Derivative Contracts[(1)]	Deferred Tax Valuation Allowance	Total
Balance at January 1, 2009	$(1,702)	$(863)	$(1,515)	$(4,080)
Changes in value	(540)	(20)	—	(560)
Reclassification into earnings	48	1,350	—	1,398
Income Tax Allocation	—	(321)	—	(321)
Tax effect	183	(491)	308	—
Balance at December 31, 2009	(2,011)	(345)	(1,207)	(3,563)
Changes in value	(121)	(71)	—	(192)
Reclassification into earnings	54	123	—	177
Tax effect	25	(19)	(6)	—
Balance at December 31, 2010	(2,053)	(312)	(1,213)	(3,578)
Changes in value	(3,062)	5	—	(3,057)
Reclassification into earnings	41	(172)	—	(131)
Tax effect	1,175	66	(1,241)	—
Balance at December 31, 2011	$(3,899)	$(413)	$(2,454)	$(6,766)

(1) Includes $321 million of deferred income tax expense that will remain in accumulated other comprehensive loss until all amounts in accumulated other comprehensive loss that relate to fuel derivatives which are designated as accounting hedges are recognized in the Consolidated Statement of Operations. All amounts relating to our fuel derivative contracts that were previously designated as accounting hedges will be recognized by June 2012 (original settlement date of those contracts). As a result, a non-cash income tax expense of $321 million will be recognized in the June 2012 quarter unless we enter into and designate additional fuel derivative contracts as accounting hedges prior to June 2012.

NOTE 14. GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise whose separate financial information is regularly reviewed by the chief operating decision maker and used in resource allocation and performance assessments.

We are managed as a single business unit that provides air transportation for passengers and cargo. This allows us to benefit from an integrated revenue pricing and route network. Our flight equipment forms one fleet, which is deployed through a single route scheduling system. When making resource allocation decisions, our chief operating decision maker evaluates flight profitability data, which considers aircraft type and route economics, but gives no weight to the financial impact of the resource allocation decision on an individual carrier basis. Our objective in making resource allocation decisions is to optimize our consolidated financial results.

Operating revenue is assigned to a specific geographic region based on the origin, flight path and destination of each flight segment. Our operating revenue by geographic region (as defined by the DOT) is summarized in the following table:

	Year Ended December 31,		
(in millions)	2011	2010	2009
Domestic	$22,649	$20,744	$19,043
Atlantic	6,499	5,931	4,970

Pacific	3,943	3,283	2,485
Latin America	2,024	1,797	1,565
Total	$35,115	$31,755	$28,063

Our tangible assets consist primarily of flight equipment, which is mobile across geographic markets. Accordingly, assets are not allocated to specific geographic regions.

NOTE 15. RESTRUCTURING AND OTHER ITEMS

The following table shows charges recorded in restructuring and other items on our Consolidated Statements of Operations:

	Year Ended December 31,		
(in millions)	2011	2010	2009
Facilities and fleet	$135	$202	$13
Severance and related costs	100	15	119
Intangible asset impairments (see Note 5)	50	—	—
Gain on divestiture of slots (see Note 5)	(43)	—	—
Merger-related items	—	233	275
Total restructuring and other items	$242	$450	$407

Facilities and Fleet. During 2011, we recorded charges related to our facilities consolidation and fleet assessments. In 2010, we recorded asset impairment charges related to the Comair fleet reduction initiative and our retired dedicated freighter aircraft. For additional information related to the Comair fleet reduction initiative, see Note 2.

Severance and Related Costs. During 2011, we recorded charges associated primarily with voluntary workforce reduction programs to align staffing with expected future capacity. In 2009, we recorded charges associated primarily with voluntary workforce reduction programs, including special termination benefits related to retiree healthcare. We do not expect to record any additional material charges related to these severance initiatives.

Merger-Related Items. Merger-related items are costs associated with Northwest and the integration of Northwest operations into Delta.

