CONTINENTAL AIRLINES INC /DE/
Form 10-K
February 22, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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 File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No
001-06033	**United Continental Holdings, Inc.** 77 W. Wacker Drive Chicago, Illinois 60601 (312) 997-8000	Delaware	36-2675207
001-11355	**United Air Lines, Inc.** 77 W. Wacker Drive Chicago, Illinois 60601	Delaware	36-2675206

(312) 997-8000

001-10323	**Continental Airlines, Inc.**	Delaware	74-2099724
	1600 Smith Street, Dept. HQSEO Houston, Texas 77002 (713) 324-2950		

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

	Title of Each Class	Name of Each Exchange on Which Registered
United Continental Holdings, Inc.	Common Stock, $0.01 par value	New York Stock Exchange
United Air Lines, Inc.	None	None
Continental Airlines, Inc.	None	None

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

United Continental Holdings, Inc.	None	United Air Lines, Inc.	None
Continental Airlines, Inc.	None		

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

United Continental Holdings, Inc.	Yes x No ¨	United Air Lines, Inc.	Yes x No ¨
Continental Airlines, Inc.	Yes x 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.

United Continental Holdings, Inc.	Yes ¨ No x	United Air Lines, Inc.	Yes ¨ No x
Continental Airlines, Inc.	Yes ¨ No x		

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 x No ¨	United Air Lines, Inc.	Yes x No ¨
Continental Airlines, Inc.	Yes x No ¨		

Table of Contents

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

United Continental Holdings, Inc.	Yes ¨ No ¨	United Air Lines, Inc.	Yes ¨ No ¨
Continental Airlines, Inc.	Yes x No ¨		

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.

United Continental Holdings, Inc.	x	United Air Lines, Inc.	x
Continental Airlines, Inc.	x		

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

United Continental Holdings, Inc.	Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
United Air Lines, Inc.	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨
Continental Airlines, Inc.	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨

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

United Continental Holdings, Inc.	Yes ¨ No x	United Air Lines, Inc.	Yes ¨ No x
Continental Airlines, Inc.	Yes ¨ No x		

The aggregate market value of voting stock held by non-affiliates of United Continental Holdings, Inc. was $3,451,199,030 as of June 30, 2010. There is no market for United Air Lines, Inc. common stock or Continental Airlines, Inc. common stock.

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 x No ¨	United Air Lines, Inc.	Yes x No ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of February 15, 2011.

United Continental Holdings, Inc.	328,550,825 shares of common stock ($0.01 par value)
United Air Lines, Inc.	205 (100% owned by United Continental Holdings, Inc.)
Continental Airlines, Inc.	1,000 (100% owned by United Continental Holdings, Inc.)

OMISSION OF CERTAIN INFORMATION

This combined Form 10-K is separately filed by United Continental Holdings, Inc., United Air Lines, Inc. and Continental Airlines, Inc.

United Air Lines, Inc. and Continental Airlines, Inc. meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format allowed under that General Instruction.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K are incorporated by reference for United Continental Holdings, Inc. from its definitive proxy statement for its 2011 Annual Meeting of Stockholders.

Table of Contents

United Continental Holdings, Inc. and Subsidiary Companies

United Air Lines, Inc. and Subsidiary Companies

Continental Airlines, Inc. and Subsidiary Companies

Report on Form 10-K

For the Year Ended December 31, 2010

Table of Contents

This Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the Company s expectations and beliefs concerning future events, based on information available to the Company on the date of the filing of this Form 10-K, and are subject to various risks and uncertainties. Factors that could cause actual results to differ materially from those referenced in the forward-looking statements are listed in Item 1A, Risk Factors and in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. The Company disclaims any intent or obligation to update or revise any of the forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise, except as required by applicable law.

PART I

ITEM 1. BUSINESS.

Overview

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. (together with its consolidated subsidiaries, Continental). This combined Annual Report on Form 10-K is separately filed by each of United Continental Holdings, Inc., United Air Lines, Inc. and Continental Airlines, Inc. Each registrant hereto is filing on its own behalf all of the information contained in this report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

We sometimes use the words we, our, us, and the Company in this Form 10-K for disclosures that relate to all of UAL, United and Continental. As UAL consolidates United and Continental beginning October 1, 2010 for financial statement purposes, disclosures that relate to United activities also apply to UAL. Effective October 1, 2010, disclosures that related to Continental activities also apply to UAL. When appropriate, UAL, United and Continental are named specifically for their related activities and disclosures. This report uses Continental Successor to refer to Continental subsequent to the Merger (defined below) and Continental Predecessor to refer to Continental prior to the Merger.

UAL was incorporated under the laws of the State of Delaware on December 30, 1968. Our world headquarters is located at 77 W. Wacker Drive, Chicago, Illinois 60601. The mailing address is P.O. Box 66919, Chicago, Illinois 60666 (telephone number (312) 997-8000). The Company s web address is www.unitedcontinentalholdings.com. The information contained on or connected to the Company s web address is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the U.S. Securities and Exchange Commission (SEC). Through this website, the Company s filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are accessible without charge as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Such filings are also available on the SEC s website at www.sec.gov. Each of UAL and Continental has a code of ethics for directors, officers and employees. The codes serve as a Code of Ethics as defined by SEC regulations, and as a Code of Business Conduct and Ethics under the NYSE s Listed Company Manual. The codes are available on the Company s website. Waivers granted to certain officers from compliance with or future amendments to these codes, including the adoption of a code of ethics for the combined company, will be disclosed on the Company s website in accordance with Item 5.05 of Form 8-K.

Table of Contents

Merger

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 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. UAL s consolidated financial statements include the results of operations of Continental and its subsidiaries for the period subsequent to October 1, 2010.

UAL expects the Merger to deliver $1.0 billion to $1.2 billion in net annual synergies on a run-rate basis by 2013, including between $800 million and $900 million of incremental annual revenues, in large part from expanded customer options resulting from the greater scope and scale of the network, fleet optimization and additional international service enabled by the broader network of the combined company. UAL expects the combined company to realize between $200 million and $300 million of net cost synergies on a run-rate basis by 2013. We also expect that the combined company will incur substantial expenses in connection with the Merger. There are many factors that could affect the total amount or the timing of those expenses, and many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. In addition to transactional merger-related charges, UAL has incurred and expects to incur additional material merger and integration-related charges to combine the operations of United and Continental. See Notes 1 and 21 to the financial statements included in Item 8 and Item 1A, *Risk Factors*, for additional information on the Merger.

Operations

United and Continental transport people and cargo through their mainline operations, which utilize full-sized jet aircraft, and regional operations, which utilize smaller aircraft that are operated under contract by United Express, Continental Express and Continental Connection carriers. See Item 2, *Properties*, for a description of the Company s mainline and regional aircraft.

With key global air rights in the U.S., Pacific region, Europe, Middle East, Africa, and Latin America, UAL has the world s most comprehensive global route network. UAL, through United and Continental and their regional carriers, operates approximately 5,800 flights a day to more than 375 U.S. domestic and international destinations from the Company s hubs at A.B. Won Pat International Airport (Guam), Chicago O Hare International Airport (Chicago O Hare), Denver International Airport (Denver), George Bush Intercontinental Airport (Houston Bush), Hopkins International Airport (Cleveland Hopkins), Los Angeles International Airport (LAX), Newark Liberty International Airport (New York Liberty), San Francisco International Airport (SFO) and Washington Dulles International Airport (Washington Dulles). Including its regional operations, United operates approximately 3,350 flights a day to more than 235 U.S. domestic and international destinations based on its annual flight schedule as of January 1, 2011. Including its regional operations, Continental operates approximately 2,500 flights a day to more than 280 U.S. domestic and international destinations based on its annual flight schedule as of January 1, 2011.

All of the Company s domestic hubs are located in large business and population centers, contributing to a large amount of origin and destination traffic. Our hub and spoke system allows us to transport passengers between a large number of destinations with substantially more frequent service than if each route were served directly. Our hub system also allows us to add service to a new destination from a large number of cities using only one or a limited number of aircraft. As discussed under *Alliances* below, United and Continental are both members of Star Alliance, the world s largest airline network.

The Company offers a different set of services to target distinct customer groups. This strategy of market and product segmentation is intended to optimize margins and costs, and is focused on delivering an improved experience for all customers and a best-in-class experience for premium customers. Some of these services include:

Services

United

First and Business class seating on transcontinental flights and United Economy Plus®, the latter providing three to five inches of extra legroom on all mainline flights.

International premium travel experience featuring 180-degree, lie-flat beds in First and Business class. Certain aircraft have been refitted with new premium seats, entertainment systems and other product enhancements. United has completed these upgrades on all of its 21 Boeing 767-300ER aircraft, all of its 24 Boeing 747 aircraft and 8 of its 46 Boeing 777 aircraft. United expects to complete the remaining aircraft upgrades by 2013.

United s p.s.SM a premium transcontinental service connecting New York with both Los Angeles and San Francisco.

Premier® status for Mileage Plus® program members who qualify based on the number of paid flight miles or fares purchased in a calendar year. Premier® status passengers receive priority treatment in check-in and boarding areas, the ability to check up to two bags without fees and access to special security lanes at certain airports.

Continental

Flat-bed BusinessFirst seats offered on Continental s Boeing 777 aircraft and 31 of its 41 Boeing 757-200 aircraft with approximately 6.5 feet of sleeping space, laptop power and 15.4-inch video monitors. Continental expects to complete the remaining Boeing 757-200 aircraft updates by the summer of 2011.

Audio Video on Demand entertainment systems in BusinessFirst and economy seats on Continental s Boeing 777 and 757-200 aircraft featuring a large selection of movies, television shows, music and interactive video games.

Continued installation of DIRECTV® satellite programming on Continental s entire fleet of narrowbody Boeing 737 Next-Generation aircraft (737-700, 737-800, 737-900 and 737-900ER aircraft) and Boeing 757-300 aircraft, with more than 100 channels of live television and previously recorded programming. Continental has completed the installation of DIRECTV® on the majority of its Boeing 737 Next-Generation aircraft and expects to complete the installation on its Boeing 757-300 aircraft during 2011.

EliteAccess service for OnePass members who qualify based on the number of paid flight miles or the fares purchased in a calendar year, first class and BusinessFirst ticket holders and travelers with high-yield coach tickets who qualify as Elite for the Day. EliteAccess passengers receive priority treatment in check-in, boarding and baggage claim areas, the ability to check up to three bags without fees and access to special security lanes at certain airports.

