

United Continental Holdings, Inc.
Form 10-Q
October 17, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Exact Name of Registrant as

Specified in its Charter, Principal

Commission

Executive Office Address and

State of

I.R.S. Employer

File Number
001-06033

Telephone Number
United Continental Holdings, Inc.

Incorporation
Delaware

Identification No.
36-2675207

233 South Wacker Drive,
Chicago, Illinois 60606

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

001-10323

(872) 825-4000
United Airlines, Inc.

Delaware

74-2099724

233 South Wacker Drive,

Chicago, Illinois 60606

(872) 825-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

United Continental Holdings, Inc. Yes No
United Airlines, Inc. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 Airlines, Inc. Yes No

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.

United Continental Holdings, Inc.	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
United Airlines, Inc.	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

United Continental Holdings, Inc. Yes No
United Airlines, Inc. Yes No

The number of shares outstanding of each of the issuer's classes of common stock as of October 11, 2016 is shown below:

United Continental Holdings, Inc.	317,285,583 shares of common stock (\$0.01 par value)
United Airlines, Inc.	1,000 (100% owned by United Continental Holdings, Inc.)

There is no market for United Airlines, Inc. common stock.

OMISSION OF CERTAIN INFORMATION

This combined Quarterly Report on Form 10-Q is separately filed by United Continental Holdings, Inc. and United Airlines, Inc. United Airlines, Inc. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

Table of Contents

United Continental Holdings, Inc.

United Airlines, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2016

		Page
	<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>	
	United Continental Holdings, Inc.:	
	<u>Statements of Consolidated Operations</u>	3
	<u>Statements of Consolidated Comprehensive Income (Loss)</u>	4
	<u>Consolidated Balance Sheets</u>	5
	<u>Condensed Statements of Consolidated Cash Flows</u>	7
	United Airlines, Inc.:	
	<u>Statements of Consolidated Operations</u>	8
	<u>Statements of Consolidated Comprehensive Income (Loss)</u>	9
	<u>Consolidated Balance Sheets</u>	10
	<u>Condensed Statements of Consolidated Cash Flows</u>	12
	<u>Combined Notes to Condensed Consolidated Financial Statements</u> <u>(United Continental Holdings, Inc. and United Airlines, Inc.)</u>	13
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4.	<u>Controls and Procedures</u>	39
	<u>PART II. OTHER INFORMATION</u>	
Item 1A.	<u>Risk Factors</u>	40
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 6.	<u>Exhibits</u>	41
	<u>Signatures</u>	42
	<u>Exhibit Index</u>	43

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenue:				
Passenger Mainline	\$ 7,017	\$ 7,254	\$ 19,119	\$ 20,153
Passenger Regional	1,586	1,706	4,577	4,903
Total passenger revenue	8,603	8,960	23,696	25,056
Cargo	224	235	626	706
Other operating revenue	1,086	1,111	3,182	3,066
	9,913	10,306	27,504	28,828
Operating expense:				
Salaries and related costs	2,625	2,534	7,707	7,289
Aircraft fuel	1,603	1,934	4,258	5,904
Regional capacity purchase	572	572	1,645	1,725
Landing fees and other rent	546	551	1,612	1,647
Depreciation and amortization	503	469	1,473	1,343
Aircraft maintenance materials and outside repairs	451	424	1,301	1,252
Distribution expenses	345	366	987	1,026
Aircraft rent	168	185	521	580
Special charges (Note 10)	45	76	669	195
Other operating expenses	1,431	1,296	3,998	3,782
	8,289	8,407	24,171	24,743
Operating income	1,624	1,899	3,333	4,085
Nonoperating income (expense):				
Interest expense	(150)	(164)	(466)	(504)
Interest capitalized	20	13	48	38
Interest income	14	5	31	16
Miscellaneous, net (Note 10)	2	(147)	(11)	(321)
	(114)	(293)	(398)	(771)
Income before income taxes	1,510	1,606	2,935	3,314
Income tax expense (benefit)	545	(3,210)	1,069	(3,203)
Net income	\$ 965	\$ 4,816	\$ 1,866	\$ 6,517
Earnings per share, basic	\$ 3.02	\$ 12.83	\$ 5.57	\$ 17.19

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

Earnings per share, diluted	\$ 3.01	\$ 12.82	\$ 5.57	\$ 17.15
-----------------------------	---------	----------	---------	----------

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents

UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 965	\$ 4,816	\$ 1,866	\$ 6,517
Other comprehensive income (loss), net change related to:				
Fuel derivative financial instruments	12	(104)	123	129
Employee benefit plans	(75)	(12)	(89)	18
Investments and other	(1)	(6)	(1)	(2)
	(64)	(122)	33	145
Total comprehensive income, net	\$ 901	\$ 4,694	\$ 1,899	\$ 6,662

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents**UNITED CONTINENTAL HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS****(In millions, except shares)**

	(Unaudited)	
	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,630	\$ 3,006
Short-term investments	2,226	2,190
Receivables, less allowance for doubtful accounts (2016 \$12; 2015 \$18)	1,481	1,128
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2016 \$263; 2015 \$235)	842	738
Prepaid expenses and other	791	766
	7,970	7,828
Operating property and equipment:		
Owned		
Flight equipment	25,093	23,728
Other property and equipment	5,237	4,542
	30,330	28,270
Less Accumulated depreciation and amortization	(9,529)	(8,339)
	20,801	19,931
Purchase deposits for flight equipment		
	1,068	788
Capital leases		
Flight equipment	1,398	1,527
Other property and equipment	337	332
	1,735	1,859
Less Accumulated amortization	(959)	(998)
	776	861
	22,645	21,580
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2016 \$1,212; 2015 \$1,144)	3,654	4,136
Deferred income taxes	863	2,037
Restricted cash	123	204
Other, net	549	553
	9,712	11,453
	\$ 40,327	\$ 40,861

Table of Contents**UNITED CONTINENTAL HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

(Unaudited)
September 30, 2016 December 31, 2015**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Advance ticket sales	\$ 4,558	\$ 3,753
Accounts payable	2,138	1,869
Frequent flyer deferred revenue	2,168	2,117
Accrued salaries and benefits	2,282	2,350
Current maturities of long-term debt	969	1,224
Current maturities of capital leases	124	135
Fuel derivative instruments	4	124
Other	1,010	842
	13,253	12,414
Long-term debt	9,612	9,673
Long-term obligations under capital leases	752	727
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	2,743	2,826
Postretirement benefit liability	1,927	1,882
Pension liability	1,220	1,488
Advanced purchase of miles	574	1,010
Lease fair value adjustment, net	299	359
Other	1,508	1,516
	8,271	9,081
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 317,905,672 and 364,609,108 shares at September 30, 2016 and December 31, 2015, respectively	4	4
Additional capital invested	7,974	7,946
Retained earnings	5,323	3,457
Stock held in treasury, at cost	(4,064)	(1,610)
Accumulated other comprehensive loss	(798)	(831)
	8,439	8,966
	\$ 40,327	\$ 40,861

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net cash provided by operating activities	\$ 4,884	\$ 4,877
Cash Flows from Investing Activities:		
Capital expenditures	(2,343)	(1,984)
Purchases of short-term and other investments	(1,989)	(1,859)
Proceeds from sale of short-term and other investments	1,957	2,069
Decrease in restricted cash	82	112
Proceeds from sale of property and equipment	24	50
Investment in and loans to affiliates	(8)	(130)
Other	(5)	23
Net cash used in investing activities	(2,282)	(1,719)
Cash Flows from Financing Activities:		
Repurchases of common stock	(2,442)	(710)
Payments of long-term debt	(911)	(1,528)
Proceeds from issuance of long-term debt	510	613
Principal payments under capital leases	(95)	(80)
Other, net	(40)	(28)
Net cash used in financing activities	(2,978)	(1,733)
Net (decrease) increase in cash and cash equivalents	(376)	1,425
Cash and cash equivalents at beginning of the period	3,006	2,002
Cash and cash equivalents at end of the period	\$ 2,630	\$ 3,427
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 115	\$ 797
Airport construction financing	68	5
Operating lease conversions to capital lease	12	285
Exchanges of certain convertible notes for common stock		201

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenue:				
Passenger Mainline	\$ 7,017	\$ 7,254	\$ 19,119	\$ 20,153
Passenger Regional	1,586	1,706	4,577	4,903
Total passenger revenue	8,603	8,960	23,696	25,056
Cargo	224	235	626	706
Other operating revenue	1,086	1,111	3,182	3,066
	9,913	10,306	27,504	28,828
Operating expense:				
Salaries and related costs	2,625	2,534	7,707	7,289
Aircraft fuel	1,603	1,934	4,258	5,904
Regional capacity purchase	572	572	1,645	1,725
Landing fees and other rent	546	551	1,612	1,647
Depreciation and amortization	503	469	1,473	1,343
Aircraft maintenance materials and outside repairs	451	424	1,301	1,252
Distribution expenses	345	366	987	1,026
Aircraft rent	168	185	521	580
Special charges (Note 10)	45	76	669	195
Other operating expenses	1,431	1,295	3,997	3,780
	8,289	8,406	24,170	24,741
Operating income	1,624	1,900	3,334	4,087
Nonoperating income (expense):				
Interest expense	(150)	(164)	(466)	(504)
Interest capitalized	20	13	48	38
Interest income	14	5	31	16
Miscellaneous, net (Note 10)	2	(147)	(11)	(322)
	(114)	(293)	(398)	(772)
Income before income taxes	1,510	1,607	2,936	3,315
Income tax expense (benefit)	545	(3,169)	1,069	(3,163)
Net income	\$ 965	\$ 4,776	\$ 1,867	\$ 6,478

