

United Continental Holdings, Inc.
Form 10-Q
October 21, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____ to _____

Commission	Exact Name of	State of	I.R.S. Employer
File Number	Registrant as Specified	Incorporation	Identification No
	in its Charter,		

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Principal Office

Address and Telephone

	Number		
001-06033	United Continental Holdings, Inc.	Delaware	36-2675207
001-11355	United Air Lines, Inc.	Delaware	36-2675206
	77 W. Wacker Drive		
	Chicago, Illinois 60601		
	(312) 997-8000		

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.

United Continental Holdings, Inc. Yes No
 United Air Lines, Inc. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

United Continental Holdings, Inc.	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
	Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company) Smaller reporting company	<input type="checkbox"/>
United Air Lines, Inc.	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
	Non-accelerated filer	<input checked="" type="checkbox"/>	(Do not check if a smaller reporting company) Smaller reporting company	<input type="checkbox"/>

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

United Continental Holdings, Inc. Yes No
 United Air Lines, Inc. Yes No

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

United Continental Holdings, Inc. Yes No
 United Air Lines, Inc. Yes No

OMISSION OF CERTAIN INFORMATION

United Air Lines, Inc. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 18, 2010.

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United Continental Holdings, Inc.	317,071,876 shares of common stock (\$0.01 par value)
United Air Lines, Inc.	205 (100% owned by United Continental Holdings, Inc.)

There is no market for United Air Lines, Inc. common stock.

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**United Continental Holdings, Inc. and Subsidiary Companies and
United Air Lines, Inc. and Subsidiary Companies
Report on Form 10-Q
For the Quarter Ended September 30, 2010**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UNITED CONTINENTAL HOLDINGS, INC.****STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)****(In millions, except per share amounts)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Operating revenues:				
Passenger Mainline	\$ 3,913	\$ 3,267	\$ 10,651	\$ 8,909
Passenger Regional Affiliates	1,076	844	2,937	2,252
Cargo	175	125	522	370
Other operating revenues	230	197	686	611
	5,394	4,433	14,796	12,142
Operating expenses:				
Aircraft fuel	1,242	1,064	3,398	2,528
Salaries and related costs	1,085	954	3,053	2,838
Regional Affiliates	914	775	2,640	2,154
Purchased services	278	279	821	852
Aircraft maintenance materials and outside repairs	262	253	729	718
Landing fees and other rent	240	226	709	676
Depreciation and amortization	224	220	652	675
Distribution expenses	161	145	452	402
Aircraft rent	82	88	244	265
Cost of third party sales	64	59	182	172
Impairments, merger-related costs and special items	63	43	187	250
Other operating expenses	244	239	691	699
	4,859	4,345	13,758	12,229
Income (loss) from operations	535	88	1,038	(87)
Other income (expense):				
Interest expense	(171)	(146)	(520)	(415)
Interest income	5	3	8	15
Interest capitalized	2	3	7	8
Miscellaneous, net	15	(10)	42	19
	(149)	(150)	(463)	(373)
Income (loss) before income taxes and equity in earnings of affiliates	386	(62)	575	(460)

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Income taxes		(4)	(1)	(46)
Income (loss) before equity in earnings of affiliates	386	(58)	576	(414)
Equity in earnings of affiliates, net of tax	1	1	2	3
Net income (loss)	\$ 387	\$ (57)	\$ 578	\$ (411)
Earnings (loss) per share, basic	\$ 2.30	\$ (0.39)	\$ 3.44	\$ (2.83)
Earnings (loss) per share, diluted	\$ 1.75	\$ (0.39)	\$ 2.78	\$ (2.83)

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions, except shares)

	(Unaudited) September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,938	\$ 3,042
Restricted cash	28	128
Receivables, less allowance for doubtful accounts	1,044	743
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2010 \$59; 2009 \$61)	286	472
Aircraft lease deposits maturing within one year	269	293
Deferred income taxes	74	63
Prepaid expenses and other	431	364
	7,070	5,105
Operating property and equipment:		
Owned:		
Flight equipment	8,578	8,303
Advances on flight equipment	51	
Other property and equipment	1,805	1,745
	10,434	10,048
Less accumulated depreciation and amortization	(2,433)	(2,010)
	8,001	8,038
Capital leases:		
Flight equipment	1,879	2,096
Other property and equipment	51	51
	1,930	2,147
Less accumulated amortization	(441)	(345)
	1,489	1,802
	9,490	9,840
Other assets:		
Intangibles, less accumulated amortization (2010 \$456; 2009 \$408)	2,400	2,455
Restricted cash	192	213