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

	Severance and related costs			Lease restructuring		
(in millions)	2011	2010	2009	2011	2010	2009
Liability at beginning of period	$20	$69	$50	$85	$74	$54
Additional costs and expenses	100	15	113	—	20	13
Other	—	—	—	—	14	19
Payments	(74)	(64)	(94)	(21)	(23)	(12)
Liability at end of period	$46	$20	$69	$64	$85	$74

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NOTE 16. EARNINGS (LOSS) PER SHARE

We calculate basic earnings (loss) per share by dividing the net income (loss) by the weighted average number of common shares outstanding. Shares issuable upon the satisfaction of certain conditions are considered outstanding and included in the computation of basic earnings (loss) per share. Accordingly, the calculation of basic earnings (loss) per share for the years ended December 31, 2011, 2010 and 2009 assumes there was outstanding at the beginning of each of these periods all 386 million shares of Delta common stock contemplated by Delta's Plan of Reorganization to be distributed to holders of allowed general, unsecured claims and nine million shares of Delta common stock reserved for issuance in exchange for shares of Northwest common stock that, but for our merger with Northwest Airlines in 2008, would have been issued under Northwest's Plan of Reorganization. Similarly, the calculation of basic loss per share for the year ended December 31, 2009 assumes there was outstanding at January 1, 2009, 50 million shares of Delta common stock we agreed to issue on behalf of pilots in connection with the merger.

The following table shows our computation of basic and diluted earnings (loss) per share:

	Year Ended December 31,		
(in millions, except per share data)	2011	2010	2009
Net income (loss)	$854	$593	$(1,237)
Basic weighted average shares outstanding	838	834	827
Dilutive effects of share based awards	6	9	—
Diluted weighted average shares outstanding	844	843	827
Basic earnings (loss) per share	$1.02	$0.71	$(1.50)
Diluted earnings (loss) per share	$1.01	$0.70	$(1.50)
Antidilutive common stock equivalents excluded from diluted earnings (loss) per share	17	22	35

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table summarizes our unaudited results of operations on a quarterly basis. The quarterly earnings (loss) per share amounts for a year will not add to the earnings (loss) per share for that year due to the weighting of shares used in calculating per share data.

	Three Months Ended			
(in millions, except per share data)	March 31	June 30(1)	September 30(2)(3)	December 31(2)
2011				
Operating revenue	$7,747	$9,153	$9,816	$8,399
Operating income (loss)	(92)	481	860	726
Net income (loss)	(318)	198	549	425
Basic earnings (loss) per share	(0.38)	0.24	0.66	0.51
Diluted earnings (loss) per share	(0.38)	0.23	0.65	0.50
2010				
Operating revenue	$6,848	$8,168	$8,950	$7,789
Operating income	68	852	1,003	294
Net income (loss)	(256)	467	363	19
Basic earnings (loss) per share	(0.31)	0.56	0.43	0.02
Diluted earnings (loss) per share	(0.31)	0.55	0.43	0.02

(1) During the June 2011 quarter, we recorded $144 million of charges related to severance and related costs and our facilities consolidation and fleet assessments.

(2) During the September 2011 quarter, we recorded $208 million of fuel hedge losses for mark-to-market adjustments recorded in periods other than the settlement period and in the December 2011 quarter, we recorded $164 million of fuel hedge gains for mark-to-market adjustments recorded in periods other than the settlement period.

(3) During the September 2010 quarter, we recorded (1) a $360 million loss associated with the primarily non-cash loss on extinguishment of debt, including the write-off of unamortized debt discount and (2) a $146 million charge related to the Comair fleet reduction initiative.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that the controls and procedures were effective as of December 31, 2011 to ensure that material information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

During the three months ended December 31, 2011, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that evaluation, management believes that our internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Ernst & Young LLP, an independent registered public accounting firm, which also audited our Consolidated Financial Statements for the year ended December 31, 2011. Ernst & Young LLP's report on our internal control over financial reporting is set forth below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of
Delta Air Lines, Inc.