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents

UNITED AIRLINES, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 965	\$ 4,776	\$ 1,867	\$ 6,478
Other comprehensive income (loss), net change related to:				
Fuel derivative financial instruments	12	(104)	123	129
Employee benefit plans	(75)	(12)	(89)	18
Investments and other	(1)	(6)	(1)	(1)
	(64)	(122)	33	146
Total comprehensive income, net	\$ 901	\$ 4,654	\$ 1,900	\$ 6,624

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents**UNITED AIRLINES, INC.****CONSOLIDATED BALANCE SHEETS****(In millions, except shares)**

	(Unaudited) September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,624	\$ 3,000
Short-term investments	2,226	2,190
Receivables, less allowance for doubtful accounts (2016 \$12; 2015 \$18)	1,481	1,128
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2016 \$263; 2015 \$235)	842	738
Prepaid expenses and other	840	813
	8,013	7,869
Operating property and equipment:		
Owned		
Flight equipment	25,093	23,728
Other property and equipment	5,237	4,542
	30,330	28,270
Less Accumulated depreciation and amortization	(9,529)	(8,339)
	20,801	19,931
Purchase deposits for flight equipment	1,068	788
Capital leases		
Flight equipment	1,398	1,527
Other property and equipment	337	332
	1,735	1,859
Less Accumulated amortization	(959)	(998)
	776	861
	22,645	21,580
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2016 \$1,212; 2015 \$1,144)	3,654	4,136
Deferred income taxes	821	1,995
Restricted cash	123	204
Other, net	549	554

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

9,670

11,412

\$ 40,328

\$ 40,861

(continued on next page)

Table of Contents**UNITED AIRLINES, INC.****CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

	(Unaudited) September 30, 2016	December 31, 2015
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Advance ticket sales	\$ 4,558	\$ 3,753
Accounts payable	2,143	1,874
Frequent flyer deferred revenue	2,168	2,117
Accrued salaries and benefits	2,282	2,350
Current maturities of long-term debt	969	1,224
Current maturities of capital leases	124	135
Fuel derivative instruments	4	124
Other	1,009	840
	13,257	12,417
Long-term debt	9,612	9,673
Long-term obligations under capital leases	752	727
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	2,743	2,826
Postretirement benefit liability	1,927	1,882
Pension liability	1,220	1,488
Advanced purchase of miles	574	1,010
Lease fair value adjustment, net	299	359
Other	1,509	1,516
	8,272	9,081
Commitments and contingencies		
Stockholder s equity:		
Common stock at par, \$0.01 par value; authorized 1,000 shares; issued and outstanding 1,000 shares at both September 30, 2016 and December 31, 2015		
Additional capital invested	3,718	6,138
Retained earnings	5,540	3,673
Accumulated other comprehensive loss	(798)	(831)
Receivable from related parties	(25)	(17)
	8,435	8,963
	\$ 40,328	\$ 40,861

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net cash provided by operating activities	\$ 4,878	\$ 4,866
Cash Flows from Investing Activities:		
Capital expenditures	(2,343)	(1,984)
Purchases of short-term investments and other investments	(1,989)	(1,859)
Proceeds from sale of short-term and other investments	1,957	2,069
Decrease in restricted cash	82	112
Proceeds from sale of property and equipment	24	50
Investment in and loans to affiliates	(8)	(130)
Other	(5)	23
Net cash used in investing activities	(2,282)	(1,719)
Cash Flows from Financing Activities:		
Dividend to UAL	(2,442)	(709)
Payments of long-term debt	(911)	(1,528)
Proceeds from issuance of long-term debt	510	613
Principal payments under capital leases	(95)	(80)
Other, net	(34)	(18)
Net cash used in financing activities	(2,972)	(1,722)
Net (decrease) increase in cash and cash equivalents	(376)	1,425
Cash and cash equivalents at beginning of the period	3,000	1,996
Cash and cash equivalents at end of the period	\$ 2,624	\$ 3,421
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 115	\$ 797
Airport construction financing	68	5
Operating lease conversions to capital lease	12	285

The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents

UNITED CONTINENTAL HOLDINGS, INC. AND UNITED AIRLINES, INC.

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

United Continental Holdings, Inc. (together with its consolidated subsidiaries, UAL or the Company) is a holding company and its principal, wholly-owned subsidiary is United Airlines, Inc. (together with its consolidated subsidiaries, United). This Quarterly Report on Form 10-Q is a combined report of UAL and United, including their respective consolidated financial statements. As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL, unless otherwise noted. United's operating revenues and operating expenses comprise nearly 100% of UAL's revenues and operating expenses. In addition, United comprises approximately the entire balance of UAL's assets, liabilities and operating cash flows. When appropriate, UAL and United are named specifically for their individual contractual obligations and related disclosures and any significant differences between the operations and results of UAL and United are separately disclosed and explained. We sometimes use the words we, our, us, and the Company in this report for disclosures that relate to all of UAL and United.

The UAL and United unaudited condensed consolidated financial statements shown here have been prepared as required by the U.S. Securities and Exchange Commission (the SEC). Some information and footnote disclosures normally included in financial statements that comply with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted as permitted by the SEC. The financial statements include all adjustments, including normal recurring adjustments and other adjustments, which are considered necessary for a fair presentation of the Company's financial position and results of operations. The UAL and United financial statements should be read together with the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Company's quarterly financial data is subject to seasonal fluctuations and historically its second and third quarter financial results, which reflect higher travel demand, are better than its first and fourth quarter financial results.

NOTE 1 - RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) amended the FASB Accounting Standards Codification and created a new Topic 606, *Revenue from Contracts with Customers*. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Accounting Standards Codification, and is effective for annual and interim reporting periods beginning after December 15, 2017. Under the new standard, certain airline ancillary fees directly related to passenger revenue tickets, such as airline change fees and baggage fees, are likely to no longer be considered distinct performance obligations separate from the passenger travel component. In addition, the change fees which were previously recognized when received, will likely be recognized when transportation is provided. The Company is evaluating other possible impacts on its consolidated financial statements.

In February 2016, the FASB amended the FASB Accounting Standards Codification and created a new Topic 842, *Leases* (Topic 842). The guidance requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) at the commencement date and recognize expenses on their income statements similar to the current Topic 840, *Leases*. It is effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. Lessees and lessors are required to adopt Topic 842 using a modified retrospective approach for all leases existing at or commencing after the date of initial application with an option to use certain practical expedients. The Company is evaluating the impact the adoption of this standard will have on its consolidated financial statements and believes this standard will have a significant impact on its consolidated balance sheets.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The update requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through earnings as a component of income tax expense. Under current GAAP, these differences are generally recorded in additional paid-in capital and thus have no impact on net income. The change in treatment of excess tax benefits and tax deficiencies will also impact the computation of diluted earnings per share, and the cash flows associated with those items will be classified as

Table of Contents

operating activities on the condensed statements of consolidated cash flows. Additionally, entities will be permitted to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required under current GAAP, or recognized when they occur. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). The update amends the guidance in Accounting Standards Codification 230, *Statement of Cash Flows*, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

The FASB issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the standard, investments for which fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient will no longer be categorized in the fair value hierarchy. The Company adopted this standard on January 1, 2016. As of September 30, 2016, the Company had approximately \$202 million of such investments as part of its Short-term investments balance sheet total. In addition, pension plan investments measured at NAV per share will no longer be categorized within the fair value hierarchy. As of September 30, 2016, the Company had approximately \$1.9 billion of such investments.

NOTE 2 - EARNINGS PER SHARE

The computations of UAL's basic and diluted earnings per share are set forth below (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic earnings per share:				
Earnings available to common stockholders	\$ 965	\$ 4,816	\$ 1,866	\$ 6,517
Basic weighted-average shares outstanding	320	375	335	379
Earnings per share, basic	\$ 3.02	\$ 12.83	\$ 5.57	\$ 17.19
Diluted earnings per share:				
Earnings available to common stockholders including the effect of dilutive securities	\$ 965	\$ 4,816	\$ 1,866	\$ 6,517
Diluted shares outstanding:				
Basic weighted-average shares outstanding	320	375	335	379
Effect of employee stock awards	1	1		1
Diluted weighted-average shares outstanding	321	376	335	380
Earnings per share, diluted	\$ 3.01	\$ 12.82	\$ 5.57	\$ 17.15

The number of antidilutive securities excluded from the computation of diluted earnings per share amounts was not material. In the three and nine months ended September 30, 2016, UAL repurchased 5 million and 48 million shares of UAL common stock in open market transactions, respectively, for \$255 million and \$2.4 billion, respectively. As of September 30, 2016, the Company had approximately \$2 billion remaining to purchase shares under its existing share repurchase authority. UAL may repurchase shares through the open market, privately negotiated transactions, block trades or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of UAL common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

Table of Contents**NOTE 3 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The tables below present the components of the Company's accumulated other comprehensive income (loss), net of tax (AOCI) (in millions):