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Investments	101	88
Other, net	802	983
	3,495	3,739
	\$ 20,055	\$ 18,684

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNITED CONTINENTAL HOLDINGS, INC.****STATEMENTS OF CONSOLIDATED FINANCIAL POSITION****(In millions, except shares)**

	(Unaudited) September 30, 2010	December 31, 2009
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Advance ticket sales	\$ 1,991	\$ 1,492
Mileage Plus deferred revenue	1,676	1,515
Long-term debt maturing within one year	1,449	545
Accounts payable	889	803
Accrued salaries, wages and benefits	918	701
Current obligations under capital leases	461	426
Other	872	991
	8,256	6,473
Long-term debt	6,025	6,378
Long-term obligations under capital leases	906	1,194
Other liabilities and deferred credits:		
Mileage Plus deferred revenue	2,358	2,720
Postretirement benefit liability	1,948	1,928
Advanced purchase of miles	1,094	1,157
Deferred income taxes	583	551
Other	1,091	1,094
	7,074	7,450
Stockholders deficit:		
Preferred stock		
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 168,510,288 and 167,610,620 shares at September 30, 2010 and December 31, 2009, respectively	2	2
Additional capital invested	3,152	3,136
Retained deficit	(5,377)	(5,956)
Stock held in treasury, at cost	(31)	(28)
Accumulated other comprehensive income	48	35
	(2,206)	(2,811)
	\$ 20,055	\$ 18,684

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNITED CONTINENTAL HOLDINGS, INC.****CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)**

(In millions)

	Nine Months Ended September 30,	
	2010	2009
Cash flows provided (used) by operating activities:		
Net income (loss)	\$ 578	\$ (411)
Adjustments to reconcile to net cash provided (used) by operating activities		
Increase in advance ticket sales	499	145
Depreciation and amortization	652	675
Unrealized (gain)/loss on fuel derivatives and change in related pending settlements	(30)	(870)
Asset impairments and special items	112	250
Increase (decrease) in Mileage Plus deferred revenue and advanced purchase of miles	(118)	140
Decrease in fuel hedge collateral	10	903
Increase in receivables	(273)	(44)
Proceeds from lease amendment		160
Other, net	371	(70)
	1,801	878
Cash flows provided (used) by investing activities:		
Additions to property, equipment and deferred software	(212)	(230)
Advance deposits on aircraft	(42)	
(Increase) decrease in restricted cash	71	(37)
Proceeds from asset dispositions	25	77
Proceeds from asset sale-leasebacks		135
Other, net	6	3
	(152)	(52)
Cash flows provided (used) by financing activities:		
Proceeds from issuance of debt	1,995	321
Repayment of debt	(1,529)	(633)
Principal payments under capital leases	(201)	(129)
Increase in deferred financing costs	(30)	(9)
Proceeds from issuance of common stock		90
Decrease in lease deposits	11	22
Other, net	1	(2)
	247	(340)
Increase in cash and cash equivalents during the period	1,896	486
Cash and cash equivalents at beginning of the year	3,042	2,039