Regional Carriers. The Company has contractual relationships with various regional carriers to provide regional jet and turboprop service branded as United Express, Continental Express and Continental Connection. These regional operations are an extension of the Company s mainline network. This regional service complements our operations by carrying traffic that connects to our mainline service and allows more frequent flights to smaller cities than could be provided economically with full sized mainline jet aircraft. Atlantic Southeast Airlines, Chautauqua Airlines, Colgan Airlines (Colgan), CommutAir Airlines, ExpressJet Airlines, GoJet Airlines, Mesa Airlines, Shuttle America, SkyWest Airlines (SkyWest) and Trans States Airlines

4

(Trans States) are all regional carriers, most of which operate under capacity purchase agreements with United and/or Continental. Under these agreements, the Company pays the regional carriers contractually-agreed fees (carrier-controlled costs) for operating these flights plus a variable reimbursement (incentive payment for superior operational performance) based on agreed performance metrics. The carrier-controlled costs are based on specific rates for various operating expenses of the regional carriers, such as crew expenses, maintenance and aircraft ownership, some of which are multiplied by specific operating statistics (e.g., block hours, departures) while others are fixed monthly amounts. Under these capacity purchase agreements, the Company is responsible for all fuel costs incurred as well as landing fees, facilities rent and other costs, which are passed through without any markup. In return, the regional carriers operate this capacity on schedules determined by the Company. The Company also determines pricing, revenues and inventory levels and assumes the inventory and distribution risk for the available seats.

While the regional carriers operating under capacity purchase agreements comprise more than 95% of all regional flights, the Company also has prorate agreements with Hyannis Air Service, Inc. (Cape Air), Colgan, Gulfstream International Airlines (Gulfstream), SkyWest and Trans States. Under prorate agreements, the Company and its prorate partners agree to divide revenue collected from each passenger according to a formula, while both the Company and the prorate partners are individually responsible for their own costs of operations. Unlike capacity purchase agreements, under a prorate agreement, the regional carrier retains the control and risk of scheduling, market selection, local seat pricing and inventory for its flights, although the carriers may coordinate schedules to maximize connections.

Financial information on the Company s operating revenues by geographic regions, as reported to the U.S. Department of Transportation (the DOT), can be found in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, and Note 10 to the financial statements included in Item 8 of this report.

Alliances. United and Continental have a number of bilateral and multilateral alliances with other airlines, which enhance travel options for customers seeking access to markets that United and Continental do not serve directly. These marketing alliances typically include one or more of the following features: joint loyalty program participation; codesharing of flight operations (whereby seats on one carrier s selected flights can be marketed under the brand name of another carrier); coordination of reservations, ticketing, passenger check-in, baggage handling and flight schedules; and other resource-sharing activities.

United and Continental are members of Star Alliance, a global integrated airline network co-founded by United in 1997 and the most comprehensive airline alliance in the world. As of January 1, 2011, Star Alliance carriers served 1,160 airports in 181 countries with 21,000 daily flights. Current Star Alliance partners, in addition to United and Continental, are Adria Airways, Aegean Airlines, Air Canada, Air China, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, Blue1, bmi, Brussels Airlines, Croatia Airlines, EGYPTAIR, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, South African Airways, Spanair, Swiss International Air Lines, TAM, TAP Portugal, THAI, Turkish Airlines and US Airways. Air India, Avianca-TACA and Copa Airlines have been announced as future Star Alliance members.

In September 2010, United, Continental and Air Canada entered into a memorandum of understanding to establish a revenue-sharing, transborder joint venture, subject to the execution of a definitive joint venture agreement, completion of necessary filings, receipt of regulatory approvals and finalization of documentation. United, Continental and Air Canada have antitrust immunity from the DOT for transborder coordination. The joint venture is currently under review by the Canadian Competition Bureau.

In November 2010, United, Continental and All Nippon Airways received antitrust immunity approval from the Japanese government and the DOT enabling the carriers to establish a trans-Pacific joint venture to integrate the services they operate between the United States and Japan, and other destinations in Asia, and to derive potentially significant benefits from coordinated scheduling, pricing, sales and inventory management. The integration of services will also allow the three carriers to offer passengers highly competitive flight schedules, fares and services. We expect this joint venture to commence in the second quarter of 2011.

Table of Contents

In December 2010, pursuant to antitrust immunity approval granted by the DOT, United, Continental, Air Canada and Lufthansa executed a joint venture agreement covering trans-Atlantic routes. The joint venture is expected to deliver highly competitive flight schedules, fares and service. The European Commission, which has been conducting a parallel review of the competitive effects of the joint venture similar to the DOT s review, has not yet completed its review. The joint venture has a revenue-sharing structure that results in payments among participants based on a formula that compares current period unit revenue performance on trans-Atlantic routes to an historic period, or baseline, which is reset annually. The payments are calculated on a quarterly basis and subject to a cap. The revenue sharing aspects of this joint venture were retroactive to January 2010. See *Industry Regulation* below.

United and Continental have independent marketing agreements with other air carriers including Aer Lingus, Cape Air, Colgan, Copa Airlines, Emirates, EVA Airways Corporation, Great Lakes Aviation, Gulfstream, Hawaiian Airlines, Island Air, Qatar Airways, TACA Group, and Virgin Atlantic Airways. In addition, Continental has a train-to-plane alliance with Amtrak.

Fuel. Aircraft fuel has been the Company s single largest operating expense for the last several years. The table below summarizes UAL s fuel cost data, excluding hedge impacts, during the last three years.

Year	Gallons Consumed (in millions)	Fuel Cost Excluding Hedge Impacts (b) (in millions)	Average Price Per Gallon Excluding Hedge Impacts (b)	Percentage of Total Operating Expense (c)
2010 (a)	2,798	$ 6,581	$ 2.35	31%
2009 (a)	2,338	$ 4,308	$ 1.84	27%
2008 (a)	2,553	$ 8,371	$ 3.28	39%

(a) Excludes Continental Predecessor fuel consumption and cost prior to October 1, 2010.

(b) Excludes fuel hedge gains (losses) classified within fuel expense of $(105) million, $104 million and $(608) million for 2010, 2009, and 2008, respectively.

(c) Calculation excludes special charges identified in Item 6 of this report.

The availability and price of aircraft fuel significantly affects the Company s operations, results of operations and financial position. To ensure adequate supplies of fuel and to obtain a measure of control over prices in the short term, the Company arranges to have fuel shipped on major pipelines and stored close to its major hub locations. To protect against increases in the prices of fuel, the Company routinely hedges a portion of its future fuel requirements, provided the hedges are expected to be cost effective. The Company uses fixed price swaps, purchased call options, collars or other such commonly used financial hedge instruments based on aircraft fuel or closely related commodities like heating oil and crude oil. The Company strives to maintain fuel hedging levels and exposure generally consistent with industry standards so that the Company s fuel cost is not disproportionate to the fuel costs of its major competitors.

Loyalty Programs. United s Mileage Plus program and Continental s OnePass program build customer loyalty by offering awards and services to program participants. Members in these programs can earn mileage credit for flights on United, United Express, Continental, Continental Express and Continental Connection, members of Star Alliance and certain other airlines that participate in the programs. Miles can also be earned by purchasing the goods and services of our non-airline partners, such as retail merchants, hotels, car rental companies and credit card issuers. Mileage credits can be redeemed for free, discounted or upgraded travel and non-travel awards. At December 31, 2010, United and Continental had more than 58 million and 41 million members, respectively, enrolled in their programs.

Both of the Company s loyalty programs have co-brand agreements with Chase Bank USA, N.A. (Chase). Under these agreements, loyalty program members accrue frequent flyer miles for making purchases using Mileage Plus and OnePass credit cards issued by Chase. These co-brand agreements provide for joint marketing of the credit card programs and provide Chase with other benefits such as permission to market to the Company s customer database.

Table of Contents

In 2010, 2.4 million Mileage Plus travel awards were used on United, as compared to 2.1 million and 2.3 million in 2009 and 2008, respectively. These awards represented 7.5%, 8.3% and 9.1% of United s total revenue passenger miles in 2010, 2009 and 2008, respectively. Also in 2010, 1.6 million OnePass travel awards were used on Continental, as compared to 1.3 million and 1.6 million in 2009 and 2008, respectively. These awards represented 5.7%, 5.9% and 8.4% of Continental s total revenue passenger miles in 2010, 2009 and 2008, respectively.

In addition, Mileage Plus members redeemed miles for approximately 975,000 non-United travel awards in 2010 as compared to 885,000 in 2009. Non-United travel awards include Red Carpet Club memberships, car and hotel awards, merchandise and travel solely on another air carrier, among others. The increase in the number of non-United travel awards redeemed in 2010 was due to the expansion of the merchandise programs and the launch of a new car and hotel award program in the fourth quarter of 2009. Total miles redeemed for travel on United in 2010, including class-of-service upgrades, represented 86% of the total miles redeemed (for both completed and future travel).

Distribution Channels. The majority of the Company s airline seat inventory continues to be distributed through the traditional channels of travel agencies and global distribution systems (GDS). The growing use of internal websites, such as www.united.com and www.continental.com, alternative distribution systems and new GDS entrants provides the Company with an opportunity to de-commoditize its services, better control its content, make more targeted offerings, retain its customers, enhance its brand and lower its ticket distribution costs. To encourage customer use of lower-cost channels and capitalize on these cost-saving opportunities, the Company will continue to expand the capabilities of its websites and explore alternative distribution channels.

Industry Conditions

Economic Conditions. The Company s costs and revenues are highly correlated to the economic health and growth of the United States and the global markets the Company serves. The Company s financial performance improved significantly in 2010 consistent with the improvement in global economic conditions. Similarly, the Company s results were adversely impacted in 2009 and 2008 as the global recession experienced over this period resulted in significant declines in industry passenger demand, accompanied by a reduction in fare levels. The drop in demand was greater among business and premium cabin travelers, as corporations significantly reduced their spending on business travel. As discussed further in Item 1A, *Risk Factors*, and in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations,* adverse economic conditions have had, and in the future may have, negative impacts on passenger demand and revenue.