UAL (a)	Pension and Other		Investments and Other	Deferred Taxes Pension and Other		Total
	Postretirement Liabilities	Fuel Derivative Contracts		Postretirement Liabilities	Fuel Derivative Contracts	
Balance at June 30, 2016	\$ (385)	\$ (41)	\$ 3	\$ (146)	\$ (165)	\$ (734)
Changes in value	(124)	(6)	(2)	45	2	(85)
Amounts reclassified to earnings	6	24	1	(2)	(8)	21
Net change	(118)	18	(1)	43	(6)	(64)
Balance at September 30, 2016	\$ (503)	\$ (23)	\$ 2	\$ (103)	\$ (171) (b)	\$ (798)
Balance at December 31, 2015	\$ (363)	\$ (215)	\$ 3	\$ (154)	\$ (102)	\$ (831)
Changes in value	(157)	(5)	(2)	57	2	(105)
Amounts reclassified to earnings	17	197	1	(6)	(71)	138
Net change	(140)	192	(1)	51	(69)	33
Balance at September 30, 2016	\$ (503)	\$ (23)	\$ 2	\$ (103)	\$ (171) (b)	\$ (798)

UAL (a)	Pension and Other		Investments and Other	Deferred Taxes Pension and Other		Total
	Postretirement Liabilities	Fuel Derivative Contracts		Postretirement Liabilities	Fuel Derivative Contracts	
Balance at June 30, 2015	\$ (442)	\$ (266)	\$ 11	\$ (115)	\$ (c)	\$ (812)
Changes in value	(10)	(181)	(6)	(1)	82	(116)
Amounts reclassified to earnings	8	150		(9)	(155)	(6)
Net change	(2)	(31)	(6)	(10)	(73)	(122)
Balance at September 30, 2015	\$ (444)	\$ (297)	\$ 5	\$ (125)	\$ (73)	\$ (934)
Balance at December 31, 2014	\$ (472)	\$ (499)	\$ 7	\$ (115)	\$ (c)	\$ (1,079)
Changes in value	3	(227)	(1)	(1)	82	(144)
Amounts reclassified to earnings	25	429	(1)	(9)	(155)	289
Net change	28	202	(2)	(10)	(73)	145
Balance at September 30, 2015	\$ (444)	\$ (297)	\$ 5	\$ (125)	\$ (73)	\$ (934)

Details about AOCI Components

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

	Amount Reclassified from AOCI to Income				Affected Line Item in the Statements of Consolidated Operations
	Three Months Ended September 30, 2016		September 30, 2015		
Fuel derivative contracts					
Reclassifications of losses into earnings	\$ 24	\$ 150	\$ 197	\$ 429	Aircraft fuel
Pension and other postretirement liabilities					
Amortization of unrecognized losses and prior service cost (credit) (d)	6	8	17	25	Salaries and related costs
Investments and other					
Available-for-sale securities-reclassifications of gains into earnings	1		1	(1)	Miscellaneous, net

(a) UAL and United amounts are substantially the same except for an additional gain related to investments and other of \$1 million at United for the nine months ended September 30, 2015.

(b) Includes deferred income tax expense of \$180 million that will remain in AOCI until all fuel derivatives which are designated for hedge accounting are settled.

(c) Deferred tax balance was offset by the Company's valuation allowance.

(d) This AOCI component is included in the computation of net periodic pension and other postretirement costs (see Note 5 of this report for additional information).

Table of Contents

Prior to the release of the valuation allowance in the third quarter of 2015, the Company recorded \$180 million of deferred income tax expense adjustments in AOCI related to losses on fuel hedges designated for hedge accounting. This deferred income tax expense of \$180 million will remain in AOCI until all fuel derivatives which are designated for hedge accounting are settled. Currently, our fuel hedges that are designated for hedge accounting have settlement dates through December 2016. If we do not enter into and designate additional fuel derivative contracts for hedge accounting by the end of 2016, a non-cash income tax expense of \$180 million will be recognized in the fourth quarter of 2016.

NOTE 4 - INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2016 was 36% which represented a blend of federal, state and foreign taxes and the impact of certain nondeductible items. During 2015, after considering all positive and negative evidence, the Company concluded that its deferred income taxes would more likely than not be realized. The Company released substantially all of its valuation allowance in the third quarter of 2015, which resulted in a \$3.2 billion benefit in its provision for income taxes.

NOTE 5 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension and Other Postretirement Benefit Plans. The Company's net periodic benefit cost includes the following components (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Service cost	\$ 29	\$ 31	\$ 4	\$ 5
Interest cost	50	50	22	20
Expected return on plan assets	(54)	(49)		
Amortization of unrecognized (gain) loss and prior service cost (credit)	19	21	(13)	(13)
Settlement loss	2	1		
Curtailement gain			(47)	
Total	\$ 46	\$ 54	\$ (34)	\$ 12

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	September 30, 2016		September 30, 2016	
	2016	2015	2016	2015
Service cost	\$ 84	\$ 93	\$ 14	\$ 15
Interest cost	151	150	66	61
Expected return on plan assets	(162)	(147)	(1)	(1)
Amortization of unrecognized (gain) loss and prior service cost (credit)	57	65	(40)	(40)
Settlement loss	4	2		
Curtailement gain			(47)	
Total	\$ 134	\$ 163	\$ (8)	\$ 35

During the three and nine months ended September 30, 2016, the Company contributed \$240 million and \$400 million, respectively, to its U.S. domestic tax-qualified defined benefit pension plans.

Plan Curtailments. As part of the recently ratified contract with the Association of Flight Attendants (AFA), the Company amended its postretirement medical plans. The amendments triggered curtailment accounting, resulting in the recognition of a one-time \$47 million gain for accelerated recognition of a prior service credit in the third quarter of 2016. The Company remeasured the plans' liabilities using an average

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

weighted discount rate of 3.43% compared to the year-end 2015 weighted average discount rate of 4.52%. As a result of the amendments, remeasurements and curtailments, the projected benefit obligation of the plans increased by \$49 million and Other comprehensive loss increased by \$96 million, respectively.

Table of Contents**Share-Based Compensation.**

During 2016, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 0.4 million stock options, 0.4 million shares of restricted stock and 1.9 million restricted stock units (RSUs).

The stock options vest in one-third increments over either (i) the first three anniversaries of the date of grant (for seven-year term options) or (ii) the fourth, fifth and sixth anniversaries of the date of grant (for ten-year term options). The restricted stock awards and the time-vested RSUs vest in one-third increments over the first three anniversaries of the date of grant. The time-vested RSUs are generally stock-settled for domestic employees and cash-settled for international employees based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The remainder of the RSUs are performance-based and vest based on the Company's return on invested capital and the Company's relative improvement in pre-tax margin for the three years ending December 31, 2018. If the applicable performance conditions are achieved, cash payments will be made after the end of the performance period based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company accounts for the performance-based RSUs as liability awards.

The table below presents information related to share-based compensation (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Share-based compensation expense	\$ 23	\$ 7	\$ 36	\$ 40
	September 30, 2016		December 31, 2015	
Unrecognized share-based compensation	\$ 79	\$ 41		

Profit Sharing Plans. Substantially all employees participate in profit sharing based on a percentage of pre-tax earnings, excluding special items, profit sharing expense and share-based compensation. Profit sharing percentages range from 5% to 20% depending on the work group, and in some cases profit sharing percentages vary above and below certain pre-tax margin thresholds. Eligible U.S. co-workers in each participating work group receive a profit sharing payout using a formula based on the ratio of each qualified co-worker's annual eligible earnings to the eligible earnings of all qualified co-workers in all domestic work groups. Eligible non-U.S. co-workers receive profit sharing based on the calculation under the U.S. profit sharing plan for management and administrative employees. Profit sharing expense is recorded as a component of Salaries and related costs in the Company's statements of consolidated operations.

Table of Contents**NOTE 6 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

The table below presents disclosures about the financial assets and liabilities measured at fair value on a recurring basis in the Company's financial statements (in millions):

	September 30, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,630	\$ 2,630	\$	\$	\$ 3,006	\$ 3,006	\$	\$
Short-term investments:								
Corporate debt	861		861		891		891	
Asset-backed securities	764		764		710		710	
Certificates of deposit placed through an account registry service (CDARS)	252		252		281		281	
U.S. government and agency notes	97		97		72		72	
Auction rate securities					9			9
Other fixed-income securities	50		50		26		26	
Other investments measured at NAV (a)	202				201			
Restricted cash	124	124			206	206		
Enhanced equipment trust certificates (EETC)	23			23	26			26
Fuel derivatives liability, net	4		4		124		124	
Foreign currency derivatives liability, net	1		1					

(a) In accordance with the relevant accounting standards, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The investments measured using NAV are shares of mutual funds that invest in fixed-income instruments including bonds, debt securities, and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities. The Company can redeem its shares at any time at NAV subject to a three-day settlement period.

Available-for-sale investment maturities - The short-term investments shown in the table above are classified as available-for-sale. As of September 30, 2016, asset-backed securities have remaining maturities of less than one year to approximately 33 years, corporate debt securities have remaining maturities of less than one year to approximately six years and CDARS have maturities of less than one year. U.S. government and other securities have maturities of less than one year to approximately three years. The EETC securities mature in 2019.