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Cash and cash equivalents at end of the period	\$ 4,938	\$ 2,525
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See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNITED AIR LINES, INC.****STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)****(In millions)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Operating revenues:				
Passenger Mainline	\$ 3,913	\$ 3,267	\$ 10,651	\$ 8,909
Passenger Regional Affiliates	1,076	844	2,937	2,252
Cargo	175	125	522	370
Other operating revenues	232	199	692	618
	5,396	4,435	14,802	12,149
Operating expenses:				
Aircraft fuel	1,242	1,064	3,398	2,528
Salaries and related costs	1,085	954	3,053	2,838
Regional Affiliates	914	775	2,640	2,154
Purchased services	278	279	821	852
Aircraft maintenance materials and outside repairs	262	253	729	718
Landing fees and other rent	240	226	709	676
Depreciation and amortization	224	220	652	675
Distribution expenses	161	145	452	402
Aircraft rent	82	88	244	267
Cost of third party sales	63	58	181	171
Impairments, merger-related costs and special items	63	43	187	250
Other operating expenses	240	240	686	699
	4,854	4,345	13,752	12,230
Income (loss) from operations	542	90	1,050	(81)
Other income (expense):				
Interest expense	(165)	(145)	(504)	(414)
Interest income	5	3	8	15
Interest capitalized	2	3	7	8
Miscellaneous, net	14	(11)	42	18
	(144)	(150)	(447)	(373)
Income (loss) before income taxes and equity in earnings of affiliates	398	(60)	603	(454)
Income taxes		(4)	(1)	(46)
Income (loss) before equity in earnings of affiliates	398	(56)	604	(408)
Equity in earnings of affiliates, net of tax	1	1	2	3

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Net income (loss)	\$ 399	\$ (55)	\$ 606	\$ (405)
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See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNITED AIR LINES, INC.****STATEMENTS OF CONSOLIDATED FINANCIAL POSITION****(In millions, except shares)**

	(Unaudited) September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,932	\$ 3,036
Restricted cash	28	128
Receivables, net of allowance for doubtful accounts	1,043	743
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2010 \$59; 2009 \$61)	286	472
Aircraft lease deposits maturing within one year	269	293
Receivables from related parties	118	73
Deferred income taxes	70	57
Prepaid expenses and other	420	352
	7,166	5,154
Operating property and equipment:		
Owned:		
Flight equipment	8,578	8,303
Advances on flight equipment	51	
Other property and equipment	1,805	1,745
	10,434	10,048
Less accumulated depreciation and amortization	(2,433)	(2,010)
	8,001	8,038
Capital leases:		
Flight equipment	1,879	2,096
Other property and equipment	51	51
	1,930	2,147
Less accumulated amortization	(441)	(345)
	1,489	1,802
	9,490	9,840
Other assets:		
Intangibles, less accumulated amortization (2010 \$456; 2009 \$408)	2,400	2,455

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Restricted cash	192	212
Investments	101	88
Other, net	799	976
	3,492	3,731
	\$ 20,148	\$ 18,725

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNITED AIR LINES, INC.****STATEMENTS OF CONSOLIDATED FINANCIAL POSITION**

(In millions, except shares)

	(Unaudited) September 30, 2010	December 31, 2009
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities:		
Advance ticket sales	\$ 1,991	\$ 1,492
Mileage Plus deferred revenue	1,676	1,515
Long-term debt maturing within one year	1,449	544
Accounts payable	894	806
Accrued salaries, wages and benefits	918	701
Current obligations under capital leases	461	426
Other	995	1,096
	8,384	6,580
Long-term debt	5,680	6,033
Long-term obligations under capital leases	906	1,194
Other liabilities and deferred credits:		
Mileage Plus deferred revenue	2,358	2,720
Postretirement benefit liability	1,948	1,928
Advanced purchase of miles	1,094	1,157
Deferred income taxes	503	469
Other	1,092	1,096
	6,995	7,370
Stockholder's deficit:		
Common stock at par, \$5 par value; authorized 1,000 shares; outstanding 205 at both September 30, 2010 and December 31, 2009		
Additional capital invested	3,416	3,401
Retained deficit	(5,281)	(5,888)
Accumulated other comprehensive income	48	35
	(1,817)	(2,452)
	\$ 20,148	\$ 18,725

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNITED AIR LINES, INC.****CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)****(In millions)**