Domestic Competition. The domestic airline industry is highly competitive and dynamic. In domestic markets, new and existing U.S. carriers are generally free to initiate service between any two points within the United States. The Company s competitors consist primarily of other airlines and, to a lesser extent, other forms of transportation and emerging technological substitutes such as videoconferencing. Competition can be direct, in the form of another carrier flying the exact non-stop route, or indirect where a carrier serves the same two cities non-stop from an alternative airport in that city, or via an itinerary requiring a connection at another airport.

Carriers that operate as low cost carriers or that have lower cost structures achieved through reorganization may be more competitive with the rest of the industry, resulting in lower fares for such carriers passengers with a potential negative impact on the Company s revenues. In addition, future airline mergers or acquisitions may enable airlines to improve their revenue and cost performance relative to peers and thus enhance their competitive position within the industry.

Domestic pricing decisions are largely affected by the need to be competitive with other U.S. airlines. Fare discounting by competitors has historically had a negative effect on our financial results because we often find it necessary to match competitors fares to maintain passenger traffic. Attempts by the Company and other airlines to raise fares often fail due to a lack of competitive matching.

Table of Contents

International Competition. In international markets the Company competes not only with U.S. airlines, but also with foreign carriers. Competition on specified international routes is subject to varying degrees of governmental regulations. The United States and European Union (EU) agreement in 2008 to reduce restrictions on flight operations between the two regions has increased competition for United s transatlantic network from both U.S. and European airlines. In our Pacific operations, competition is expected to increase as the governments of the United States and China recently approved additional U.S. and Chinese airlines to fly new routes between the two countries, although the commencement of some new services to China was postponed due to the weak global economy. Competition in the Pacific is also expected to increase as a result of the execution of the open skies agreement between the United States and Japan in October 2010. See *Industry Regulation*, below. Competition in the Pacific may also increase if Japan Airlines, which filed for bankruptcy in January 2010 and received reorganization plan approval in November 2010, becomes a stronger competitor in the region as a result of its restructuring. Part of the Company s ability to compete successfully with non-U.S. carriers on international routes is its ability to generate traffic from and to the entire U.S. via its integrated domestic route network. Foreign carriers are currently prohibited by U.S. law from carrying local passengers between two points in the U.S. and the Company experiences comparable restrictions in many foreign countries. In addition, U.S. carriers are often constrained from carrying passengers to points beyond designated international gateway cities due to limitations in air service agreements and restrictions imposed unilaterally by foreign governments. To compensate partially for these structural limitations, U.S. and foreign carriers have entered into alliances and marketing arrangements that allow these carriers to exchange traffic between each other s flights and route networks. See *Alliances,* above, for further information.

Seasonality. The air travel business is subject to seasonal fluctuations. Historically, second and third quarter revenues, which reflect higher travel demand, are better than first and fourth quarter revenues, which reflect lower travel demand.

Industry Regulation

Domestic Regulation.

General. All carriers engaged in air transportation in the U.S. are subject to regulation by the DOT. Among its responsibilities, the DOT issues certificates of public convenience and necessity for domestic air transportation; no air carrier, unless exempted, may provide air transportation without a DOT certificate of public convenience and necessity. The DOT also grants international route authorities, approves international codeshare arrangements, regulates methods of competition and enforces certain consumer protection statutes and regulations, such as those dealing with advertising, denied boarding compensation and baggage liability.

Airlines are also regulated by the Federal Aviation Administration (FAA), a division of the DOT, primarily in the areas of flight operations, maintenance and other safety and technical matters. The FAA has authority to issue air carrier operating certificates and aircraft airworthiness certificates, prescribe maintenance procedures and regulate pilot and other employee training, among other responsibilities. From time to time, the FAA issues rules that require air carriers to take certain actions, such as the inspection or modification of aircraft and other equipment, that may cause the Company to incur substantial, unplanned expenses. The airline industry is also subject to various other federal laws and regulations. The U.S. Department of Homeland Security (DHS) has jurisdiction over virtually all aspects of civil aviation security. See *Legislation*, below. The U.S. Department of Justice (DOJ) has jurisdiction over certain airline competition matters. The U.S. Postal Service has authority over certain aspects of the transportation of mail. Labor relations in the airline industry are generally governed by the Railway Labor Act (RLA). The Company is also subject to inquiries by the DOT, FAA, DOJ and other U.S. and international regulatory bodies.

Airport Access. Access to landing and take-off rights, or slots, at several major U.S. airports and many foreign airports served by United and Continental are, or recently have been, subject to government regulation. Federally mandated domestic slot restrictions currently apply at Reagan National Airport in Washington D.C.

Table of Contents

(Washington Reagan), John F. Kennedy International Airport (JFK), LaGuardia Airport (LaGuardia) and New York Liberty. In addition, to address concerns about airport congestion, the FAA has designated certain airports, including New York Liberty, JFK and LaGuardia as high density traffic airports and has imposed operating restrictions at these three airports, which may include capacity reductions. Additional restrictions on airline routes and takeoff and landing slots may be proposed in the future that could affect the Company s rights of ownership and transfer.

Legislation. The airline industry is subject to legislative activity that may have an impact on operations and costs. In addition to federal, state and local taxes and fees that the Company is currently subject to, proposed taxes and fees are currently pending that may increase the Company s operating costs if imposed on the Company. Congress is currently attempting to pass comprehensive reauthorization legislation to impose a new funding structure and make other changes to FAA operations. Past aviation reauthorization bills have affected a wide range of areas of interest to the industry, including air traffic control operations, capacity control issues, airline competition issues, aircraft and airport technology requirements, safety issues, taxes, fees and other funding sources. Congress may also pass other legislation that could increase labor and operating costs. Climate change legislation, which would regulate greenhouse gas emissions, is also likely to be a significant area of legislative and regulatory focus and could adversely impact the Company s costs. See *Environmental Regulation*, below.

In April 2010, the DOT implemented a new rule requiring certain air carriers, including United and Continental, to adopt contingency plans for tarmac delays exceeding three hours at most U.S. airports. A carrier s failure to meet certain service performance criteria under the rule could subject it to substantial civil penalties. The DOT has also proceeded with other regulatory changes in this area, including proposals regarding treatment of and payments to passengers involuntarily denied boarding, domestic baggage liability and airline scheduling practices. Additionally, since September 11, 2001, aviation security has been, and continues to be, a subject of frequent legislative and regulatory action, requiring changes to the Company s security processes and frequently increasing the cost of its security procedures.

In September 2010, the FAA proposed changes to flight crew duty and rest requirements for all U.S. airlines operating under part 121 of FAA regulations. These changes, if adopted by the FAA as initially proposed, would likely require us to make changes to our flight operations that could materially increase our costs. Continental, United and other airlines and trade associations have submitted comments to the FAA to reduce these proposed burdens substantially, but it is unclear at this time whether the FAA will adopt them in its final rule.

International Regulation.

General. International air transportation is subject to extensive government regulation. In connection with the Company s international services, the Company is regulated by both the U.S. government and the governments of the foreign countries United and Continental serve. In addition, the availability of international routes to U.S. carriers is regulated by aviation agreements between the U.S. and foreign governments, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments.

Airport Access. Historically, access to foreign markets has been tightly controlled through bilateral agreements between the U.S. and each foreign country involved. These agreements regulate the markets served, the number of carriers allowed to serve each market and the frequency of carriers flights. Since the early 1990s, the U.S. has pursued a policy of open skies (meaning all U.S.-flag carriers have access to the destination), under which the U.S. government has negotiated a number of bilateral agreements allowing unrestricted access between U.S. and foreign markets. Currently, there are more than 100 open skies agreements in effect. Additionally, many of the airports that United and Continental serve in Europe, Asia and Latin America, maintain slot controls. A large number of these are restrictive due to congestion at these airports. London Heathrow International Airport (London Heathrow), Frankfurt Rhein-Main Airport, Shanghai Pudong

Table of Contents

International Airport, Beijing Capital International Airport, Sao Paulo Guarhulos International Airport and Tokyo Narita International Airport are among the most restrictive airports due to capacity limitations. United and Continental have significant operations at these locations.

The Company s ability to serve some foreign markets and expand into certain others is limited by the absence of aviation agreements between the U.S. government and the relevant foreign governments. Shifts in U.S. or foreign government aviation policies may lead to the alteration or termination of air service agreements. Depending on the nature of any such change, the value of the Company s international route authorities and slot rights may be materially enhanced or diminished.

The U.S./EU open skies agreement provides U.S. and EU carriers with expansive rights, including the right to operate between any point in the United States and the EU. The agreement has no direct impact on airport slot rights or airport facilities nor does it provide for a reallocation of existing slots or facilities, including those at London Heathrow. Because of the diverse nature of potential impacts on the Company s business, the overall future impact of the U.S./EU agreement on the Company s business cannot be predicted with certainty.

In October 2010, the open skies agreement between the United States and Japan became effective, enabling U.S. or Japanese carriers to fly between any point in the United States and any point in Japan and, in the case of U.S. carriers, beyond Japan to points in other countries the carrier is authorized to serve. The agreement eliminates the restrictions on the number of frequencies carriers can operate and requires governments in both the United States and Japan to concur before taking action to regulate a carrier s fares or rates.

Environmental Regulation.

General. The airline industry is subject to increasingly stringent federal, state, local and international environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, safe drinking water, aircraft noise, and the management of hazardous substances, oils and waste materials. Areas of developing regulations include new regulations surrounding the emission of greenhouse gases (discussed further below), State of California rule-makings regarding air emissions from ground support equipment, and a federal rule-making concerning the discharge of deicing fluid.

Climate Change. There are certain laws and regulations relating to climate change that apply to the Company, including the EU Emissions Trading Scheme (ETS) (which is subject to legal challenge), environmental taxes for certain international flights (including the United Kingdom s Air Passenger Duty and Germany s departure ticket tax), limited greenhouse gas reporting requirements, and the State of California s cap and trade regulations (which impacts United s San Francisco Maintenance Center and co-located cogeneration plant). In addition, there are land-use planning laws that could apply to airport expansion projects, requiring a review of greenhouse gas emissions, and could affect airlines in certain circumstances.