Derivative instruments and investments presented in the tables above have the same fair value as their carrying value. The table below presents the carrying values and estimated fair values of financial instruments not presented in the tables above (in millions):

	Carrying Amount	Fair Value of Debt by Fair Value Hierarchy Level								
		September 30, 2016				December 31, 2015				
		Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	
Long-term debt	\$ 10,581	\$ 11,218	\$	\$ 8,359	\$ 2,859	\$ 10,897	\$ 11,371	\$	\$ 8,646	\$ 2,725

Table of Contents

Fair value of the financial instruments included in the tables above was determined as follows:

Description	Fair Value Methodology
<i>Cash and cash equivalents</i>	The carrying amounts approximate fair value because of the short-term maturity of these assets.
<i>Short-term investments and Restricted cash</i>	Fair value is based on (a) the trading prices of the investment or similar instruments, (b) an income approach, which uses valuation techniques to convert future amounts into a single present amount based on current market expectations about those future amounts when observable trading prices are not available, (c) internally-developed models of the expected future cash flows related to the securities, or (d) broker quotes obtained by third-party valuation services.
<i>Fuel derivatives</i>	Derivative contracts are privately negotiated contracts and are not exchange traded. Fair value measurements are estimated with option pricing models that employ observable inputs. Inputs to the valuation models include contractual terms, market prices, yield curves, fuel price curves and measures of volatility, among others.
<i>Foreign currency derivatives</i>	Fair value is determined with a formula utilizing observable inputs. Significant inputs to the valuation models include contractual terms, risk-free interest rates and forward exchange rates.
<i>Debt</i>	Fair values were based on either market prices or the discounted amount of future cash flows using our current incremental rate of borrowing for similar liabilities.

NOTE 7 - HEDGING ACTIVITIES***Fuel Derivatives***

The Company may hedge a portion of its future fuel requirements to protect against increases in the price of fuel. The Company may restructure hedges in response to market conditions prior to their original settlement dates which may result in changes in hedge coverage levels and the potential recognition of gains or losses on such hedge contracts. As of September 30, 2016, the Company had hedged approximately 13% of its projected fuel requirements (126 million gallons) for the remainder of 2016 with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of September 30, 2016, the Company had fuel hedges expiring through December 2016.

As required, the Company assesses the effectiveness of each of its individual hedges on a quarterly basis. The Company also examines the effectiveness of its entire hedging program on a quarterly basis utilizing statistical analysis. This analysis involves utilizing regression and other statistical analyses that compare changes in the price of aircraft fuel to changes in the prices of the commodities used for hedging purposes.

Upon proper qualification, the Company accounts for certain fuel derivative instruments as cash flow hedges. All derivatives designated as hedges that meet certain requirements are granted hedge accounting treatment. The types of instruments the Company utilizes that qualify for hedge accounting treatment typically include swaps, call options, collars (which consist of a purchased call option and a sold put option), four-way collars (a collar with a higher strike sold call option and a lower strike purchased put option) and other combinations of options. Generally, utilizing hedge accounting, all periodic changes in the fair value of derivatives designated as hedges that are considered to be effective are recorded in AOCI until the underlying fuel is consumed and recorded in fuel expense. The Company is exposed to the risk that its hedges may not be effective in offsetting changes in the cost of fuel and that its hedges may not continue to qualify for hedge accounting. Hedge ineffectiveness results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company's expected future cash outlay to purchase and consume fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is classified as Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

Table of Contents

The Company also uses certain combinations of derivative contracts that are economic hedges but do not qualify for hedge accounting under GAAP. Additionally, the Company may enter into contracts at different times and later combine those contracts into structures designated for hedge accounting. As with derivatives that qualify for hedge accounting, the economic hedges and individual contracts are part of the Company's program to mitigate the adverse financial impact of potential increases in the price of fuel. The Company records changes in the fair value of these various contracts that are not designated for hedge accounting to Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

If the Company settles a derivative prior to its contractual settlement date, then the cumulative gain or loss recognized in AOCI at the termination date remains in AOCI until the forecasted transaction occurs. In a situation where it becomes probable that a hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. All cash flows associated with purchasing and settling derivatives are classified as operating cash flows in the condensed statements of consolidated cash flows.

In addition to cash flow hedges, the Company from time to time enters into fair value hedges related to its aircraft fuel inventory using derivatives such as swaps and futures contracts based on aircraft fuel. Under fair value hedge accounting, the Company records changes in the fair value of both the hedging derivative and the hedged aircraft fuel inventory as fuel expense. The Company records ineffectiveness on fair value hedges as Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations. As of September 30, 2016, the Company did not have any fair value hedges.

The Company records each derivative instrument as a derivative asset or liability (on a gross basis) in its consolidated balance sheets, and, accordingly, records any related collateral on a gross basis. The table below presents the fair value amounts of fuel derivative assets and liabilities and the location of amounts recognized in the Company's financial statements.

The Company's derivatives were reported in its consolidated balance sheets as follows (in millions):

Classification	Balance Sheet Location	September 30, 2016	December 31, 2015
<u>Derivatives designated as cash flow hedges</u>			
<i>Liabilities:</i>			
Fuel contracts due within one year	Fuel derivative instruments	\$ 4	\$ 119
<u>Derivatives not designated for hedge accounting</u>			
<i>Liabilities:</i>			
Fuel contracts due within one year	Fuel derivative instruments	\$ 5	\$ 5
<u>Total derivatives</u>			
Total liabilities		\$ 4	\$ 124

Derivative Credit Risk and Fair Value

The Company is exposed to credit losses in the event of non-performance by counterparties to its derivative instruments. While the Company records derivative instruments on a gross basis, the Company monitors its net derivative position with each counterparty to monitor credit risk. Based on the fair value of our fuel derivative instruments, our counterparties may require us to post collateral when the price of the underlying commodity decreases, and we may require our counterparties to provide us with collateral when the price of the underlying commodity increases. The Company did not hold or post collateral as of September 30, 2016. The Company had on deposit \$26 million of collateral with fuel derivative counterparties as of December 31, 2015. The collateral is recorded as Prepaid expenses and other on the Company's balance sheets.

We have master trading agreements with all of our fuel hedging counterparties that allow us to net our fuel hedge derivative positions. We have elected not to net the fair value positions recorded on our consolidated balance sheets. The following table shows the potential net fair value positions (including fuel derivatives and related collateral) had we elected to offset. The table reflects offset at the counterparty level (in millions):

	September 30, 2016	December 31, 2015
Fuel derivative instruments, net of collateral	\$ (4)	\$ (98)

Table of Contents

The following tables present the impact of derivative instruments and their location within the Company's unaudited statements of consolidated operations (in millions):

Derivatives designated as cash flow hedges

	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended September 30,		Loss Reclassified from AOCI into Fuel Expense Three Months Ended September 30,		Amount of Loss Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Three Months Ended September 30,	
	2016	2015	2016	2015	2016	2015
Fuel contracts	\$ (6)	\$ (181)	\$ (24)	\$ (150)	\$	\$

Derivatives designated as cash flow hedges

	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion) Nine Months Ended September 30,		Loss Reclassified from AOCI into Fuel Expense Nine Months Ended September 30,		Amount of Loss Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Nine Months Ended September 30,	
	2016	2015	2016	2015	2016	2015
Fuel contracts	\$ (5)	\$ (227)	\$ (197)	\$ (429)	\$	\$

Derivatives not designated for hedge accounting

Fuel contracts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amount of loss recognized in Nonoperating income (expense):				
Miscellaneous, net	\$	\$ (67)	\$	\$ (69)

Foreign Currency Derivatives

The Company generates revenues and incurs expenses in numerous foreign currencies. Changes in foreign currency exchange rates impact the Company's results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Some of the Company's more significant foreign currency exposures include the Canadian dollar, Chinese renminbi, European euro, British pound and Japanese yen. At times, the Company uses derivative financial instruments, such as options, collars and forward contracts, to hedge its exposure to foreign currency. At September 30, 2016, the Company had foreign currency derivative contracts in place to hedge both European euro denominated sales and Japanese yen denominated sales. The notional amount of the hedges equates to 16% of the Company's projected European euro denominated net cash inflows for the remainder of 2016; and 18% of the Company's projected Japanese yen denominated net cash inflows for the remainder of 2016. Net cash relates primarily to passenger ticket sales inflows, partially offset by expenses paid in local currencies. At September 30, 2016, the fair value of the Company's foreign currency derivatives was a liability of \$1 million.

Table of Contents**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

Commitments. As of September 30, 2016, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing) and Airbus S.A.S. (Airbus) presented in the table below:

Aircraft Type	Number of Firm Commitments (a)
Airbus A350-1000	35
Boeing 737NG/737 MAX	172
Boeing 777-300ER	14
Boeing 787-8/-9/-10	21

(a) United also has options and purchase rights for additional aircraft.

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2016, United expects to take delivery of seven Boeing 737NG aircraft and one Boeing 777-300ER aircraft.

The table below summarizes United's commitments as of September 30, 2016, which primarily relate to the acquisition of aircraft and related spare engines, aircraft improvements and include other commitments primarily to acquire information technology services and assets. Any new firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

	(in billions)
Last three months of 2016	\$ 1.2
2017	4.5
2018	4.1
2019	3.3
2020	2.6
After 2020	6.9
	\$ 22.6

As of September 30, 2016, United had \$1.7 billion in financing available through EETC transactions for the financing of all of its aircraft deliveries scheduled for the remainder of 2016 and first half of 2017. See Note 9 of this report for additional information on aircraft financing. The Company has also secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing may be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures.