We have audited Delta Air Lines, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Delta Air Lines, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Delta Air Lines, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Delta Air Lines, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2011 of Delta Air Lines, Inc. and our report dated February 10, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 10, 2012

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

Information required by this item is set forth under the headings “Corporate Governance Matters,” “Proposal 1 - Election of Directors - Certain Information About Nominees” and “Other Matters - Section 16 Beneficial Ownership Reporting Compliance” in our Proxy Statement to be filed with the Commission related to our Annual Meeting of Stockholders (“Proxy Statement”), and is incorporated by reference. Pursuant to instruction 3 to paragraph (b) of Item 401 of Regulation S-K, certain information regarding executive officers is contained in Part I of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is set forth under the headings “Director Compensation,” “Corporate Governance Matters - Compensation Committee Interlocks and Insider Participation” and “Executive Compensation” in our Proxy Statement and is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about the number of shares of common stock that may be issued under the 2007 Plan, Delta's only equity compensation plan, as of December 31, 2011.

Plan Category	(a) No. of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) No. of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))[1]
Equity compensation plans approved by securities holders	13,169,932	$ 10.46	33,768,712
Equity compensation plans not approved by securities holders	—	—	—
Total	13,169,932	$ 10.46	33,768,712

(1) Up to 157 million shares of common stock are available for issuance under the 2007 Plan. If any shares of our common stock are covered by an award under the 2007 Plan that is canceled, forfeited or otherwise terminates without delivery of shares (including shares surrendered or withheld for payment of the exercise price of an award or taxes related to an award), then such shares will again be available for issuance under the 2007 Plan. In addition to the 13,169,932 stock options outstanding, 3,770,002 shares of restricted stock remain unvested and a maximum of 3,534,456 shares of common stock may be issued upon the achievement of certain performance conditions under outstanding performance share awards as of December 31, 2011.

Other information required by this item is set forth under the heading “Beneficial Ownership of Securities” in our Proxy Statement and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is set forth under the headings “Corporate Governance Matters,” “Executive Compensation - Post-Employment Compensation - Other Benefits - Pre-Existing Medical Benefits Agreement Between Northwest and Mr. Anderson,” “Proposal 1 - Election of Directors” and “Pre-Existing Agreements with Northwest Airlines, Inc.” in our Proxy Statement and is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is set forth under the heading "Proposal 4 - Ratification of the Appointment of Independent Auditors" in our Proxy Statement and is incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1). The following is an index of the financial statements required by this item that are included in this Form 10-K:

(2). The schedule required by this item is included in Notes 11 and 15 to the Consolidated Financial Statements. All other financial statement schedules are not required or are inapplicable and therefore have been omitted.

(3). The exhibits required by this item are listed in the Exhibit Index to this Form 10-K. The management contracts and compensatory plans or arrangements required to be filed as an exhibit to this Form 10-K are listed as Exhibits 10.9(a) through 10.26 in the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 10th day of February, 2012.

DELTA AIR LINES, INC.

By: /s/ Richard H. Anderson
Richard H. Anderson
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 10th day of February, 2012 by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ Richard H. Anderson Richard H. Anderson	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Hank Halter Hank Halter	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Edward H. Bastian Edward H. Bastian	President and Director
/s/ Roy J. Bostock Roy J. Bostock	Director
/s/ John S. Brinzo John S. Brinzo	Director
/s/ Daniel A. Carp Daniel A. Carp	Chairman of the Board
/s/ David G. DeWalt David G. DeWalt	Director
/s/ John M. Engler John M. Engler	Director
/s/ Mickey P. Foret Mickey P. Foret	Director
/s/ Shirley C. Franklin Shirley C. Franklin	Director
/s/ David R. Goode David R. Goode	Director

/s/ Paula Rosput Reynolds Paula Rosput Reynolds	Director
/s/ Kenneth C. Rogers Kenneth C. Rogers	Director
/s/ Kenneth B. Woodrow Kenneth B. Woodrow	Director