In 2009, the EU issued a directive to member states to include aviation in its greenhouse gas ETS, which required the Company to begin monitoring emissions of carbon dioxide effective January 1, 2010. Beginning in 2012, the ETS would require the Company to ensure it has obtained sufficient emission allowances equal to the amount of carbon dioxide emissions from flights to and from EU member states with such allowances then surrendered on an annual basis to the government. In December 2009, the Air Transportation Association, joined by United, Continental and American Airlines, filed a lawsuit in the United Kingdom challenging regulations that transpose into UK law the EU ETS as applied to U.S. carriers. In addition, non-EU countries are considering filing a formal challenge before the United Nations International Civil Aviation Organization (ICAO) with respect to the EU s inclusion of non-EU carriers. If the scheme is found to be valid, it could significantly increase the cost of carriers operating in the EU (by requiring the purchase of carbon credits), although the precise cost to the Company is difficult to calculate with certainty due to a number of variables. Those potential costs will depend, among other things, on the baseline carbon emissions yet to be determined by the EU, the Company s future carbon emissions from flights to and from the EU, and the price of carbon credits.

Table of Contents

In addition to current regulatory programs, there is also the potential for additional climate change regulation. In 2010, the Administrator of the U.S. Environmental Protection Agency (EPA) found that current and projected concentrations of greenhouse gases in the atmosphere threaten the public health and welfare. Although legal challenges have been initiated and legislative proposals are expected that may invalidate this endangerment finding (and/or the EPA s assertion of authority under the Clean Air Act), the finding could result in EPA regulation of commercial aircraft emissions.

Further, the ICAO recently signaled through an ICAO Assembly Resolution that it will be developing a regulatory scheme for aviation greenhouse gas emissions. There could be other regulatory actions taken in the future by the U.S. government, state governments within the U.S., foreign governments, or through a separate United Nations global climate change treaty to regulate the emission of greenhouse gases by the aviation industry, which could result in multiple schemes applying to the same emissions. The precise nature of any such requirements and their applicability to the Company are difficult to predict, but the financial impact to the Company and the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

Other Environmental Matters. In addition, the DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided those procedures do not unreasonably interfere with interstate or foreign commerce or the national transportation system and do not conflict with federal law. Some U.S. and foreign airports, including airports located in certain of our hub cities, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number and scheduling of hourly or daily operations. In some instances, these restrictions have caused curtailments in services or increased operating costs, and could limit our ability to expand our operations at the affected airports.

The airline industry is also subject to other environmental laws and regulations that require the Company to remediate soil or groundwater to meet certain objectives and which may require significant expenditures. Under the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and similar environmental cleanup laws, generators of waste materials and owners or operators of facilities can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. The Company also conducts voluntary environmental assessment and remediation actions. Environmental cleanup obligations can arise from, among other circumstances, the operation of aircraft fueling facilities and primarily involve airport sites. Future costs associated with these activities are currently not expected to have a material adverse effect on the Company s business.

Employees

As of December 31, 2010, UAL, including its subsidiaries, had approximately 86,000 active employees. Approximately 72% of UAL s employees were represented by various U.S. labor organizations as of December 31, 2010. As of December 31, 2010, United had approximately 46,000 active employees and Continental had approximately 40,000 active employees. The following table reflects the Company s employee groups, number of employees per employee group, representative union for each of United s and Continental s employee groups, and amendable date for each employee group s collective bargaining agreement:

United Employee Group	Number of Employees	Union	Contract Open for Amendment
Public Contact/Ramp & Stores/Food Service Employees/Security Officers/Maintenance Instructors/Fleet Technical Instructors	14,471	International Association of Machinists and Aerospace Workers (IAM)	January 2010
Flight Attendants	12,755	Association of Flight Attendants Communication Workers of America (AFA)	January 2010
Pilots	5,605	Air Line Pilots Association International (ALPA)	January 2010
Mechanics & Related	4,728	International Brotherhood of Teamsters (Teamsters)	January 2010
Engineers	195	International Federation of Professional and Technical Engineers (IFPTE)	January 2010
Dispatchers	158	Professional Airline Flight Control Association (PAFCA)	January 2010
Continental Employee Group			
Flight Attendants	8,153	IAM	December 2009
Fleet Service Employees	6,918	Teamsters	December 2012
Pilots	4,273	ALPA	December 2008
Mechanics	3,637	Teamsters	December 2012
Continental Micronesia, Inc. (CMI) Fleet and Passenger Service Employees	544	Teamsters	November 2011
CMI Flight Attendants	246	IAM	December 2010
Dispatchers	109	Transport Workers Union (TWU)	December 2013
CMI Mechanics	115	Teamsters	December 2009
Flight Simulator Technicians	40	TWU	December 2012

Collective bargaining agreements are negotiated under the RLA, which governs labor relations in the air transportation industry. Such agreements typically do not contain an expiration date and instead specify an amendable date, upon which the contract is considered open for amendment. Contracts remain in effect while new agreements are negotiated. During the negotiation period, both the Company and the negotiating union are required to maintain the status quo.

The process for integrating the labor groups of United and Continental is governed by a combination of the RLA, the McCaskill-Bond Amendment, and where applicable, the existing provisions of United s and Continental s collective bargaining agreements and union policies. Under the RLA, the National Mediation Board (NMB) has exclusive authority to resolve union representation disputes arising out of airline mergers. Under the McCaskill-Bond Amendment, fair and equitable integration of seniority lists is required, including arbitration where the interested parties cannot reach a consensual agreement. Pending operational integration, the Company will apply the terms of the existing collective bargaining agreements unless other terms have been negotiated.

United has been in negotiations for amended collective bargaining agreements with all of its unions since 2009. Consistent with commitments contained in its current labor contracts, United filed for mediation assistance in conjunction with four of its six unions: ALPA, AFA, IAM and PAFCA. While the labor contract with the Teamsters also contemplates filing for mediation, the parties agreed to continue in direct negotiations. The current contract with the IFPTE does not stipulate filing for mediation.

In March 2010, Continental reached a tentative agreement on a new four-year labor contract with the union that represents its dispatchers, which was ratified in April 2010. In September 2010, Continental reached a tentative agreement on a new labor contract with the union that represents its aircraft maintenance technicians and related employees, which was ratified in November 2010. Continental negotiated a collective bargaining agreement with the Teamsters covering its fleet service employees in November 2010 which was ratified in December 2010. In January 2011, Continental reached a tentative agreement on a new labor contract with the union that represents its flight attendants. The agreement is scheduled for a ratification vote, the results of which are expected to be announced on or around February 26, 2011.

After the Company s May 2010 merger announcement, ALPA opted to suspend negotiations at both United and Continental to focus on joint negotiations for a new collective bargaining agreement that would apply to the combined company. In July 2010, United and Continental reached agreement with ALPA on a Transition and Process Agreement that provides a framework for conducting pilot operations for the two employee groups until the parties reach agreement on a joint collective bargaining agreement and the carriers obtain a single operating certificate. In August 2010, United and Continental began joint negotiations with ALPA and those negotiations are presently ongoing. In December 2010, ALPA and the Company jointly applied to the NMB for mediation assistance for pilots and flight instructors.

In January 2011, the IAM filed an application seeking single-carrier findings by the NMB for purposes of union representation covering fleet service employees at Continental and ramp service employees at United. Also in January 2011, the AFA announced that it had filed a similar request with the NMB for purposes of union representation for United and Continental flight attendants. The Company anticipates that other applications will be filed by various unions covering smaller groups of employees. If the NMB determines that United and Continental are considered a single carrier, the relevant employees may vote with respect to union representation. Until elections occur, the incumbent unions will continue to represent those employee groups who are currently represented.

The outcome of these labor negotiations may materially impact the Company s future financial results. However, the Company is unable at this time to assess the timing or magnitude of such impact, if any.

ITEM 1A. RISK FACTORS.

The following risk factors should be read carefully when evaluating the Company s business and the forward-looking statements contained in this report and other statements the Company or its representatives make from time to time. Any of the following risks could materially adversely affect the Company s business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this report.

The Merger may present certain material risks to the Company s business and operations.

The Merger, described in Item 1, Business, may present certain risks to the Company s business and operations including, among other things, risks that:

- we may be unable to successfully integrate the businesses and workforces of United and Continental;

- conditions, terms, obligations or restrictions relating to the Merger that may be imposed on us by regulatory authorities may adversely affect the Company s business and operations;

- we may lose additional management personnel and other key employees and may be unable to attract and retain such personnel and employees;
- we may be unable to successfully manage the expanded business with respect to monitoring new operations and associated increased costs and complexity;
- we may be unable to avoid potential liabilities and unforeseen increased expenses or delays associated with the Merger and integration;
- we may be unable to successfully manage the complex integration of systems, technology, aircraft fleets, networks and other assets of United and Continental in a manner that minimizes any adverse impact on customers, vendors, suppliers, employees and other constituencies;
- our ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be limited;
- branding or rebranding initiatives may involve substantial costs and may not be favorably received by customers;
- we may experience disruption of, or inconsistencies in, each of United s and Continental s standards, controls, procedures, policies and services; and
- we may be unable to successfully negotiate and maintain current or future strategic partnerships of United and Continental on terms acceptable to the Company.

Accordingly, there can be no assurance that the Merger will result in the realization of the full benefits of synergies, innovation and operational efficiencies that we currently expect, that these benefits will be achieved within the anticipated timeframe or that we will be able to fully and accurately measure any such synergies.

Certain of the Company s financing agreements have covenants that impose operating and financial restrictions on the Company and its subsidiaries. The Company may be unable to continue to comply with the covenants in these agreements. A failure to comply with these covenants could result in the accelerated maturity of debt obligations, which could materially and adversely affect the Company s liquidity.

United s Amended and Restated Revolving Credit, Term Loan and Guaranty Agreement, dated as of February 2, 2007 (the Amended Credit Facility), the indenture governing Continental s 6.75% Senior Secured Notes due 2015 (the 6.75% Notes) and the indentures governing United s 9.875% Senior Secured Notes due 2013 and 12.0% Senior Second Lien Notes due 2013 (the United Senior Notes, and together with the 6.75% Notes, the Senior Notes) impose certain operating and financial covenants, as applicable, on the Company, on United and its material subsidiaries, or on Continental and its subsidiaries.

Among other covenants, the Amended Credit Facility requires UAL, United and certain of United s material subsidiaries who are guarantors under the Amended Credit Facility to maintain a minimum unrestricted cash balance (as defined in the Amended Credit Facility) of $1.0 billion at all times; a minimum ratio of collateral value to debt obligations (that may increase if a specified dollar value of the route collateral is released); and a minimum fixed charge coverage ratio of 1.5 to 1.0 for twelve month periods measured at the end of each calendar quarter.