Facility and Other Operating Leases. In October 2016, United signed a seven year lease extension through 2024 with the Metropolitan Washington Airports Authority to continue its use of terminals at Washington Dulles International Airport. The table below summarizes the Company's scheduled future minimum lease payments under facility operating leases having initial or remaining noncancelable lease terms of more than one year.

(In millions)	Facility and Other Operating Leases
Last three months of 2016	\$ 200
2017	1,156
2018	1,024
2019	954
2020	1,083

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

After 2020

7,450

\$ 11,867

Guarantees. As of September 30, 2016, United is the guarantor of approximately \$1.9 billion in aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon. These bonds, issued by various airport municipalities, are payable solely from rentals paid under long-term agreements with the respective governing bodies. The leasing arrangements associated with \$1.4 billion of these obligations are accounted for as operating leases with the associated expense recorded on a

Table of Contents

straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with \$376 million of these obligations are accounted for as capital leases. All of these bonds are due between 2017 and 2038.

In the Company's financing transactions that include loans, the Company typically agrees to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate (LIBOR), for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject, in most cases, to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. At September 30, 2016, the Company had \$2.5 billion of floating rate debt and \$97 million of fixed rate debt, with remaining terms of up to 12 years, that are subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 12 years and an aggregate balance of \$2.6 billion, the Company bears the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

As of September 30, 2016, United is the guarantor of \$171 million of aircraft mortgage debt issued by one of United's regional carriers. The aircraft mortgage debt is subject to similar increased cost provisions as described above for the Company's debt and the Company would potentially be responsible for those costs under the guarantees.

Labor Negotiations. As of September 30, 2016, United had approximately 87,500 active employees, of whom approximately 80% were represented by various U.S. labor organizations.

In January 2016, United's pilots, represented by the Air Line Pilots Association, International, agreed to extend their contract through January 31, 2019. Increases in the pay and benefits resulting from new pilot agreements could activate United pilot contract clauses requiring the Company to match contract terms. In March 2016, the Company's dispatchers, represented by the Professional Airline Flight Control Association, agreed to extend their current contract through 2021. In April 2016, the fleet service, passenger service, storekeeper and other employees represented by the Int'l Association of Machinists and Aerospace Workers (IAM) ratified seven new contracts with the Company which extended the contracts through 2021. In August 2016, United's flight attendants, represented by the AFA, ratified a five-year joint collective bargaining agreement through 2021. In September 2016, the Company reached a tentative agreement with the Int'l Brotherhood of Teamsters (the IBT) for a six-year joint collective bargaining agreement with its technicians and related employees.

NOTE 9 - DEBT

As of September 30, 2016, a substantial portion of the Company's assets, principally aircraft, route authorities, airport slots and loyalty program intangible assets, was pledged under various loan and other agreements. As of September 30, 2016, UAL and United were in compliance with their debt covenants. As of September 30, 2016, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's 2013 Credit and Guaranty Agreement (the Credit Agreement).

EETCs. In September 2016 and June 2016, United created EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depository in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depository are not United's assets. Certain details of the pass-through trusts with proceeds received from issuance of debt in 2016 are as follows (in millions, except stated interest rate):

EETC Date	Class	Principal	Final expected distribution date	Stated interest rate	Total debt recorded as of September 30, 2016	Remaining proceeds from issuance of debt to be received in future periods
September 2016	AA	\$ 637	October 2028	2.875%	\$	\$ 637
September 2016	A	283	October 2028	3.10%		283
June 2016	AA	729	July 2028	3.10%	222	507
June 2016	A	324	July 2028	3.45%	99	225

\$	1,973	\$	321	\$	1,652
----	-------	----	-----	----	-------

Table of Contents

In 2016, United borrowed approximately \$272 million aggregate principal amount from various financial institutions to finance the purchase of several aircraft delivered in 2016. The notes evidencing these borrowings, which are secured by the related aircraft, mature in 2028 and have interest rates comprised of LIBOR plus a specified margin.

4.5% Convertible Notes due 2015. In the first quarter of 2015, the holders of substantially all of the remaining \$202 million principal amount of the 4.5% Convertible Notes due 2015 exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock.

6% Notes due 2026. In the first quarter of 2015, UAL used cash to repurchase \$18 million par value 6% Notes due 2026 (the 2026 Notes) in market transactions. On April 1, 2015, UAL used cash to redeem, at par, the remaining \$303 million balance of the 2026 Notes.

6% Notes due 2028. In the first quarter of 2015, UAL used cash to repurchase \$13 million par value 6% Notes due 2028 (the 2028 Notes) in market transactions. On May 1, 2015, UAL used cash to redeem, at par, the remaining \$298 million balance of the 2028 Notes.

Table of Contents**NOTE 10 - SPECIAL ITEMS**

For the three and nine months ended September 30, special items consisted of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating:				
Labor agreement costs	\$ 14	\$	\$ 124	\$
Severance and benefit costs	13	28	27	103
Impairment of intangible asset related to Newark Liberty International Airport (Newark) slots			412	
Cleveland airport lease restructuring			74	
(Gains) losses on sale of assets and other special charges	18	48	32	92
Special charges	45	76	669	195
<u>Nonoperating and income taxes:</u>				
Losses on extinguishment of debt and other		61	(1)	195
Income tax benefit related to special charges	(16)		(241)	
Total special charges, net of tax	29	137	427	390
Income tax valuation allowance release (Note 4)		(3,218)		(3,218)
Total special items	\$ 29	\$ (3,081)	\$ 427	\$ (2,828)

The fleet service, passenger service, storekeeper and other employees represented by the IAM ratified seven new contracts with the Company which extended the contracts through 2021. The Company also reached a tentative agreement with the IBT. During the three and nine months ended September 30, 2016, the Company recorded \$61 million (\$39 million net of taxes) and \$171 million (\$109 million net of taxes), respectively, of special charges primarily for payments to be made in conjunction with the IAM and IBT agreements described above. Also, as part of the recently ratified contract with the AFA, the Company amended two of its flight attendant postretirement medical plans. The amendments triggered curtailment accounting, resulting in the recognition of a one-time \$47 million gain (\$30 million net of taxes) for accelerated recognition of a prior service credit.

During the three and nine months ended September 30, 2016, the Company recorded \$13 million (\$8 million net of taxes) and \$27 million (\$17 million net of taxes), respectively, of severance and benefit costs. During the three and nine months ended September 30, 2015, the Company recorded \$28 million and \$103 million, respectively, of severance and benefit costs. The severance and benefit costs relate to a voluntary early-out program for the Company's flight attendants and other severance agreements. In 2014, more than 2,500 flight attendants elected to voluntarily separate from the Company for a severance payment, with a maximum value of \$100,000 per participant, based on years of service, with retirement dates through the end of 2016.

In April 2016, the Federal Aviation Administration (FAA) announced that it will designate Newark as a Level 2 schedule-facilitated airport under the International Air Transport Association Worldwide Slot Guidelines effective October 30, 2016. The designation was associated with an updated demand and capacity analysis of Newark by the FAA. In the second quarter of 2016, the Company determined that the FAA's action impaired the entire value of its Newark slots because the slots will no longer be the mechanism that governs take-off and landing rights. Accordingly, the Company recorded a \$412 million special charge (\$264 million net of taxes) to write off the intangible asset. The Newark slots served as part of the collateral for the term loans under the Company's Credit Agreement and under the Second Amended and Restated Co-Branded Card Marketing Services Agreement with Chase Bank USA, N.A. (the Chase Agreement). The Credit Agreement and the Chase Agreement have been amended to remove the Newark slots as collateral with no replacement collateral required.

During the nine months ended September 30, 2016, the City of Cleveland agreed to amend the lease, which runs through 2029, associated with certain excess airport terminal space (principally Terminal D) and related facilities at Hopkins International Airport. The Company recorded an accrual for remaining payments under the lease for facilities that the Company no longer uses and will continue to incur costs under the lease without economic benefit to the Company. This liability was measured and recorded at its fair value when the Company ceased its right to use such facilities leased to it pursuant to the lease. The Company recorded a net charge of \$74 million (\$47 million net of taxes) related to the amended lease.

Table of Contents

During the three and nine months ended September 30, 2016, the Company recorded gains and losses on sale of assets and other special charges of \$18 million (\$12 million net of taxes) and \$32 million (\$20 million net of taxes), respectively. During the three and nine months ended September 30, 2015, the Company recorded \$48 million and \$92 million, respectively, for integration costs, impairment of assets and other special gains and losses.

During the nine months ended September 30, 2016, the Company recorded \$8 million (\$5 million net of taxes) of losses due to exchange rate changes in Venezuela applicable to funds held in local currency and recorded a \$9 million (\$6 million net of taxes) gain on the sale of an affiliate.

During the third quarter of 2015, the Company recorded \$61 million of losses due to exchange rate changes in Venezuela applicable to funds held in local currency. During the nine months ended September 30, 2015, the Company recorded a charge of \$134 million due to the write-off of the unamortized non-cash debt discount related to the extinguishment of the 2026 Notes and 2028 Notes. Both of the charges were recorded as part of Nonoperating income (expense): Miscellaneous, net.