	Nine Months Ended September 30,	
	2010	2009
Cash flows provided (used) by operating activities:		
Net income (loss)	\$ 606	\$ (405)
Adjustments to reconcile to net cash provided (used) by operating activities		
Increase in advance ticket sales	499	145
Depreciation and amortization	652	675
Unrealized (gain)/loss on fuel derivatives and change in related pending settlements	(30)	(870)
Asset impairments and special items	112	250
Increase (decrease) in Mileage Plus deferred revenue and advanced purchase of miles	(118)	140
Decrease in fuel hedge collateral	10	903
Increase in receivables	(272)	(38)
Proceeds from lease amendment		160
Other, net	338	(80)
	1,797	880
Cash flows provided (used) by investing activities:		
Additions to property, equipment and deferred software	(212)	(230)
Advance deposits on aircraft	(42)	
(Increase) decrease in restricted cash	71	(42)
Proceeds from asset dispositions	25	77
Proceeds from asset sale-leasebacks		135
Other, net	6	4
	(152)	(56)
Cash flows provided (used) by financing activities:		
Proceeds from issuance of debt	1,995	321
Repayment of debt	(1,528)	(632)
Principal payments under capital leases	(201)	(129)
Increase in deferred financing costs	(30)	(9)
Capital contribution from parent		89
Decrease in lease deposits	11	22
Other, net	4	
	251	(338)
Increase in cash and cash equivalents during the period	1,896	486
Cash and cash equivalents at beginning of the year	3,036	2,033

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Cash and cash equivalents at end of the period	\$ 4,932	\$ 2,519
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See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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UNITED CONTINENTAL HOLDINGS, INC. and

UNITED AIR LINES, INC.

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Basis of Presentation

United Continental Holdings, Inc. (together with its consolidated subsidiaries, UAL) is a holding company and its principal, wholly-owned subsidiaries are United Air Lines, Inc. (together with its consolidated subsidiaries, United) and, effective October 1, 2010, Continental Airlines, Inc. (Continental). As a consequence of the merger described in Note 2, Merger and Related Matters, UAL Corporation changed its name to United Continental Holdings, Inc. We sometimes use the words we, our, us, and the Company in this Form 10-Q for disclosures that relate to both UAL and United.

This Quarterly Report on Form 10-Q is a combined report of UAL and United, and does not include Continental as the merger had not closed as of September 30, 2010. Therefore, these *Combined Notes to Condensed Consolidated Financial Statements* (the Footnotes) apply to both UAL and United, unless otherwise noted. As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL.

Interim Financial Statements. The UAL and United unaudited condensed consolidated financial statements (the Financial Statements) shown here have been prepared as required by the U.S. Securities and Exchange Commission (the SEC). Some information and footnote disclosures normally included in financial statements that comply with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted as permitted by the SEC. The Financial Statements include all adjustments, including normal recurring adjustments and other adjustments such as asset impairment charges, which are considered necessary for a fair presentation of the Company s financial position and results of operations. Certain prior year amounts have been reclassified to conform to the current year s presentation. These Financial Statements should be read together with the information included in the combined UAL Corporation and United Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Annual Report).

Restricted Cash. Restricted cash primarily includes cash collateral associated with workers compensation obligations, reserves for institutions that process credit card ticket sales and cash collateral received from fuel hedge counterparties. Airline industry practice includes classification of restricted cash flows as either investing cash flows or operating cash flows. Cash flows related to restricted cash activity are classified as investing activities because the Company considers restricted cash arising from these activities similar to an investment. UAL s cash inflows (outflows) associated with its restricted cash balances for the nine month periods ended September 30, 2010 and 2009 were \$71 million and \$(37) million, respectively.

(2) Merger and Related Matters

Description of Transaction

On May 2, 2010, UAL Corporation, Continental and JT Merger Sub Inc., a wholly-owned subsidiary of UAL Corporation, entered into an Agreement and Plan of Merger (the merger agreement) providing for a merger of equals business combination. On October 1, 2010, JT Merger Sub Inc. merged with and into Continental, with Continental surviving as a wholly-owned subsidiary of UAL Corporation (the merger). Upon closing of the merger, UAL Corporation became the parent company of both Continental and United and UAL Corporation s name was changed to United Continental Holdings, Inc. Until the operational integration of United and Continental is complete, United and Continental will continue to operate as separate airlines.

Pursuant to the terms of the merger agreement, each outstanding share of Continental common stock was converted into and became exchangeable for 1.05 fully paid and nonassessable shares of UAL common stock with any fractional shares paid in cash. UAL issued approximately 148 million shares of UAL common stock to former holders of Continental common stock. Based on the closing price of \$23.66 per share of UAL common stock on The NASDAQ Global Select Market (NASDAQ) on September 30, 2010, the last trading day before the closing of the merger, the aggregate value of the consideration paid in connection with the merger to former holders of Continental common stock was approximately \$3.5 billion.