Among other covenants, the indentures governing the Senior Notes require the issuer to maintain a minimum ratio of collateral value to debt obligations. If the value of the collateral underlying that issuer s Senior Notes declines such that the issuer no longer maintains the minimum required ratio of collateral value to debt obligations, the issuer may be required to pay additional interest at the rate of 2% per annum, provide additional collateral to secure the noteholders lien or repay a portion of the Senior Notes.

The Company s ability to comply with the covenants in the Amended Credit Facility and the indentures governing the Senior Notes may be affected by events beyond its control, including the overall industry revenue environment and the level of fuel costs, and the Company may be required to seek waivers or amendments of covenants, repay all or a portion of the debt or find alternative sources of financing. The Company cannot provide assurance that such waivers, amendments or alternative financing could be obtained or, if obtained, would be on terms acceptable to the Company.

A breach of certain of the covenants or restrictions contained in the Amended Credit Facility or indentures governing the Senior Notes could result in a default and a subsequent acceleration of the applicable debt obligations. In addition, the indentures governing the United Senior Notes contain a cross-acceleration provision pursuant to which a default resulting in the acceleration of indebtedness under the Amended Credit Facility would result in a default under such indentures. A default under these indentures could allow holders of the United Senior Notes to accelerate the maturity of the obligations in these indentures.

See Note 14 to the financial statements included in Item 8 of this report for further discussion of our operating and financial covenants under certain of the Company s financing agreements.

The Company may be unable to continue to comply with certain covenants in agreements with financial institutions that process customer credit card transactions, which, if not complied with, could materially and adversely affect the Company s liquidity.

United and Continental have agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. Under certain of United s and Continental s credit card processing agreements, the financial institutions either require, or under certain circumstances have the right to require, that United and Continental maintain a reserve equal to a portion of advance ticket sales that have been processed by that financial institution, but for which United and Continental have not yet provided the air transportation (referred to as relevant advance ticket sales).

United s credit card processing agreement with Paymentech and JPMorgan Chase Bank, N.A. (JPMorgan Chase) contains a cash reserve requirement, determined based on the amount of unrestricted cash held by United as defined under the Amended Credit Facility. If United s unrestricted cash balance is at or more than $2.5 billion as of any calendar month-end measurement date, its required reserve will remain at $25 million. However, if United s unrestricted cash balance is less than $2.5 billion or certain lower minimum cash amounts, its required reserve will increase to stated percentages of relevant advance ticket sales that could be significant. Based on United s December 31, 2010 unrestricted cash balance, United was not required to provide cash collateral above the current $25 million reserve balance.

Under United s credit card processing agreement with American Express, in addition to certain other risk protections provided to American Express, United is required to provide reserves based primarily on its unrestricted cash balance and net current exposure as of any calendar month-end measurement date with United s required reserves increasing to stated percentages of net current exposure that could be significant as United s unrestricted cash balance falls below certain minimum cash amounts. The agreement with American Express permits United to provide certain replacement collateral in lieu of cash collateral, as long as United s unrestricted cash is above $1.35 billion. Such replacement collateral may be pledged for any amount of the required reserve up to the full amount thereof, with the stated value of such collateral determined according to the agreement. Replacement collateral may be comprised of aircraft, slots and routes, real estate or other collateral as agreed between the parties. Based on United s unrestricted cash balance at December 31, 2010, United was not required to provide any reserves under this agreement.

Continental s credit card processing agreement with JPMorgan Chase and affiliates of JPMorgan Chase contains financial covenants that require, among other things, that Continental post additional cash collateral if it fails to maintain (1) a minimum level of Continental s unrestricted cash, cash equivalents and short-term investments, (2) a minimum ratio of Continental s unrestricted cash, cash equivalents and short-term investments to current liabilities of 0.25 to 1.0 or (3) a minimum senior unsecured debt rating for Continental of at least Caa3 and CCC- from Moody s and Standard & Poor s, respectively. If a covenant trigger under the JPMorgan Chase processing agreement results in Continental s posting additional collateral under that agreement, Continental will also be required to post additional collateral under its credit card processing agreement with American Express that could be significant.

If Continental s unrestricted cash balance is at or more than $2.0 billion as of any calendar month-end measurement date, its required reserve will remain at $25 million. However, if Continental s unrestricted cash balance is less than $2.0 billion or certain lower minimum cash amounts, its required reserve will increase to stated percentages of relevant advance ticket sales that could be significant. Based on Continental s December 31, 2010 unrestricted cash balance, Continental was not required to provide cash collateral above the current $25 million reserve balance.

An increase in the future reserve requirements and the posting of a significant amount of cash collateral, as provided by the terms of any or all of United s and Continental s material credit card processing agreements, could materially reduce the Company s liquidity. See Note 17 to the financial statements included in Item 8 of this report for a detailed discussion of our obligations under the Company s credit card processing agreements.

The Company may not be able to maintain adequate liquidity.

The Company has a significant amount of financial leverage from fixed obligations, including aircraft lease and debt financings, leases of airport property and other facilities, and other material cash obligations. In addition, the Company has substantial non-cancelable commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. While the Company s cash flows from operations and its available capital, including the proceeds from financing transactions, have been sufficient to meet these obligations and commitments to date, the Company s future liquidity could be negatively impacted by the risk factors discussed in this Item 1A, including, but not limited to, substantial volatility in the price of fuel, adverse economic conditions and disruptions in the global capital markets.

In the event that the Company s liquidity is constrained due to the factors noted above or otherwise, the Company s failure to comply with certain financial covenants under its financing and credit card processing agreements, timely pay its debts, or comply with other material provisions of its contractual obligations could result in a variety of adverse consequences, including the acceleration of the Company s indebtedness, the increase of required reserves under credit card processing agreements, the withholding of credit card sale proceeds by its credit card service providers and the exercise of other remedies by its creditors and equipment lessors that could result in material adverse effects on the Company s financial position and results of operations.

Further, certain of the Company s debt is secured by collateral and the Company may have limited remaining assets available as collateral for loans or other indebtedness, which may make it difficult to raise additional capital to meet its liquidity needs. The Company s level of indebtedness, non-investment grade credit rating and the current market conditions may also make it difficult for the Company to raise capital to meet its liquidity needs and may increase its cost of borrowing. A higher cost of capital could negatively impact its results of operations, financial position and liquidity.

See Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations,* for further information regarding the Company s liquidity.

Economic and industry conditions constantly change and unfavorable global economic conditions may have a material adverse effect on the Company s business and results of operations.

The Company s business and results of operations are significantly impacted by general economic and industry conditions. The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the U.S. and global economies. Robust demand for our air transportation services depends largely

Table of Contents

on favorable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. For leisure travelers, air transportation is often a discretionary purchase that those consumers can eliminate from their spending in difficult economic times. In addition, during periods of unfavorable economic conditions, businesses usually reduce the volume of their business travel, either due to cost-savings initiatives or as a result of decreased business activity requiring travel.

The overall demand for air transportation in the United States significantly decreased in 2008 and 2009 due to the severe global economic recession, and this decline in demand disproportionately reduced the volume of high-yield traffic in the premium cabins on domestic and international flights, as many business travelers either curtailed their travel or purchased lower yield economy tickets. Decreases in passenger and cargo demand that resulted in lower passenger volumes and lower ticket fares had a significant adverse impact on our results of operations in 2008 and 2009. While some economic indicators are beginning to exhibit growth, other economic indicators that may reflect an economic recovery, such as unemployment, may not improve for an extended period of time. In addition, decreases in cargo revenues due to lower demand have a disproportionate impact on our operating results as our cargo revenues generally have higher margins as compared to our passenger revenues. Stagnant or worsening global economic conditions that contribute to reduced passenger and cargo revenues may have a material adverse effect on the Company s revenues, results of operations and liquidity.

In addition to its effect on demand for our services, the global economic recession severely disrupted the global capital markets, resulting in a diminished availability of financing and a higher cost for financing that was obtainable. Although access to the capital markets has improved, if economic conditions again worsen or these markets experience further disruptions, we may be unable to obtain financing on acceptable terms (or at all) to refinance certain maturing debt and to satisfy future capital commitments.

Continued periods of historically high fuel costs or significant disruptions in the supply of aircraft fuel could have a material adverse impact on the Company s operating results.

Expenditures for aircraft fuel and related taxes represent one of the largest single costs of operating the Company s business. The Company s financial condition and result of operations may be significantly impacted by the availability and price of aircraft fuel. While the Company arranges to have fuel shipped on major pipelines and stored close to its major hub locations to ensure supply continuity in the short term, the Company cannot predict the continued future availability of aircraft fuel.

At times, due to the highly competitive nature of the airline industry, the Company has not been able to increase its fares or other fees sufficiently to offset increased fuel costs. Fuel prices continue to be volatile which may negatively impact the Company s liquidity in the future. The Company may not be able to increase its fares or other fees if fuel prices rise in the future and any such increases may not be sustainable in the highly competitive airline industry. In addition, any increases in fares or other fees may not sufficiently offset the fuel price increase and may reduce the demand for air travel.

The Company enters into hedging arrangements to protect against rising fuel costs. However, the Company s hedging programs may use significant amounts of cash due to posting of cash collateral in some circumstances, may not be successful in controlling fuel costs and may be limited due to market conditions and other factors. In addition, significant declines in fuel prices may increase the costs associated with the Company s fuel hedging arrangements to the extent it has entered into swaps or collars. Swaps and sold put options (as part of a collar) may obligate us to make payments to the counterparty upon settlement of the contracts if the price of the commodity hedged falls below the agreed upon amount. Declining crude and related oil prices may result in the Company posting significant amounts of collateral to cover potential amounts owed (beyond certain credit-based thresholds) with respect to swap and collar contracts that have not yet settled. Also, lower fuel prices may result in increased industry capacity and lower fares, especially to the extent that reduced fuel costs justify increased utilization by airlines of less fuel efficient aircraft.

Table of Contents

There can be no assurance that the Company s hedging arrangements will provide any particular level of protection against increases or declines in fuel costs or that its counterparties will be able to perform under the Company s hedging arrangements. Additionally, deterioration in the Company s financial condition could negatively affect its ability to enter into new hedge contracts in the future and may potentially require the Company to post increased amounts of collateral under its fuel hedging agreements.