Accruals

The accrual balance for severance and benefits was \$34 million as of September 30, 2016, compared to \$110 million as of September 30, 2015. The severance-related accrual as of September 30, 2016 is expected to be mostly paid through 2016. The following is a reconciliation of severance accrual activity for the period:

	Severance and Benefits
Balance at December 31, 2015	\$ 27
Accrual	27
Payments	(20)
 Balance at September 30, 2016	 \$ 34

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.
Overview

United Continental Holdings, Inc. (together with its consolidated subsidiaries, UAL or the Company) is a holding company and its principal, wholly-owned subsidiary is United Airlines, Inc. (together with its consolidated subsidiaries, United). This Quarterly Report on Form 10-Q is a combined report of UAL and United including their respective consolidated financial statements. As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL, unless otherwise noted. United's operating revenues and operating expenses comprise nearly 100% of UAL's revenues and operating expenses. In addition, United comprises approximately the entire balance of UAL's assets, liabilities and operating cash flows. When appropriate, UAL and United are named specifically for their individual contractual obligations and related disclosures and any significant differences between the operations and results of UAL and United are separately disclosed and explained. We sometimes use the words we, our, us, and the Company in this report for disclosures that relate to all of UAL and United.

The Company transports people and cargo through its mainline operations, which utilize jet aircraft with at least 118 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express carriers. The Company serves virtually every major market around the world, either directly or through participation in Star Alliance®, the world's largest airline alliance. UAL, through United and its regional carriers, operates more than 4,500 flights a day to 339 airports across five continents.

Third Quarter Financial Highlights

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

Third quarter 2016 net income was \$965 million, or \$3.01 diluted earnings per share as compared to net income of \$4.8 billion and diluted earnings per share of \$12.82 in the third quarter of 2015. A primary reason for the decline in net income is associated with the release of the income tax valuation allowance of \$3.2 billion in the third quarter of 2015, combined with the recording of \$545 million of income tax expense on the pre-tax income in 2016.

Table of Contents

Passenger revenue decreased 4.0% to \$8.6 billion during the third quarter of 2016 as compared to the third quarter of 2015.

Third quarter 2016 aircraft fuel cost decreased 17.1% year-over-year.

Unrestricted liquidity at September 30, 2016 was \$6.2 billion, including \$1.35 billion of undrawn commitments under the Company's revolving credit facility.

In the three and nine months ended September 30, 2016, UAL repurchased 5 million and 48 million shares of its common stock in open market transactions, respectively, for \$255 million and \$2.4 billion, respectively. As of September 30, 2016, the Company had approximately \$2 billion remaining to purchase shares under its existing share repurchase authority.

Third Quarter Operational Highlights

United achieved best third-quarter and best year-to-date on-time performance in its history.

Consolidated traffic increased 1.8% and consolidated capacity increased 2.0% during the third quarter of 2016 as compared to the third quarter of 2015. The Company's load factor for the third quarter of 2016 was 85.5%.

The Company took delivery of four new Boeing 737NG aircraft and one used Airbus A319 aircraft during the third quarter of 2016.

Outlook

The Company expects full-year 2016 consolidated capacity to increase between 1.2% and 1.4% year-over-year.

The Company expects to drive \$3.1 billion of incremental value by 2018. United anticipates to capture this value through benefits from improved operations by focusing on re-attracting premium customers, reducing cost of irregular operations, reducing re-accommodations and improving schedule quality. In addition, the Company will introduce new products to its industry-leading existing portfolio of products such as our recently announced Polaris business class seats and enhance revenue through various MileagePlus program initiatives. Finally, the Company plans to improve its cost structure through an upgauge and slimline seat program and ongoing sensible cost management.

In the first quarter of 2016, United reached contract extensions with its pilots and dispatchers. In the second quarter, United also reached amended collective bargaining agreements with its Int'l Association of Machinists and Aerospace Workers (IAM) represented employees. In the third quarter of 2016, United and the Association of Flight Attendants (AFA) ratified a five-year contract covering all of its flight attendants, and United reached a tentative agreement with the Int'l Brotherhood of Teamsters (IBT) for a joint collective bargaining agreement with its technicians and related employees. The costs associated with the ratification of all these agreements (excluding any impact from the IBT tentative agreement) is expected to add an additional approximate 2.3 points of non-fuel unit costs for full-year 2016, primarily due to the pilots agreement, and is expected to add an additional approximate 1.5 to 2.0 points of non-fuel unit costs for full-year 2017, primarily due to the AFA and IAM agreements. Increases in the pay and benefits resulting from new pilot agreements could activate United pilot contract clauses requiring the Company to match contract terms. The Company cannot predict the outcome of ongoing and future negotiations with its unionized employee groups. Increases in the pay and benefits resulting from new collective bargaining agreements could have a material financial impact on the Company.

The price of jet fuel remains volatile. Based on projected fuel consumption in 2016, a one dollar change in the price of a barrel of crude oil would change the Company's annual fuel expense by approximately \$93 million. To protect against increases in the prices of aircraft fuel, the Company may hedge a portion of its future fuel requirements.

RESULTS OF OPERATIONS

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

The following discussion provides an analysis of results of operations and reasons for material changes therein for the three months ended September 30, 2016 as compared to the corresponding period in 2015.

Table of Contents**Third Quarter 2016 Compared to Third Quarter 2015**

The Company recorded net income of \$965 million in the third quarter of 2016 as compared to net income of \$4.8 billion in the third quarter of 2015. A primary reason for the decline in net income is associated with the release of the income tax valuation allowance of \$3.2 billion in the third quarter of 2015, combined with the recording of \$545 million of income tax expense on the pre-tax income in 2016. The Company considers a key measure of its performance to be operating income, which was \$1.6 billion for the third quarter of 2016, as compared to \$1.9 billion for the third quarter of 2015, a \$0.3 billion decrease year-over-year. Significant components of the Company's operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

	2016	2015	Increase (Decrease)	% Increase (Decrease)
Operating revenue	\$ 9,913	\$ 10,306	\$ (393)	(3.8)
Operating expense	8,289	8,407	(118)	(1.4)
Operating income	1,624	1,899	(275)	(14.5)
Nonoperating expense	(114)	(293)	(179)	(61.1)
Income tax expense (benefit)	545	(3,210)	3,755	NM
Net income	\$ 965	\$ 4,816	\$ (3,851)	(80.0)

NM - Not meaningful

Certain consolidated statistical information for the Company's operations for the three months ended September 30 is as follows:

	2016	2015	Increase (Decrease)	% Increase (Decrease)
Passengers (thousands) (a)	38,651	37,464	1,187	3.2
Revenue passenger miles (RPMs) (millions) (b)	58,172	57,160	1,012	1.8
Available seat miles (ASMs) (millions) (c)	68,074	66,745	1,329	2.0
Passenger load factor (d)	85.5 %	85.6 %	(0.1) pts.	N/A
Passenger revenue per available seat mile (PRASM) (cents)	12.64	13.42	(0.78)	(5.8)
Average yield per revenue passenger mile (Yield) (cents) (e)	14.79	15.68	(0.89)	(5.7)
Cost per available seat mile (CASM) (cents)	12.18	12.60	(0.42)	(3.3)
Average price per gallon of fuel, including fuel taxes	\$ 1.52	\$ 1.87	\$ (0.35)	(18.7)
Fuel gallons consumed (millions)	1,057	1,035	22	2.1
Average full-time equivalent employees	85,100	82,400	2,700	3.3

(a) The number of revenue passengers measured by each flight segment flown.

(b) The number of scheduled miles flown by revenue passengers.

(c) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.

(d) Revenue passenger miles divided by available seat miles.

(e) The average passenger revenue received for each revenue passenger mile flown.

Operating Revenue

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

The table below shows year-over-year comparisons by type of operating revenue for the three months ended September 30 (in millions, except for percentage changes):

	2016	2015	Increase (Decrease)	% Change
Passenger Mainline	\$ 7,017	\$ 7,254	\$ (237)	(3.3)
Passenger Regional	1,586	1,706	(120)	(7.0)
Total passenger revenue	8,603	8,960	(357)	(4.0)
Cargo	224	235	(11)	(4.7)
Other operating revenue	1,086	1,111	(25)	(2.3)
	\$ 9,913	\$ 10,306	\$ (393)	(3.8)

Table of Contents

The table below presents selected third quarter passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes:

	Domestic	Atlantic	Pacific	Latin	Total Mainline	Regional	Consolidated
Increase (decrease) from 2015:							
Passenger revenue (in millions)	\$ (34)	\$ (174)	\$ (31)	\$ 2	\$ (237)	\$ (120)	\$ (357)
Passenger revenue	(0.9)%	(9.7)%	(2.6)%	0.3 %	(3.3)%	(7.0)%	(4.0)%
Average fare per passenger	(7.8)%	(8.6)%	(5.2)%	(5.1)%	(8.8)%	(3.8)%	(6.9)%
Yield	(3.9)%	(7.6)%	(7.5)%	(4.4)%	(5.5)%	(3.9)%	(5.7)%
PRASM	(4.9)%	(10.7)%	(4.1)%	(1.3)%	(5.9)%	(3.2)%	(5.8)%
Passengers	7.5 %	(1.1)%	2.8 %	5.7 %	6.1 %	(3.4)%	3.2 %
RPMs (traffic)	3.1 %	(2.3)%	5.3 %	4.9 %	2.4 %	(3.2)%	1.8 %
ASMs (capacity)	4.2 %	1.2 %	1.6 %	1.6 %	2.8 %	(3.9)%	2.0 %
Passenger load factor (points)	(0.9)	(2.9)	3.1	2.7	(0.2)	0.6	(0.1)

Consolidated passenger revenue in the third quarter of 2016 decreased \$357 million, or 4.0% as compared to the year-ago period. Third-quarter 2016 consolidated PRASM decreased 5.8% compared to the third quarter of 2015. The decline in PRASM was driven by factors including a strong U.S. dollar, lower surcharges, reductions from energy-related corporate travel, and declining yields.