EXHIBIT INDEX

Note to Exhibits: Any representations and warranties of a party set forth in any agreement (including all exhibits and schedules thereto) filed with this Annual Report on Form 10-K have been made solely for the benefit of the other party to the agreement. Some of those representations and warranties were made only as of the date of the agreement or such other date as specified in the agreement, may be subject to a contractual standard of materiality different from what may be viewed as material to stockholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts. Such agreements are included with this filing only to provide investors with information regarding the terms of the agreements, and not to provide investors with any other factual or disclosure information regarding the registrant or its business.

3.1	Delta's Certificate of Incorporation (Filed as Exhibit 3.1 to Delta's Current Report on Form 8-K as filed on April 30, 2007).*
3.2	Delta's By-Laws (Filed as Exhibit 3.1 to Delta's Current Report on Form 8-K as filed on May 22, 2008).*

Delta is not filing any instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10% of the total assets of Delta and its subsidiaries on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

10.1(a)	First Lien Revolving Credit and Guaranty Agreement, dated as of April 30, 2007, among Delta Air Lines, Inc., as Borrower, the subsidiaries of the Borrower named, as Guarantors, each of the Lenders from time to time party, JPMorgan Chase Bank, N.A., as administrative agent and as collateral agent, J.P. Morgan Securities, Inc. and Lehman Brothers Inc., as co-lead arrangers and joint bookrunners, UBS Securities LLC, as syndication agent and as joint bookrunner, and Calyon New York Brand and RBS Securities Corporation, as co-documentation agents (Filed as Exhibit 10.1(a) to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).*
10.1(b)	Second Lien Term Loan and Guaranty Agreement, dated as of April 30, 2007, among Delta Air Lines, Inc., as Borrower, the subsidiaries of the Borrower named, as Guarantors, each of the Lenders from time to time party, Goldman Sachs Credit Partners L.P. ("GSCP"), as administrative agent and as collateral agent, GSCP and Merrill Lynch Commercial Finance Corp., as co-lead arrangers and joint bookrunners, Barclays Capital, as syndication agent and as joint bookrunner, and Credit Suisse Securities (USA) LLC and C.I.T. Leasing Corporation, as co-documentation agents (Filed as Exhibit 10.1(b) to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).*
10.2	Credit and Guaranty Agreement, dated as of April 20, 2011, among Delta Air Lines, Inc., as Borrower, the subsidiaries of the Borrower named as Guarantors, each of the several Lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as administrative agent for the Lenders, J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, UBS Securities LLC, Barclays Capital, the investment banking division of Barclays Bank PLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers, J.P. Morgan Securities LLC, Barclays Capital, Citigroup Global Markets Inc., Credit Suisse AG, Cayman Islands Branch, Deutsche Bank Securities Inc., Goldman Sachs Lending Partners, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc. and UBS Securities LLC, as joint bookrunners, Goldman Sachs Lending Partners, LLC and UBS Securities LLC, as co-syndication agents, and Barclays Bank and Bank of America, N.A., as co-documentation agents (Filed as Exhibit 10.1 to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).*

10.3	Transaction Framework Agreement among Delta, Delta Master Executive Council, Northwest Master Executive Council and Air Line Pilots Association, International dated as of June 26, 2008 (Filed as Exhibit 10 to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).*
10.4	Letter Agreement, dated April 14, 2008, by an among Delta Air Lines, Inc., the Master Executive Council of Delta, and Air Line Pilots Association, International dated April 14, 2008 (Filed as Exhibit 10.2 to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).*
10.5	Anchor Tenant Agreement dated as of December 9, 2010 between JFK International Air Terminal LLC and Delta Air Lines, Inc. (Filed as Exhibit 10.4 to Delta's Annual Report on Form 10-K for the year ended December 31, 2010).*
10.6	Supplemental Agreement No. 13 to Purchase Agreement Number 2022, dated August 24, 2011, between The Boeing Company and Delta relating to Boeing Model 737NG Aircraft (the “B-737NG Purchase Agreement”) (Filed as Exhibit 10.1 to Delta's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).*/**