See Note 13 to the financial statements included in Item 8 for additional information on the Company s hedging programs.

Terrorist attacks or international hostilities, or the fear of terrorist attacks or hostilities, even if not made directly on the airline industry, could negatively affect the Company and the airline industry.

The terrorist attacks of September 11, 2001 involving commercial aircraft severely and adversely impacted each of United s and Continental s financial condition and results of operations, as well as the prospects for the airline industry. Among the effects experienced from the September 11, 2001 terrorist attacks were substantial flight disruption costs caused by the FAA-imposed temporary grounding of the U.S. airline industry s fleet, significantly increased security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and passenger revenue.

Additional terrorist attacks, even if not made directly on the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights) could materially and adversely affect the Company and the airline industry. Wars and other international hostilities could also have a material adverse impact on the Company s financial condition, liquidity and results of operations. The Company s financial resources might not be sufficient to absorb the adverse effects of any further terrorist attacks or other international hostilities involving the United States or U.S. interests.

The airline industry is highly competitive and susceptible to price discounting and changes in capacity, which could have a material adverse effect on the Company.

The U.S. airline industry is characterized by substantial price competition. In recent years, the market share held by low-cost carriers has increased significantly and is expected to continue to increase. The increased market presence of low-cost carriers, which engage in substantial price discounting, has diminished the ability of large network carriers to exercise pricing power and maintain sufficient fare levels in domestic markets to achieve sustained profitability.

Airlines also compete for market share by increasing or decreasing their capacity, including route systems and the number of markets served. Several of the Company s domestic competitors have increased their international capacity by including service to some destinations that the Company currently serves, causing overlap in destinations served and therefore increasing competition for those destinations. In addition, the Company and certain of its competitors have implemented significant capacity reductions in recent years in response to the global recession. Further, certain of the Company s competitors may not reduce capacity or may increase capacity, thereby diminishing the expected benefit to the Company from capacity reductions. This increased competition in both domestic and international markets may have a material adverse effect on the Company s results of operations, financial condition or liquidity.

The airline industry may undergo further bankruptcy restructuring, industry consolidation, or the creation or modification of alliances or joint ventures, any of which could have a material adverse effect on the Company.

The Company faces and may to continue to face strong competition from other carriers due to bankruptcy restructuring, industry consolidation, and the creation and modification of alliances and joint ventures. A number of carriers have filed for bankruptcy protection in recent years and other domestic and international carriers could restructure in bankruptcy or threaten to do so in the future to reduce their costs. Carriers operating under bankruptcy protection can operate in a manner that could be adverse to the Company and could emerge from bankruptcy as more vigorous competitors.

Since 2008, the U.S. airline industry has experienced consolidation through a number of mergers and acquisitions. The Company is also facing stronger competition from expanded airline alliances and joint ventures. Carriers entering into and participating in airline alliances and/or joint ventures may also become strong competitors as they are able to coordinate routes, pool revenues and costs, and enjoy other mutual benefits, achieving many of the benefits of consolidation. Open skies agreements, including the agreements between the United States and the EU and between the United States and Japan, may also give rise to additional consolidation or better integration opportunities among international carriers.

There is ongoing speculation that further airline industry reorganizations or consolidations could occur in the future. The Company routinely engages in analysis and discussions regarding its own strategic position, including alliances, asset acquisitions and divestitures and business combinations, and may have future discussions with other airlines regarding strategic activities. If other airlines participate in such activities, those airlines may significantly improve their cost structures or revenue generation capabilities, thereby potentially making them stronger competitors of the Company and potentially impairing the Company s ability to realize expected benefits from its own strategic relationships.

Additional security requirements may increase the Company s costs and decrease its revenues and traffic.

Since September 11, 2001, the Department of Homeland Security (DHS) and the Transportation Security Administration have implemented numerous security measures that affect airline operations and costs, including the presence of federal air marshals, use of passenger data, limitations on the content of carry-on baggage, expanded cargo and baggage screening, and body scanning, fingerprinting and photographing, and are likely to implement additional measures in the future. In addition, foreign governments have also instituted additional security measures at foreign airports the Company serves. A substantial portion of the costs of these security measures is borne by the airlines and their passengers, increasing the Company s costs and/or reducing its revenue and traffic. Additional measures taken to enhance either passenger or cargo security procedures and/or to recover associated costs in the future may increase the Company s costs and/or decrease the demand for air travel, and may result in related adverse effects on the Company s results of operations.

Extensive government regulation could materially increase the Company s operating costs and restrict its ability to conduct its business.

Airlines are subject to extensive regulatory and legal compliance requirements that result in significant costs and may have adverse effects. Laws, regulations, taxes and airport rates and charges, both domestically and internationally, have been proposed from time to time that could significantly increase the cost of airline operations or reduce airline revenue. The Company cannot provide any assurance that current laws and regulations, or laws or regulations enacted in the future, will not adversely affect its financial condition or results of operations.

Each of United and Continental operates under a certificate of public convenience and necessity issued by the DOT. If the DOT altered, amended, modified, suspended or revoked these certificates, it could have a material adverse effect on the Company s business. The FAA from time to time also issues directives and other regulations relating to the maintenance and operation of aircraft that require material expenditures or operational restrictions by the Company, and which could include the temporary grounding of an entire aircraft type if the FAA identifies design, manufacturing, maintenance or other issues requiring immediate corrective action. FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environmental concerns, aircraft operation and safety and increased inspections and maintenance procedures to be conducted on older aircraft. These FAA directives or requirements could have a material adverse effect on the Company.

In addition, the Company s operations may be adversely impacted due to the existing antiquated air traffic control (ATC) system utilized by the U.S. government. During peak travel periods in certain markets, the current ATC system s inability to handle existing travel demand has led to short-term capacity constraints imposed by government agencies and resulted in delays and disruptions of air traffic. In addition, the current system will not be able to effectively handle projected future air traffic growth. Imposition of these ATC constraints on a long-term basis may have a material adverse effect on our results of operations. Failure to update the ATC system in a timely manner, and the substantial funding requirements of a modernized ATC system that may be imposed on air carriers may have an adverse impact on the Company s financial condition or results of operations.

The airline industry is subject to extensive federal, state and local taxes and fees that increase the cost of the Company s operations. In addition to taxes and fees that the Company is currently subject to, proposed taxes and fees are currently pending and if imposed, would increase the Company s operating expenses.

Access to landing and take-off rights, or slots, at several major U.S. airports and many foreign airports served by the Company are, or recently have been, subject to government regulation. Certain of the Company s major hubs are among increasingly congested airports in the United States and have been or could be the subject of regulatory action that might limit the number of flights and/or increase costs of operations at certain times or throughout the day. The FAA may limit the Company s airport access by limiting the number of departure and arrival slots at high density traffic airports, which could affect the Company s ownership and transfer rights, and local airport authorities may have the ability to control access to certain facilities or the cost of access to its facilities, which could have an adverse effect on the Company s business. In addition, in 2008, the FAA planned to withdraw and auction a certain number of slots held by airlines at the three primary New York area airports, which the airlines challenged and the FAA terminated in 2009. If the FAA were to plan another auction that survived legal challenge by the airlines, the Company could incur substantial costs to obtain such slots. Further, the Company s operating costs at airports at which it operates, including the Company s major hubs, may increase significantly because of capital improvements at such airports that the Company may be required to fund, directly or indirectly. In some circumstances, such costs could be imposed by the relevant airport authority without the Company s approval and may have a material adverse effect on the Company s financial condition.

The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities may not be made available. The Company currently operates on a number of international routes under government arrangements that limit the number of carriers permitted to operate on the route, the capacity of the carriers providing services on the route, or the number of carriers allowed access to particular airports. If an open skies policy were to be adopted for any of these routes, such an event could have a material adverse impact on the Company s financial position and results of operations and could result in the impairment of material amounts of related tangible and intangible assets. In addition, competition from revenue-sharing joint ventures and other alliance arrangements by and among other airlines could impair the value of the Company s business and assets on the open skies routes.

The Company s plans to enter into or expand antitrust immunized joint ventures for various international regions are subject to receipt of approvals from applicable federal authorities or otherwise satisfying applicable regulatory requirements, and there can be no assurance that such approvals will be granted or applicable regulatory requirements will be satisfied.

Many aspects of the Company s operations are also subject to increasingly stringent federal, state, local and international laws protecting the environment. Future environmental regulatory developments, such as climate change regulations in the United States and abroad could adversely affect operations and increase operating costs in the airline industry. There are certain climate change laws and regulations that have already gone into effect and that apply to the Company, including the EU ETS (subject to legal challenge), the State of California s cap

Table of Contents

and trade regulations, environmental taxes for certain international flights, limited greenhouse gas reporting requirements and land-use planning laws which could apply to airports and could affect airlines in certain circumstances. In addition, there is the potential for additional regulatory actions in regard to the emission of greenhouse gases by the aviation industry. The precise nature of future requirements and their applicability to the Company are difficult to predict, but the financial impact to the Company and the aviation industry would likely be adverse and could be significant.

See Item 1, *Business Industry Regulation,* above, for further information on government regulation impacting the Company.

The Company s results of operations fluctuate due to seasonality and other factors associated with the airline industry.

Due to greater demand for air travel during the spring and summer months, revenues in the airline industry in the second and third quarters of the year are generally stronger than revenues in the first and fourth quarters of the year. The Company s results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal including, among others, the imposition of excise and similar taxes, extreme or severe weather, air traffic control congestion, geological events, natural disasters, changes in the competitive environment due to industry consolidation and other factors and general economic conditions. As a result, the Company s quarterly operating results are not necessarily indicative of operating results for an entire year and historical operating results in a quarterly or annual period are not necessarily indicative of future operating results.

The Company could experience adverse publicity, harm to its brand, reduced travel demand and potential tort liability as a result of an accident or other catastrophe involving its aircraft, the aircraft of its regional carriers or the aircraft of its codeshare partners, which may result in a material adverse effect on the Company s results of operations or financial position.