Operating Expenses

The table below includes data related to the Company's operating expenses for the three months ended September 30 (in millions, except for percentage changes):

	2016	2015	Increase (Decrease)	% Change
Salaries and related costs	\$ 2,625	\$ 2,534	\$ 91	3.6
Aircraft fuel	1,603	1,934	(331)	(17.1)
Regional capacity purchase	572	572		
Landing fees and other rent	546	551	(5)	(0.9)
Depreciation and amortization	503	469	34	7.2
Aircraft maintenance materials and outside repairs	451	424	27	6.4
Distribution expenses	345	366	(21)	(5.7)
Aircraft rent	168	185	(17)	(9.2)
Special charges	45	76	(31)	NM
Other operating expenses	1,431	1,296	135	10.4
	\$ 8,289	\$ 8,407	\$ (118)	(1.4)

Salaries and related costs increased \$91 million, or 3.6%, in the third quarter of 2016 as compared to the year-ago period primarily due to higher pay rates and benefit expenses driven by new and extended collective bargaining agreements, an increase in employee incentive expenses due to improvements in operational performance and a 3.3% increase in average full-time equivalent employees, partially offset by a decrease in profit sharing expense.

Table of Contents

Aircraft fuel expense decreased \$331 million, or 17.1%, year-over-year primarily due to a 18.7% decrease in the average price per gallon of aircraft fuel in the third quarter of 2016 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the three month period ended September 30, 2016 as compared to the year-ago period:

	(In millions)			Average price per gallon		
	2016	2015	% Change	2016	2015	% Change
Total aircraft fuel purchase cost excluding fuel hedge impacts	\$ 1,579	\$ 1,784	(11.5)	\$ 1.49	\$ 1.72	(13.4)
Hedge losses reported in fuel expense	(24)	(150)	NM	(0.03)	(0.15)	NM
Fuel expense	\$ 1,603	\$ 1,934	(17.1)	\$ 1.52	\$ 1.87	(18.7)

Total fuel consumption (gallons) 1,057 1,035 2.1

Regional capacity purchase was \$572 million in the third quarters of 2016 and 2015. Increased aircraft rent and contractual rates were offset by a 3.9% reduction in capacity and a reduction in pass-through costs in the third quarter of 2016 as compared to the year-ago period.

Depreciation and amortization increased \$34 million, or 7.2%, in the third quarter of 2016 as compared to the year-ago period primarily due to additions of new aircraft, conversions of operating leases to capital leases, aircraft improvements and accelerated depreciation of certain assets related to several fleet types.

Aircraft maintenance materials and outside repairs increased \$27 million, or 6.4%, in the third quarter of 2016 as compared to the year-ago period primarily due to the timing of maintenance events.

Other operating expenses increased \$135 million, or 10.4%, in the third quarter of 2016 as compared to the year-ago period primarily due to increases in ground handling costs and other airport operations cost, food and technology costs associated with the Company's enhanced customer experience initiatives, rate-driven increases in personnel-related expenses, increases in marketing expenses related to the 2016 Summer Olympics and increases in other purchased services.

Details of the Company's special charges include the following for the three months ended September 30 (in millions):

	2016	2015
Labor agreement costs	\$ 14	\$
Severance and benefit costs	13	28
(Gains) losses on sale of assets and other special charges	18	48
Special charges	\$ 45	\$ 76

See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information.

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company's nonoperating income (expense) for the three months ended September 30 (in millions, except for percentage changes):

	2016	2015	Increase (Decrease)	% Change
Interest expense	\$ (150)	\$ (164)	\$ (14)	(8.5)
Interest capitalized	20	13	7	53.8
Interest income	14	5	9	180.0
Miscellaneous, net	2	(147)	(149)	NM

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

Total	\$ (114)	\$ (293)	\$ (179)	(61.1)
-------	----------	----------	----------	--------

In the third quarter of 2016, Miscellaneous, net did not include any gains or losses from derivatives not qualifying for hedge accounting as compared to losses of \$67 million in the year-ago period. Foreign currency losses were approximately \$4 million and \$81 million in the third quarters of 2016 and 2015, respectively. Third quarter 2015 foreign currency results include a \$61 million loss related to the Company's cash holdings in Venezuela. See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information.

Table of Contents

Income Taxes. See Notes 3 and 4 to the financial statements included in Part I, Item 1 of this report for information related to income taxes.

RESULTS OF OPERATIONS***First Nine Months 2016 Compared to First Nine Months 2015***

The Company recorded net income of \$1.9 billion in the first nine months of 2016 as compared to net income of \$6.5 billion in the first nine months of 2015. A primary reason for the decline in net income is associated with the release of the income tax valuation allowance of \$3.2 billion in the third quarter of 2015, combined with the recording of \$1.1 billion of income tax expense on the pre-tax income in 2016. The Company considers a key measure of its performance to be operating income, which was \$3.3 billion for the first nine months of 2016, as compared to \$4.1 billion for the first nine months of 2015, a \$0.8 billion decrease year-over-year. Significant components of the Company's operating results for the nine months ended September 30 are as follows (in millions, except percentage changes):

	2016	2015	Increase (Decrease)	% Increase (Decrease)
Operating revenue	\$ 27,504	\$ 28,828	\$ (1,324)	(4.6)
Operating expense	24,171	24,743	(572)	(2.3)
Operating income	3,333	4,085	(752)	(18.4)
Nonoperating expense	(398)	(771)	(373)	(48.4)
Income tax expense (benefit)	1,069	(3,203)	4,272	NM
Net income	\$ 1,866	\$ 6,517	\$ (4,651)	(71.4)

NM - Not meaningful

Certain consolidated statistical information for the Company's operations for the nine months ended September 30 is as follows:

	2016	2015	Increase (Decrease)	% Increase (Decrease)
Passengers (thousands) (a)	107,154	105,217	1,937	1.8
RPMs (millions) (b)	158,771	157,893	878	0.6
ASMs (millions) (c)	191,072	188,699	2,373	1.3
Passenger load factor (d)	83.1 %	83.7 %	(0.6) pts.	N/A
PRASM (cents)	12.40	13.28	(0.88)	(6.6)
Yield (cents) (e)	14.92	15.87	(0.95)	(6.0)
CASM (cents)	12.65	13.11	(0.46)	(3.5)
Average price per gallon of fuel, including fuel taxes	\$ 1.45	\$ 2.01	\$ (0.56)	(27.9)
Fuel gallons consumed (millions)	2,942	2,935	7	0.2
Average full-time equivalent employees	83,600	82,100	1,500	1.8

(a) The number of revenue passengers measured by each flight segment flown.

(b) The number of scheduled miles flown by revenue passengers.

(c) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.

(d) Revenue passenger miles divided by available seat miles.

(e) The average passenger revenue received for each revenue passenger mile flown.

Table of Contents**Operating Revenue**

The table below shows year-over-year comparisons by type of operating revenue for the nine months ended September 30 (in millions, except for percentage changes):

	2016	2015	Increase (Decrease)	% Change
Passenger Mainline	\$ 19,119	\$ 20,153	\$ (1,034)	(5.1)
Passenger Regional	4,577	4,903	(326)	(6.6)
Total passenger revenue	23,696	25,056	(1,360)	(5.4)
Cargo	626	706	(80)	(11.3)
Other operating revenue	3,182	3,066	116	3.8
	\$ 27,504	\$ 28,828	\$ (1,324)	(4.6)

The table below presents selected passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015:

	Domestic	Atlantic	Pacific	Latin	Total Mainline	Regional	Consolidated
Increase (decrease) from 2015:							
Passenger revenue (in millions)	\$ (247)	\$ (444)	\$ (233)	\$ (110)	\$ (1,034)	\$ (326)	\$ (1,360)
Passenger revenue	(2.4)%	(9.6)%	(6.9)%	(5.3)%	(5.1)%	(6.6)%	(5.4)%
Average fare per passenger	(7.6)%	(6.3)%	(6.5)%	(11.6)%	(9.2)%	(2.8)%	(7.1)%
Yield	(4.3)%	(5.8)%	(7.7)%	(11.2)%	(6.1)%	(4.0)%	(6.0)%
PRASM	(5.0)%	(10.0)%	(6.9)%	(9.1)%	(6.8)%	(3.6)%	(6.6)%
Passengers	5.6 %	(3.5)%	(0.5)%	7.1 %	4.5 %	(4.0)%	1.8 %
RPMs (traffic)	2.0 %	(4.1)%	0.8 %	6.7 %	1.0 %	(2.8)%	0.6 %
ASMs (capacity)	2.7 %	0.5 %	(0.1)%	4.3 %	1.9 %	(3.1)%	1.3 %
Passenger load factor (points)	(0.5)	(3.6)	0.8	1.9	(0.7)	0.3	(0.6)

Consolidated passenger revenue in the first nine months of 2016 decreased \$1.4 billion or 5.4%, as compared to the year-ago period. For the first nine months of 2016, consolidated PRASM decreased 6.6% compared to the year-ago period. The decline in PRASM was driven by factors including a strong U.S. dollar, lower surcharges, reductions from energy-related corporate travel, and declining yields.