10.7	Letter Agreements, dated August 24, 2011, relating to the B-737NG Purchase Agreement (Filed as Exhibit 10.2 to Delta's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).*/**
10.8(a)	Aircraft General Terms Agreement, dated October 21, 1997, between Boeing and Delta (Filed as Exhibit 10.6 to Delta's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997).*/**
10.8(b)	Letter Agreement, dated August 24, 2011, relating to Revisions to Aircraft General Terms Agreement dated October 21, 1997 and the B-737NG Purchase Agreement (Filed as Exhibit 10.3(b) to Delta's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).*/**
10.9(a)	Benefit waiver agreement dated October 29, 2008 between Delta Air Lines, Inc. and Richard H. Anderson (Filed as Exhibit 10.11(b) to Delta's Annual Report on Form 10-K for the year ended December 31, 2008).*
10.9(b)	Benefit waiver agreement dated October 20, 2009 between Delta Air Lines, Inc. and Richard H. Anderson (Filed as Exhibit 10.8(c) to Delta's Annual Report on Form 10-K for the year ended December 31, 2009).*
10.10	Form of Benefit Waiver agreement dated March 1, 2011 between Delta and each of Edward H. Bastian, Michael H. Campbell, Stephen E. Gorman, Hank Halter, Glen W. Hauenstein and Richard B. Hirst (Filed as Exhibit 10.1 to Delta's Annual Report on Form 10-Q for the quarter ended March 31, 2011).*
10.11(a)	Delta Air Lines, Inc. 2007 Performance Compensation Plan (Filed as Exhibit 10.1 to Delta's Current Report on Form 8-K filed on March 22, 2007).*
10.11(b)	First Amendment to the Delta Air Lines, Inc. 2007 Performance Compensation Plan (Filed as Exhibit 10.12(b) to Delta's Annual Report on Form 10-K for the year ended December 31, 2008).*
10.11(c)	Form of Delta 2007 Performance Compensation Plan Award Agreement for Officers (Filed as Exhibit 10.1 to Delta's Current Report on Form 8-K filed on April 30, 2007).*
10.12(a)	Delta Air Lines, Inc. Officer and Director Severance Plan, as amended and restated as of January 2, 2009, as further amended October 20, 2009 (Filed as Exhibit 10.11(a) to Delta's Annual Report on Form 10-K for the year ended December 31, 2009).*
10.12(b)	Amendment to the Delta Air Lines, Inc. Officer and Director Severance Plan, as amended and restated as of January 2, 2009, as further amended October 20, 2009 (Filed as Exhibit 10.11(b) to Delta's Annual Report on Form 10-K for the year ended December 31, 2009).*
10.13	Description of Certain Benefits of Members of the Board of Directors and Executive Officers (Filed as Exhibit 10.2 to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).*
10.14(a)	Delta Air Lines, Inc. 2011 Long Term Incentive Program (Filed as Exhibit 10.10(a) to Delta's Annual Report on Form 10-K for the year ended December 31, 2010).*
10.14(b)	Model Award Agreement for the Delta Air Lines, Inc. 2011 Long Term Incentive Program (Filed as Exhibit 10.10(b) to Delta's Annual Report on Form 10-K for the year ended December 31, 2010).*
10.15	Delta Air Lines, Inc. 2012 Long Term Incentive Program.