An accident or catastrophe involving an aircraft that the Company operates, or an aircraft that is operated by a codeshare partner or one of the Company s regional carriers, could have a material adverse effect on the Company if such accident created a public perception that the Company s operations, or the operations of its codeshare partners or regional carriers, are less safe or reliable than other airlines. Such public perception could in turn cause harm to the Company s brand and reduce travel demand on the Company s flights, or the flights or its codeshare partners or regional carriers. In addition, any such accident could expose the Company to significant tort liability. Although the Company currently maintains liability insurance in amounts and of the type the Company believes to be consistent with industry practice to cover damages arising from any such accident, and the Company s codeshare partners and regional carriers carry similar insurance and generally indemnify the Company for their operations, if the Company s liability exceeds the applicable policy limits or the ability of another carrier to indemnify it, the Company could incur substantial losses from an accident which may result in a material adverse effect on the Company s results of operations or financial position.

UAL s obligations for funding Continental s defined benefit pension plans are affected by factors beyond UAL s control.

Continental has defined benefit pension plans covering substantially all of its U.S. employees, other than the employees of its Chelsea Food Services division and Continental Micronesia, Inc. The timing and amount of UAL s funding requirements under Continental s plans depend upon a number of factors, including labor negotiations with the applicable employee groups and changes to pension plan benefits as well as factors outside of UAL s control, such as the number of applicable retiring employees, asset returns, interest rates and changes in pension laws. Changes to these and other factors that can significantly increase UAL s funding requirements, such as its liquidity requirements, could have a material adverse effect on UAL s financial condition.

Table of Contents

The Company may never realize the full value of its intangible assets or our long-lived assets causing it to record impairments that may negatively affect its results of operations.

In accordance with applicable accounting standards, the Company is required to test its indefinite-lived intangible assets for impairment on an annual basis on October 1 of each year, or more frequently if conditions indicate that an impairment may have occurred. In addition, the Company is required to test certain of its other assets for impairment if conditions indicate that an impairment may have occurred.

During the years ended December 31, 2010, 2009 and 2008, the Company performed impairment tests of certain intangible assets and certain long-lived assets (principally aircraft, related spare engines and spare parts). The interim impairment tests were due to events and changes in circumstances that indicated an impairment might have occurred. Certain of the factors deemed by management to have indicated that impairments may have occurred include a significant decrease in actual and forecasted revenues, record high fuel prices, significant losses, a weak U.S. economy, and changes in the planned use of assets. As a result of the impairment testing, the Company recorded significant impairment charges as described in Note 4 to the financial statements included in Item 8. The Company may be required to recognize additional impairments in the future due to, among other factors, extreme fuel price volatility, tight credit markets, a decline in the fair value of certain tangible or intangible assets, unfavorable trends in historical or forecasted results of operations and cash flows and the uncertain economic environment, as well as other uncertainties. The Company can provide no assurance that a material impairment charge of tangible or intangible assets will not occur in a future period. The value of our aircraft could be impacted in future periods by changes in supply and demand for these aircraft. Such changes in supply and demand for certain aircraft types could result from grounding of aircraft by the Company or other carriers. An impairment charge could have a material adverse effect on the Company s financial position and results of operations.

Union disputes, employee strikes or slowdowns, and other labor-related disruptions, as well as the integration of the United and Continental workforces in connection with the Merger, present the potential for a delay in achieving expected merger synergies, increased labor costs or additional labor disputes that could adversely affect the Company s operations and impair its financial performance.

United and Continental are both highly unionized companies. As of December 31, 2010, UAL and its subsidiaries had approximately 86,000 active employees, of whom approximately 72% were represented by various U.S. labor organizations. The successful integration of United and Continental and achievement of the anticipated benefits of the combination depend in part on integrating United and Continental employee groups and maintaining productive employee relations. Failure to do so presents the potential for delays in achieving expected merger synergies, increased labor costs and labor disputes that could adversely affect our operations.

In order to fully integrate the pre-merger represented employee groups, the Company must negotiate a joint collective bargaining agreement covering each combined group. The process for integrating the labor groups of United and Continental is governed by a combination of the RLA, the McCaskill-Bond Amendment, and where applicable, the existing provisions of each company s collective bargaining agreements and union policy. Pending operational integration, the Company will apply the terms of the existing collective bargaining agreements unless other terms have been negotiated. Under the McCaskill-Bond Amendment**,** seniority integration must be accomplished in a fair and equitable manner consistent with the process set forth in the Allegheny-Mohawk Labor Protective Provisions or internal union Merger policies, if applicable. Employee dissatisfaction with the results of the seniority integration may lead to litigation that in some cases can delay implementation of the integrated seniority list. The National Mediation Board has exclusive authority to resolve representation disputes arising out of airline mergers.

Following announcement of the Merger, ALPA, which represents pilots at both carriers, opted to pursue negotiations with the Company for a joint collective bargaining agreement (JCBA) that would govern the combined pilot group. In July 2010, United and Continental reached agreement with ALPA on a Transition and Process Agreement that provides a framework for conducting pilot operations of the two groups until the parties reach agreement on a JCBA and the carriers obtain a single operating certificate. In August 2010, United and Continental began joint negotiations with ALPA and the negotiations are presently ongoing.

The Company can provide no assurance that a successful or timely resolution of labor negotiations for all amendable agreements will be achieved. There is a risk that unions or individual employees might pursue judicial or arbitral claims arising out of changes implemented as a result of the Merger. There is also a possibility that employees or unions could engage in job actions such as slow-downs, work-to-rule campaigns, sick-outs or other actions designed to disrupt United s and Continental s normal operations, in an attempt to pressure the companies in collective bargaining negotiations. Although the RLA makes such actions unlawful until the parties have been lawfully released to self-help, and United and Continental can seek injunctive relief against premature self-help, such actions can cause significant harm even if ultimately enjoined. In 2008, United obtained a preliminary injunction preventing United s pilots from engaging in any actions designed to disrupt United s normal operations. As a result of an agreement between the parties, the preliminary injunction will remain in place until United and ALPA have negotiated a new collective bargaining agreement.

Increases in insurance costs or reductions in insurance coverage may materially and adversely impact the Company s results of operations and financial condition.

The terrorist attacks of September 11, 2001 led to a significant increase in insurance premiums and a decrease in the insurance coverage available to commercial airlines. Accordingly, the Company s insurance costs increased significantly and its ability to continue to obtain certain types of insurance remains uncertain. The Company has obtained third-party war risk (terrorism) insurance through a special program administered by the FAA, resulting in lower premiums than if it had obtained this insurance in the commercial insurance market. Should the government discontinue this coverage, obtaining comparable coverage from commercial underwriters could result in substantially higher premiums and more restrictive terms, if it is available at all. If the Company is unable to obtain adequate war risk insurance, its business could be materially and adversely affected.

If any of the Company s aircraft were to be involved in an accident or if the Company s property or operations were to be affected by a significant natural catastrophe or other event, the Company could be exposed to significant liability or loss. If the Company is unable to obtain sufficient insurance (including aviation hull and liability insurance and property and business interruption coverage) to cover such liabilities or losses, whether due to insurance market conditions or otherwise, its results of operations and financial condition could be materially and adversely affected.

The Company relies heavily on technology and automated systems to operate its business and any significant failure or disruption of the technology or these systems could materially harm its business.

The Company depends on automated systems and technology to operate its business, including computerized airline reservation systems, flight operations systems, telecommunication systems and commercial websites, including www.united.com and www.continental.com. United s and Continental s websites and other automated systems must be able to accommodate a high volume of traffic and deliver important flight and schedule information, as well as process critical financial transactions. These systems could suffer substantial or repeated disruptions due to events beyond the Company s control, including natural disasters, power failures, terrorist attacks, equipment or software failures, computer viruses or hackers. Substantial or repeated website, reservations systems or telecommunication systems failures could reduce the attractiveness of the Company s services versus its competitors, materially impair its ability to market its services and operate its flights, and could result in increased costs, lost revenue and the loss or compromise of important data.

The Company s business relies extensively on third-party providers. Failure of these parties to perform as expected, or interruptions in the Company s relationships with these providers or their provision of services to the Company, could have an adverse effect on the Company s financial position and results of operations.

The Company has engaged an increasing number of third-party service providers to perform a large number of functions that are integral to its business, including regional operations, operation of customer service call centers, distribution and sale of airline seat inventory, provision of information technology infrastructure and services, provision of aircraft maintenance and repairs, provision of various utilities and performance of aircraft fueling operations, among other vital functions and services. The Company does not directly control these third-party providers, although it does enter into agreements with many of them that define expected service performance. Any of these third-party providers, however, may materially fail to meet their service performance commitments to the Company or agreements with such providers may be terminated. For example, flight reservations booked by customers and travel agents via third-party GDSs may be affected by changes to the contract terms between the Company and GDS operators. A failure to agree upon acceptable contract terms when these contracts expire or otherwise become subject to renegotiation, which is scheduled to occur for some of these contracts later in 2011, or other disruptions in the business relationships between the Company and GDS operators, may cause the carriers flight information to be limited or unavailable for display, significantly increase fees for both the Company and GDS users, and impair the Company s relationships with its customers and travel agents. The failure of any of the Company s third-party service providers to adequately perform their service obligations, or other interruptions of services, may reduce the Company s revenues and increase its expenses or prevent the Company from operating its flights and providing other services to its customers. In addition, the Company s business and financial performance could be materially harmed if its customers believe that its services are unreliable or unsatisfactory.

The Company s ability to use its net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be significantly limited due to various circumstances, including certain possible future transactions involving the sale or issuance of UAL common stock, or if taxable income does not reach sufficient levels.

As of December 31, 2010, UAL reported consolidated federal net operating loss (NOL) carryforwards of approximately $11.6 billion.

The Company s ability to use its NOL carryforwards may be limited if it experiences an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended (Section 382). An ownership change generally occurs if certain stockholders increase their aggregate percentage ownership of a corporation s stock by more than 50 percentage points over their lowest percentage ownership at any time during the testing period, which is generally the three-year period preceding any potential ownership change.