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The merger will be accounted for as a business combination using the acquisition method of accounting. The acquisition method of accounting requires, among other things, that most assets acquired and liabilities assumed be recognized on the balance sheet at their fair values as of the acquisition date. The excess of the purchase price will be recorded as goodwill.

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Goodwill will not be amortized, but will be tested for impairment at least annually. All information regarding the fair values of the assets acquired and liabilities assumed is not yet available due to the short period of time that has lapsed since the closing of the merger.

Expenses Related to the Merger

The merger and integration expenses are expected to be significant. While the Company has assumed that a certain level of expenses would be incurred, there are many factors that could affect the total amount or the timing of these expenses, and many of the expenses that will be incurred are, by their nature, difficult to estimate at the present time. These expenses could, particularly in the near term, exceed the financial benefits that the Company expects to achieve from the merger and will result in the Company taking significant charges against earnings.

The Company recorded merger-related costs of \$44 million and \$72 million in the three and nine month periods ended September 30, 2010, respectively. These costs are classified within Impairments, merger-related costs and special items in the statement of operations. UAL and United currently estimate that merger-related costs in the fourth quarter of 2010 may be at least \$380 million and \$240 million, respectively. The UAL estimate includes an estimate of Continental costs. These costs are expected to include investment banker fees, legal and other advisory fees, integration costs, contract termination costs, impairment of duplicative assets, and severance and benefits to departing employees earned upon merger close. Material additional expenses may be incurred in future periods as a result of the merger, including expenses arising from Continental commitments and contingencies that were assumed by UAL in the merger, further impairments of United and Continental duplicative assets, and additional integration costs, among others.

Tax Matters

The Company's ability to use its NOL carryforwards may be limited if UAL or Continental experiences an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). Based on currently available information, we believe the merger resulted in an ownership change of Continental under Section 382. It is not yet clear whether the merger also resulted in an ownership change of UAL under Section 382. Even if the merger did not result in an ownership change of UAL under Section 382, the merger would increase the possibility that the Company will experience an ownership change in the future in connection with potential future transactions involving the sale or issuance of its common stock. It is possible that an ownership change could occur if the Company issues its common stock in these potential future transactions. The Company is currently unable to estimate what impact, if any, a change in ownership under Section 382 would have on its NOL carryforward tax benefits. However, the Company does not believe that the impact on earnings would be material, because it has recorded a significant valuation allowance against its NOL carryforward tax benefits.

(3) New Accounting Pronouncements, Changes in Estimate and Change in Accounting

The Company follows a deferred revenue accounting policy to record the fair value of its Mileage Plus frequent flyer obligation. The Company defers the portion of the sales proceeds of ticketed revenue on United and its alliance partners, as well as revenue derived from mileage sales to third parties, that represents the estimated air transportation fair value of the miles awarded. This deferred revenue is then recognized when the miles are redeemed. Some of these miles will never be redeemed by Mileage Plus members, and the Company historically recognized an estimate of revenue from the expected expired miles, which is referred to as breakage, over an estimated redemption period. The Company reviews its breakage estimates annually based upon the latest available information regarding mileage redemption and expiration patterns.

During the first quarter of 2010, the Company obtained additional historical data, previously unavailable, which has enabled the Company to refine its estimate of the amount of breakage in the mileage population. This new data enables the Company to better identify historical differences between certain of its mileage breakage estimates and the amounts that have actually been experienced. As a result, the Company increased its estimate of the number of frequent flyer miles expected to expire. In conjunction with this change in estimate, the Company also adopted a change to the accounting methodology used to recognize Mileage Plus breakage. Both the change in estimate and methodology have been applied prospectively effective January 1, 2010. The new accounting method recognizes breakage as a component of the weighted average redemption rate on actual redemptions as compared to the Company's prior method which recognized a pool of breakage dollars over an estimated redemption period. The Company believes that this is a preferable change to the accounting methodology for breakage because breakage will be recognized as a component of the rate at which actual miles are redeemed.