10.16	Delta Air Lines, Inc. 2011 Management Incentive Plan (Filed as Exhibit 10.11 to Delta's Annual Report on Form 10-K for the year ended December 31, 2010).*
10.17	Delta Air Lines, Inc. 2012 Management Incentive Plan.
10.18(a)	Delta Air Lines, Inc. Merger Award Program (Filed as Exhibit 10.20(a) to Delta's Annual Report on Form 10-K for the year ended December 31, 2008).*
10.18(b)	Model Award Agreement for Delta Air Lines, Inc. Merger Award Program (Filed as Exhibit 10.20(b) to Delta's Annual Report on Form 10-K for the year ended December 31, 2008).*

10.19(a)	Management Compensation Agreement dated as of September 14, 2005 between Northwest Airlines, Inc. and Douglas M. Steenland (Filed as Exhibit 10.1 to Northwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).*
10.19(b)	Retention Agreement and Amendment to Management Compensation Agreement dated as of April 14, 2008 between Northwest Airlines, Inc. and Douglas M. Steenland (Filed as Exhibit 10.13 to Northwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.20	Letter Agreement dated as of June 11, 2008 between counsel for and on behalf of Mickey P. Foret and Aviation Consultants, LLC, and counsel for and on behalf of Northwest Airlines, Inc. (Filed as Exhibit 10.22 to Delta's Annual Report on Form 10-K for the year ended December 31, 2008).*
10.21(a)	Northwest Airlines, Inc. Excess Pension Plan for Salaried Employees (2001 Restatement) (Filed as Exhibit 10.28 to Northwest's Annual Report on Form 10-K for the year ended December 31, 2006).*
10.21(b)	First Amendment of Northwest Airlines Excess Pension Plan for Salaried Employees (2001 Restatement) (Filed as Exhibit 10.3 to Northwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).*
10.21(c)	Third Amendment of Northwest Airlines Excess Pension Plan for Salaried Employees (2001 Restatement) (Filed as Exhibit 10.1 to Northwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.22(a)	2007 Stock Incentive Plan (Filed as Exhibit 99.2 to Northwest's Current Report on Form 8-K filed on May 29, 2007).*
10.22(b)	Amendment No. 1 to the Northwest Airlines Corporation 2007 Stock Incentive Plan (Filed as Exhibit 10.2 to Northwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).*
10.22(c)	Amendment No. 2 to the Northwest Airlines Corporation 2007 Stock Incentive Plan (Filed as Exhibit 10.5 to Northwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.22(d)	Form of Award Agreement for Non-Qualified Stock Options Granted to Employees under the Northwest Airlines Corporation 2007 Stock Incentive Plan (Filed as Exhibit 99.5 to Northwest's Current Report on Form 8-K filed on May 29, 2007).*
10.22(e)	Amendment No. 1 to Form of Award Agreement for Non-Qualified Stock Options Granted to Employees under the Northwest Airlines Corporation 2007 Stock Incentive Plan (Filed as Exhibit 10.7 to Northwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.22(f)	Form of Award Agreement for Non-Qualified Stock Options Granted to Directors under the Northwest Airlines Corporation 2007 Stock Incentive Plan (Filed as Exhibit 10.4 to Northwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).*
10.22(g)	Amendment No. 1 to Form of Award Agreement for Non-Qualified Stock Options Granted to Directors under the Northwest Airlines Corporation 2007 Stock Incentive Plan (Filed as Exhibit 10.6 to Northwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.23	

Form of Offer of Employment dated October 31, 2008 between Delta Air Lines, Inc. and Richard B. Hirst (Filed as Exhibit 10.2 to Delta's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).*

10.24 Delta Air Lines, Inc. Restoration Long Term Disability Plan

10.25 Letter Agreement, dated February 2, 2012 between Delta Air Lines, Inc. and Richard H. Anderson

10.26 Letter Agreement, dated February 2, 2012 between Delta Air Lines, Inc. and Richard B. Hirst

12.1 Statement regarding computation of ratio of earnings to fixed charges for each fiscal year in the five-year period ended December 31, 2011.

21.1 Subsidiaries of the Registrant.

23.1 Consent of Ernst & Young LLP.

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act 2002.

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* Incorporated by reference.

** Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to requests for confidential treatment.