As of October 1, 2010, UAL Corporation and Continental each experienced an ownership change under Section 382 in connection with the Merger. While these merger-related ownership changes are not expected to significantly limit the Company s use of its NOL carryforwards in the carryforward period, there is no assurance that the Company will not experience a future ownership change under Section 382 that may significantly limit or possibly eliminate its ability to use its NOL carryforwards. Potential future transactions involving the sale or issuance of UAL common stock, including the exercise of conversion options under the terms of the Company s convertible debt, repurchase of such debt with UAL common stock, issuance of UAL common stock for cash and the acquisition or disposition of such stock by a stockholder owning 5% or more of UAL common stock, or a combination of such transactions, may increase the possibility that the Company will experience a future ownership change under Section 382. Under Section 382, a future ownership change would subject the Company to an annual limitation that applies to the amount of pre-ownership change NOLs that may be used to offset post-ownership change taxable income. This limitation is generally determined by multiplying the value of a corporation s stock immediately before the ownership change by the applicable long-term tax-exempt rate. Any unused annual limitation may, subject to certain limits, be carried over to later years, and the limitation may under certain circumstances be increased by built-in gains in the assets held by such corporation at the time of the ownership change. This limitation could cause the Company s U.S. federal income taxes to be greater, or to be paid earlier, than they otherwise would be, and could cause all or a portion of the Company s NOL carryforwards to expire unused. Similar rules and limitations may apply for state income tax purposes. The Company s ability to use its NOL carryforwards will also depend on the amount of taxable income it generates in future periods. Its NOL carryforwards may expire before the Company can generate sufficient taxable income to use them in full.

Table of Contents

UAL s amended and restated certificate of incorporation limits certain transfers of its stock which could have an effect on the market price of UAL common stock.

To reduce the risk of a potential adverse effect on the Company s ability to use its NOL carryforwards for federal income tax purposes, UAL s amended and restated certificate of incorporation contains a 5% ownership limitation. This limitation generally remains effective until February 1, 2014, or until such later date as may be approved by the UAL Board of Directors (the Board of Directors) in its sole discretion. The limitation prohibits (i) an acquisition by a single stockholder of shares that results in that stockholder owning 5% or more of UAL common stock and (ii) any acquisition or disposition of common stock by a stockholder that already owns 5% or more of UAL common stock, unless prior written approval is granted by the Board of Directors.

Any transfer of common stock in violation of these restrictions will be void and will be treated as if such transfer never occurred. This provision of UAL s amended and restated certificate of incorporation may impair or prevent a sale of common stock by a stockholder and adversely affect the price at which a stockholder can sell UAL common stock. In addition, this limitation may have the effect of delaying or preventing a change in control of the Company, creating a perception that a change in control cannot occur or otherwise discouraging takeover attempts that some stockholders may consider beneficial, which could also adversely affect the market price of the UAL common stock. The Company cannot predict the effect that this provision in UAL s amended and restated certificate of incorporation may have on the market price of the UAL common stock. For additional information regarding the 5% ownership limitation, please refer to UAL s amended and restated certificate of incorporation available on the Company s website.

The Company is subject to economic and political instability and other risks of doing business globally.

The Company is a global business with operations outside of the United States from which it derives approximately one-third of its operating revenues, as measured and reported to the DOT. The Company s operations in Asia, Europe, Latin America, Africa and the Middle East are a vital part of its worldwide airline network. Volatile economic, political and market conditions in these international regions may have a negative impact on the Company s operating results and its ability to achieve its business objectives. In addition, significant or volatile changes in exchange rates between the U.S. dollar and other currencies, and the imposition of exchange controls or other currency restrictions, may have a material adverse impact upon the Company s liquidity, revenues, costs and operating results.

The Company could be adversely affected by an outbreak of a disease, or similar public health threats, that affect travel behavior.

An outbreak of a disease that affects travel demand or travel behavior, such as Severe Acute Respiratory Syndrome, avian flu or H1N1 virus, or other illness, or travel restrictions or reduction in the demand for air travel caused by similar public health threats in the future, could have a material adverse impact on the Company s business, financial condition and results of operations.

Certain provisions of UAL s Governance Documents could discourage or delay changes of control or changes to the Board of Directors.

Certain provisions of UAL s amended and restated certificate of incorporation and amended and restated bylaws (together, the Governance Documents) may make it difficult for stockholders to change the composition of the Board of Directors and may discourage takeover attempts that some of its stockholders may consider beneficial.

Certain provisions of the Governance Documents may have the effect of delaying or preventing changes in control if the Board of Directors determines that such changes in control are not in the best interests of UAL and its stockholders. These provisions of the Governance Documents are not intended to prevent a takeover, but are intended to protect and maximize the value of UAL s stockholders interests. While these provisions have the

Table of Contents

effect of encouraging persons seeking to acquire control of UAL to negotiate with the Board of Directors, they could enable the Board of Directors to prevent a transaction that some, or a majority, of its stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors.

The issuance of UAL s 8% Contingent Senior Notes could materially and adversely impact the Company s results of operations, liquidity and financial position.

UAL would be obligated under an indenture to issue to the Pension Benefit Guarantee Corporation (PBGC) up to $500 million aggregate principal amount of 8% Contingent Senior Notes (the 8% Notes) if certain financial triggering events occur. The 8% Notes would be issued in up to eight equal tranches of $62.5 million (with each tranche issued no later than 45 days following the end of any applicable fiscal year). A triggering event occurs when UAL s EBITDAR (as defined in the PBGC indenture) exceeds $3.5 billion over the prior twelve months ending June 30 or December 31 of any applicable fiscal year. The twelve-month measurement periods began with the fiscal year ended December 31, 2009 and will end with the fiscal year ending December 31, 2017. However, if the issuance of a tranche would cause a default under any other securities then existing, UAL may satisfy its obligations with respect to such tranche by issuing UAL common stock having a market value equal to $62.5 million. Each issued tranche will mature 15 years from its respective triggering event date, with interest payable in cash in semi-annual installments, and will be callable, at UAL s option, at any time at par, plus accrued and unpaid interest. Because Continental s EBITDAR will be included in the calculation for periods subsequent to the closing of the Merger, the Merger increases the likelihood that all or a portion of the 8% Notes will be issued, as well as the likelihood that the timing of any such issuances would be accelerated. However, because the issuance of the 8% Notes is based upon future operating results, we cannot predict the exact number and timing of any such issuances by the Company. The issuance of the 8% Notes could adversely impact the Company s results of operations because of increased charges to earnings for the principal amount of the notes issued and increased interest expense related to the notes. Issuance of such notes could also materially and adversely impact the Company s liquidity due to increased cash required to meet interest and principal payments.

Delays in scheduled aircraft deliveries may adversely affect the Company s ability to expand its capacity.

The Company from time to time acquires additional aircraft to increase its domestic and international capacity when the level of demand for air travel supports such growth. The Company has contractual commitments to purchase aircraft that it currently believes is necessary for its capacity growth. Delays in aircraft deliveries under those contractual commitments may occur and the Company has been, and may in the future be, adversely impacted by those delays. If significant additional delays in the deliveries of new aircraft occur, the Company may be able to accomplish capacity increases only by making alternative arrangements to acquire the necessary aircraft, if available and possibly on less financially favorable terms, including higher ownership and operating costs.

The issuance of additional shares of UAL s capital stock, including the issuance of common stock upon conversion of convertible notes and upon a noteholder s exercise of its option to require UAL to repurchase convertible notes, could cause dilution to the interests of its existing stockholders.

UAL s amended and restated certificate of incorporation authorizes up to one billion shares of common stock. In certain circumstances, UAL can issue shares of common stock without stockholder approval. In addition, the Board of Directors is authorized to issue up to 250 million shares of preferred stock without any action on the part of UAL s stockholders. The Board of Directors also has the power, without stockholder approval, to set the terms of any series of shares of preferred stock that may be issued, including voting rights, conversion rights, dividend rights, preferences over UAL s common stock with respect to dividends or if UAL liquidates, dissolves or winds up its business and other terms. If UAL issues preferred stock in the future that has a preference over its common stock with respect to the payment of dividends or upon its liquidation, dissolution or winding up, or if UAL issues preferred stock with voting rights that dilute the voting power of its common stock, the rights of holders of its common stock or the market price of its common stock could be adversely affected.

Table of Contents

UAL is also authorized to issue, without stockholder approval, other securities convertible into either preferred stock or, in certain circumstances, common stock. As of December 31, 2010, UAL had $1.7 billion of convertible debt outstanding. Holders of these securities may convert them into shares of UAL common stock according to their terms. In addition, certain of UAL s notes include noteholder early redemption options. If a noteholder exercises such option, UAL may elect to pay the repurchase price in cash, shares of its common stock or a combination thereof. If UAL elects to pay the repurchase price in shares of its common stock, UAL is obligated to deliver a number of shares of common stock equal to the repurchase price divided by an average price of UAL common stock for a 20-consecutive trading day period. See Note 14 to the financial statements included in Item 8 of this report for additional information related to these convertible notes. The number of shares issued could be significant and such an issuance could cause significant dilution to the interests of its existing stockholders. In addition, if UAL elects to pay the repurchase price in cash, its liquidity could be adversely affected.

In the future, UAL may decide to raise additional capital through offerings of UAL common stock, securities convertible into UAL common stock, or exercise rights to acquire these securities or its common stock. The issuance of additional shares of common stock, including upon the conversion or repurchase of convertible debt, could result in significant dilution of existing stockholders equity interests in UAL. Issuances of substantial amounts of its common stock, or the perception that such issuances could occur, may adversely affect prevailing market prices for UAL s common stock and UAL cannot predict the effect this dilution may have on the price of its common stock.

UAL s amended and restated certificate of incorporation limits voting rights of certain foreign persons.

UAL s amended and restated certificate of incorporation limits the total number of shares of equity securities held by persons who fail to qualify as a citizen of the United States, as defined in Section 40102(a)(15) of Title 49 of the United States Code, to no more than 24.9% of the aggregate votes of all outstanding equity securities of UAL. This restriction is applied pro rata among all holders of equity securities who fail to qualify as citizens of the United States, based on the number of votes to which the underlying securities are entitled.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Flight Equipment

Including aircraft operating by regional carriers on their behalf, Continental and United operated 607 and 655 aircraft, respectively, as of December 31, 2010. UAL s combined fleet as of December 31, 2010 is presented in the table below:

Aircraft Type	Total	Owned	Leased	Seats in Standard Configuration	Average Age (In Years)
Mainline:					
747-400	25	16	9	374	15.6
777-200ER	55	37	18	276	10.8
777-200	19	18	1	258	13.5
767-300	14	12	2	244	11.3
767-400ER	16	14	2	235	9.3
757-300	21	9	12	216	8.3
767-300ER	21	6	15	183	18.3
757-200	137	38	99	182	17.2
767-200ER	10	9	1	174	9.8

Table of Contents

Aircraft Type	Total	Owned	Leased	Seats in Standard Configuration	Average Age (In Years)
Mainline:					