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The Company estimates these changes increased passenger revenue by approximately \$65 million, or \$0.39 per basic share, in the three months ended September 30, 2010, and approximately \$205 million, or \$1.22 per basic share, in the nine months ended September 30, 2010. The related diluted per share impacts were \$0.28 per share for the three months ended September 30, 2010, and \$0.89 per share for the nine months ended September 30, 2010. The Company estimates the fourth quarter impact of these changes will be an approximately \$50 million increase in revenues. The Company has a profit sharing plan for which the annual payout is based on a percentage of pre-tax income. As these accounting changes increased revenue by an estimated \$205 million in the nine month period ended September 30, 2010, the accounting changes also had the impact of increasing profit sharing expense by approximately \$30 million in the same period.

During the first quarter of 2010, the Company evaluated the impact of its previously announced widebody aircraft purchase commitments on the remaining useful lives and residual values of its B747 and B767 aircraft, which are expected to be replaced by the new aircraft. During the second quarter of 2010, the Company evaluated the residual values for certain of its widebody aircraft because of the decrease in value of its nonoperating B747 aircraft as discussed below in Note 15, Asset Impairments, Merger-related Costs and Special Items. Based on these evaluations, the Company changed certain estimates of aircraft retirement dates and residual values, resulting in increases in depreciation expense of \$12 million, or \$0.05 per diluted share, in the three months ended September 30, 2010, and \$23 million, or \$0.10 per diluted share, in the nine months ended September 30, 2010. The Company expects the fourth quarter 2010 impact of these changes to be similar to the third quarter 2010 impact.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective beginning in the first quarter of 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after December 15, 2010. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not and will not affect the Company's financial condition, results of operations or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends certain concepts related to consolidation of variable interest entities. Among other accounting and disclosure requirements, this guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. The Company's adoption of this guidance effective January 1, 2010 did not change its prior conclusions with regard to variable interest entities and did not have an impact on the Company's financial condition, results of operations or cash flows.

In October 2009, the FASB issued ASU 2009-13, *Multiple Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force*. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company has not determined the impact of adoption of this guidance on its financial condition, results of operations or cash flows. This guidance becomes effective January 1, 2011; however, early adoption is permitted.

(4) Company Operational Plans - Capacity Reductions in 2008 and 2009

During 2008 and 2009, the Company significantly reduced the size of its workforce and completed the removal of 100 aircraft from its Mainline fleet. One of the six B747 aircraft, which was removed from service in 2009, was brought back into service in 2010 to increase the number of spare widebody aircraft. The table below summarizes the accrued liabilities related to these operational plans.

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(In millions)	Severance		Leased Aircraft	
	2010	2009	2010	2009
Balance at January 1	\$ 45	\$ 81	\$ 83	\$ 16
Payments	(27)	(44)	(33)	(14)
Accruals	2	23	(2)	41
Balance at September 30	\$ 20	\$ 60	\$ 48	\$ 43

The total expected future payments for leased aircraft that were removed from service are \$52 million, payable through 2013. The remaining severance obligations are expected to be paid through the first quarter of 2012.

(5) Per Share Amounts (UAL Only)

UAL basic per share amounts were computed by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding. UAL diluted per share amounts were computed by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding plus potentially dilutive shares of common stock outstanding during the period. The table below represents the computation of UAL basic and diluted per share amounts and the number of securities that have been excluded from the computation of diluted per share amounts, because they were antidilutive. UAL's 6% Senior Notes due 2031 with a current principal amount of \$597 million are callable at any time at 100% of par value and can be redeemed with either cash or UAL common stock at UAL's option. These notes are not included in the diluted earnings per share calculation as it is UAL's intent to redeem these notes with cash.

(In millions, except per share)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic earnings (loss) per share:				
Earnings (loss) available to common stockholders	\$ 387	\$ (57)	\$ 577 (a)	\$ (411)
Basic weighted average shares outstanding	168.2	145.6	167.9	145.1
Earnings (loss) per share, basic	\$ 2.30	\$ (0.39)	\$ 3.44	\$ (2.83)
Diluted earnings (loss) per share:				
Earnings (loss) available to common stockholders	\$ 387	\$ (57)	\$ 577	\$ (411)
Effect of dilutive securities - interest expense on:				
4.5% Senior Limited-Subordination Convertible Notes due 2021	18		53	
5% Senior Convertible Notes due 2021	4			
6% Senior Convertible Notes due 2029	4		13	
Earnings (loss) available to common stockholders including the effect of dilutive securities	\$ 413	\$ (57)	\$ 643	\$ (411)
Diluted Shares Outstanding				
Basic weighted average shares outstanding	168.2	145.6	167.9	145.1
Restricted shares and units and stock options	1.9		1.6	
4.5% Senior Limited-Subordination Convertible Notes due 2021	22.2		22.2	
5% Senior Convertible Notes due 2021	3.4			
6% Senior Convertible Notes due 2029	39.7		39.7	

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Diluted weighted average shares outstanding	235.4	145.6	231.4	145.1
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Earnings (loss) per share, diluted	\$ 1.75	\$ (0.39)	\$ 2.78	\$ (2.83)
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Potentially dilutive shares excluded from diluted per share amounts:

Restricted shares and units and stock options	5.1	7.4	5.2	7.4
4.5% Senior Limited-Subordination Convertible Notes due 2021		22.2		22.2
5% Senior Convertible Notes due 2021		3.4	3.4	3.4

(a) Excludes \$1 million of net income related to participating securities.

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Pursuant to its authority under the ICP, the UAL Board of Directors made a determination that the merger transaction with Continental should be considered a change of control for purposes of outstanding awards under the ICP. In addition, the Human Resources Subcommittee amended the terms of outstanding equity-based awards granted under the 2006 Management Equity Incentive Plan (the MEIP) to provide that such awards immediately vested upon completion of the merger. Accordingly, upon the completion of the merger on October 1, 2010, all outstanding equity-based awards granted under the ICP and MEIP immediately vested and all outstanding long-term cash incentive awards were deemed to have been achieved at target and will be paid on a pro rata basis, except for certain officer awards that are subject to separate agreements.

(7) Income Taxes

Our effective tax rates differ from the federal statutory rate of 35% primarily due to the following: changes in the valuation allowance, expenses that are not deductible for federal income tax purposes, and state income taxes. We are required to provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because we have concluded that it is more likely than not that such deferred tax assets will ultimately not be realized. As a result, our pre-tax losses for the three and nine month periods ended September 30, 2009 were not reduced by any tax benefit, except for benefits related to the disposition and impairment of indefinite-lived assets. The Company's income tax benefits in the 2009 periods were primarily due to the impairment of indefinite-lived intangible assets. No federal income tax expense was recognized related to our pre-tax income for the three and nine months ended September 30, 2010 due to the utilization of NOL carryforwards for which no benefit had previously been recognized.

See Note 2, Merger and Related Matters, for a discussion of the potential impairment of our ability to utilize NOLs due to Section 382, which imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change under Section 382.

(8) Postretirement Plans

The Company provides certain health care benefits, primarily in the U.S., to retirees and eligible dependents, as well as certain life insurance benefits to certain retirees. The Company has reserved the right, subject to collective bargaining and other agreements, to modify or terminate the health care and life insurance benefits for both current and future retirees. The curtailment gain in the nine month period ended September 30, 2009 resulted from a reduction in future service for certain of the Company's postretirement plans due to reductions in workforce.

The Company's net periodic benefit cost includes the following components:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service cost	\$ 8	\$ 7	\$ 23	\$ 21
Interest cost	29	29	87	86
Expected return on plan assets	(1)	(2)	(2)	(3)
Gain due to curtailment				(7)
Amortization of unrecognized gain and prior service cost	(3)	(5)	(9)	(15)
Net periodic benefit costs	\$ 33	\$ 29	\$ 99	\$ 82

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In March 2010, the President of the United States signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care Education and Affordability Reconciliation Act (collectively the Acts). The Acts contain provisions which could impact the Company's accounting for retiree medical benefits in future periods. Other than the reduction of deferred tax assets for postretirement benefits, which was recorded in the first quarter of 2010, the extent of that impact, if any, cannot be determined until regulations are promulgated under the Acts and additional interpretations of the Acts become available. The Company will continue to assess the accounting implications of the Acts as related regulations and interpretations of the Acts become available. Based on the analysis to date of the provisions in the Acts, a re-measurement of the Company's retiree plan liabilities is not required at this time. In addition, the Company may consider plan amendments in future periods that may have accounting implications.

(9) Segment Information

The Company manages its business by two reportable segments: Mainline and Regional Affiliates (United Express operations). The table below includes segment information for UAL and United for the three and nine month periods ended September 30, 2010 and 2009. The Company evaluates segment financial performance based on earnings before income taxes, impairments, merger-related costs, and special items.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
UAL segment information				
Revenue:				
Mainline	\$ 4,318	\$ 3,589	\$ 11,859	\$ 9,890
Regional Affiliates	1,076	844	2,937	2,252
Total	\$ 5,394	\$ 4,433	\$ 14,796	\$ 12,142
Segment earnings (loss):				
Mainline	\$ 288	\$ (87)	\$ 467	\$ (305)
Regional Affiliates	162	69	297	98
Impairments, merger-related costs and special items (a)	(63)	(43)	(187)	(250)
Less: equity earnings (b)	(1)	(1)	(2)	(3)
Consolidated earnings (loss) before income taxes and equity in earnings of affiliates	\$ 386	\$ (62)	\$ 575	\$ (460)
United segment information				
Revenue:				
Mainline	\$ 4,320	\$ 3,591	\$ 11,865	\$ 9,897
Regional Affiliates	1,076	844	2,937	2,252
Total	\$ 5,396	\$ 4,435	\$ 14,802	\$ 12,149
Segment earnings (loss):				
Mainline	\$ 300	\$ (85)	\$ 495	\$ (299)
Regional Affiliates	162	69	297	98
Impairments, merger-related costs and special items (a)	(63)	(43)	(187)	(250)
Less: equity earnings (b)	(1)	(1)	(2)	(3)

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Consolidated earnings (loss) before income taxes and equity in earnings of affiliates	\$ 398	\$ (60)	\$ 603	\$ (454)
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- (a) Asset impairment, merger-related costs, and special items are only applicable to the Mainline segment.
- (b) Equity earnings are part of the Mainline segment.

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(10) Comprehensive Income (Loss)

For the three and nine month periods ended September 30, 2010, UAL's total comprehensive income was \$544 million and \$591 million, respectively. For the three and nine month periods ended September 30, 2009, UAL's total comprehensive loss was \$47 million and \$405 million, respectively. For the three and nine month periods ended September 30, 2010, United's total comprehensive income was \$556 million and \$619 million, respectively. For the three and nine month periods ended September 30, 2009, United's total comprehensive loss was \$45 million and \$399 million, respectively. Comprehensive income in the 2010 periods includes the impact of fuel hedge gains on derivative contracts designated as cash flow hedges. The Company did not apply cash flow hedge accounting to its fuel hedge instruments in 2009. Comprehensive income (loss) in the 2010 and 2009 periods includes the amortization of deferred net periodic pension and other postretirement benefit gains that were recorded as a component of accumulated other comprehensive income and changes in the fair value of the Company's available-for-sale Enhanced Equipment Trust Certificate (EETC) investments.

(11) Fair Value Measurements and Derivative Instruments

Fair Value Information. A fair value hierarchy that prioritizes the inputs used to measure fair value has been established by GAAP. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and other inputs that are observable or can be corroborated by observable market data.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The tables below present disclosures about fair value measurements of financial assets and financial liabilities recognized in the Company's Financial Statements.

(In millions)	Total Fair Value Measurement	Quoted Prices in Active Markets		
		for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements at September 30, 2010				
Assets and liabilities measured at fair value on a recurring basis:				
Financial assets:				
Money market funds	\$ 4,691	\$ 4,691	\$	\$
Noncurrent EETC available-for-sale securities	63			63
Current fuel derivative purchased call options	120		120	
Current fuel derivative swaps	66		66	
Total financial assets	\$ 4,940	\$ 4,691	\$ 186	\$ 63
Financial liabilities:				
Current fuel derivative instruments	\$ 9	\$	\$ 9	\$
Total financial liabilities	\$ 9	\$	\$ 9	\$
Fair Value Measurements at December 31, 2009				
Financial assets:				
Money market funds	\$ 3,061	\$ 3,061	\$	\$
Noncurrent EETC available-for-sale securities	51			51
Current fuel derivative purchased call options	94		94	
Current fuel derivative swaps	44		44	
Total financial assets	\$ 3,250	\$ 3,061	\$ 138	\$ 51