Cargo revenue decreased \$80 million or 11.3%, in the first nine months of 2016 as compared to the year-ago period due to lower freight yields and lower mail volumes year-over-year, partially offset by an increase in freight volumes. Freight yields were negatively impacted as air freighter competitors increased capacity in response to lower fuel prices. Another contributing factor to the year-over-year decrease was a U.S. West Coast port labor dispute that helped increase air freight results in the first quarter of 2015. The labor dispute was resolved during the first quarter of 2015.

Other operating revenue in the first nine months of 2016 increased \$116 million or 3.8%, as compared to the year-ago period primarily due to the impact of the Second Amended and Restated Co-Branded Card Marketing Services Agreement with Chase Bank USA, N.A., which became effective in the third quarter of 2015.

Table of Contents**Operating Expenses**

The table below includes data related to the Company's operating expenses for the nine months ended September 30 (in millions, except for percentage changes):

	2016	2015	Increase (Decrease)	% Change
Salaries and related costs	\$ 7,707	\$ 7,289	\$ 418	5.7
Aircraft fuel	4,258	5,904	(1,646)	(27.9)
Regional capacity purchase	1,645	1,725	(80)	(4.6)
Landing fees and other rent	1,612	1,647	(35)	(2.1)
Depreciation and amortization	1,473	1,343	130	9.7
Aircraft maintenance materials and outside repairs	1,301	1,252	49	3.9
Distribution expenses	987	1,026	(39)	(3.8)
Aircraft rent	521	580	(59)	(10.2)
Special charges	669	195	474	NM
Other operating expenses	3,998	3,782	216	5.7
	\$ 24,171	\$ 24,743	\$ (572)	(2.3)

Salaries and related costs increased \$418 million or 5.7%, in the first nine months of 2016 as compared to the year-ago period primarily due to higher pay rates and benefit expenses driven by new and extended collective bargaining agreements, an increase in employee incentive expenses due to improvements in operational performance and a 1.8% increase in average full-time equivalent employees.

Aircraft fuel expense decreased \$1.6 billion or 27.9%, year-over-year primarily due to a 27.9% decrease in the average price per gallon of aircraft fuel in the first nine months of 2016 compared to the year-ago period. 2016 fuel expense includes the benefit of a \$20 million fuel tax refund. The table below presents the significant changes in aircraft fuel cost per gallon in the nine months ended September 30, 2016 as compared to the year-ago period:

	(In millions)			Average price per gallon		
	2016	2015	% Change	2016	2015	% Change
Total aircraft fuel purchase cost excluding fuel hedge impacts	\$ 4,061	\$ 5,475	(25.8)	\$ 1.38	\$ 1.87	(26.2)
Hedge losses reported in fuel expense	(197)	(429)	NM	(0.07)	(0.14)	NM
Fuel expense	\$ 4,258	\$ 5,904	(27.9)	\$ 1.45	\$ 2.01	(27.9)

Total fuel consumption (gallons)

2,942 2,935 0.2

Regional capacity purchase decreased \$80 million or 4.6%, in the first nine months of 2016 as compared to the year-ago period primarily due to a decrease in regional capacity and a decrease in one-time start-up and exit costs, partially offset by contractual rate increases and increases in performance incentive payments.

Depreciation and amortization increased \$130 million or 9.7%, in the first nine months of 2016 as compared to the year-ago period primarily due to additions of new aircraft, conversions of operating leases to capital leases, aircraft improvements and accelerated depreciation of certain assets related to several fleet types.

Aircraft rent decreased \$59 million, or 10.2%, in the first nine months of 2016 as compared to the year-ago period primarily due to the purchase or capital lease conversion of several operating leased aircraft, lower lease renewal rates for certain aircraft and lease expirations.

Other operating expenses increased \$216 million, or 5.7%, in the first nine months of 2016 as compared to the year-ago period primarily due to increases in ground handling costs and other airport operations cost, food and technology costs associated with the Company's enhanced

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

customer experience initiatives, rate-driven increases in personnel-related expenses, increases in marketing expenses related to the 2016 Summer Olympics and increases in other purchased services.

Table of Contents

Details of the Company's special charges include the following for the nine months ended September 30 (in millions):

	2016	2015
Impairment of intangible asset related to Newark Liberty International Airport (Newark) slots	\$ 412	\$
Labor agreement costs	124	
Cleveland airport lease restructuring	74	
Severance and benefit costs	27	103
(Gains) losses on sale of assets and other special charges	32	92
Special charges	\$ 669	\$ 195

See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information.

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company's nonoperating income (expense) for the nine months ended September 30 (in millions, except for percentage changes):

	2016	2015	Increase (Decrease)	% Change
Interest expense	\$ (466)	\$ (504)	\$ (38)	(7.5)
Interest capitalized	48	38	10	26.3
Interest income	31	16	15	93.8
Miscellaneous, net	(11)	(321)	(310)	(96.6)
Total	\$ (398)	\$ (771)	\$ (373)	(48.4)

In the first nine months of 2016, Miscellaneous, net did not include any gains or losses from derivatives not qualifying for hedge accounting as compared to losses of \$69 million in the year-ago period. Foreign currency losses were approximately \$31 million and \$118 million in the first nine months of 2016 and 2015, respectively. Foreign currency results include \$8 million and \$61 million of losses due to exchange rate changes in Venezuela applicable to funds held in local currency in 2016 and 2015, respectively. Miscellaneous, net for 2016 includes a \$9 million gain on the sale of an affiliate. Miscellaneous, net for the first nine months of 2015 includes a \$134 million special charge related to the write off of unamortized non-cash debt discounts for the early redemption of the 6% Notes due 2026 (the 2026 Notes) and the 6% Notes due 2028 (the 2028 Notes). See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information.

Income Taxes. See Notes 3 and 4 to the financial statements included in Part I, Item 1 of this report for additional information related to income taxes.

LIQUIDITY AND CAPITAL RESOURCES**Current Liquidity**

As of September 30, 2016, the Company had \$4.9 billion in unrestricted cash, cash equivalents and short-term investments, as compared to \$5.2 billion at December 31, 2015. At September 30, 2016, the Company also had \$124 million of restricted cash and cash equivalents, which is primarily collateral for letters of credit and estimated future workers' compensation claims. As of September 30, 2016, the Company had its entire commitment capacity of \$1.35 billion under the revolving credit facility of the Company's 2013 Credit and Guaranty Agreement (the Credit Agreement) available for letters of credit or borrowings.

As is the case with many of our principal competitors, we have a high proportion of debt compared to capital and a deficit in working capital. We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities, and pension funding obligations. At September 30, 2016, the Company had approximately \$11.5 billion of debt and capital lease obligations, including \$1.1 billion that will become due in the next 12 months. In addition, we have substantial noncancelable commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of September 30, 2016, our current liabilities exceeded our

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

current assets by approximately \$5.3 billion. However, approximately \$6.7 billion of our current liabilities are related to our advance ticket sales and frequent flyer deferred revenue, both of which largely represent revenue to be recognized for travel in the near future and not actual cash outlays. The deficit in working capital does not have an adverse impact to our cash flows, liquidity or operations.

Table of Contents

As of September 30, 2016, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing) and Airbus S.A.S. (Airbus) presented in the table below:

Aircraft Type	Number of Firm Commitments (a)
Airbus A350-1000	35
Boeing 737NG/737 MAX	172
Boeing 777-300ER	14
Boeing 787-8/-9/-10	21

(a) United also has options and purchase rights for additional aircraft.

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2016, United expects to take delivery of seven Boeing 737NG aircraft and one Boeing 777-300ER aircraft.

As of September 30, 2016, UAL and United have total capital commitments primarily related to the acquisition of aircraft and related spare engines, aircraft improvements and acquisition of information technology services and assets of approximately \$22.6 billion, of which approximately \$1.2 billion, \$4.5 billion, \$4.1 billion, \$3.3 billion, \$2.6 billion and \$6.9 billion are due in the last three months of 2016 and for the full year for 2017, 2018, 2019, 2020 and thereafter, respectively. Any new firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

As of September 30, 2016, United has \$1.7 billion in financing available through enhanced equipment trust certificates (EETC) transactions for the financing of all of its aircraft deliveries scheduled for the remainder of 2016 and first half of 2017. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on aircraft financing. The Company has also secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing may be necessary to satisfy the Company s capital commitments for its firm order aircraft and other related capital expenditures.

As of September 30, 2016, a substantial portion of the Company s assets, principally aircraft, route authorities, airport slots and loyalty program intangible assets, was pledged under various loan and other agreements. We must sustain our profitability and/or access the capital markets to meet our significant long-term debt and capital lease obligations and future commitments for capital expenditures, including the acquisition of aircraft and related spare engines.

In September 2016, United agreed to a seven year lease extension through 2024 with the Metropolitan Washington Airports Authority to continue its use of terminals at Washington Dulles International Airport. See Note 8 to the financial statements included in Part I, Item 1 of this report for additional information.

Credit Ratings. As of the filing date of this report, UAL and United had the following corporate credit ratings:

	S&P	Moody s	Fitch
UAL	BB-	Ba3	BB-
United	BB-	*	BB-

* The credit agency does not issue corporate credit ratings for subsidiary entities.

These credit ratings are below investment grade levels. Downgrades from these rating levels, among other things, could restrict the availability or increase the cost of future financing for the Company.

Sources and Uses of Cash

Operating Activities. Cash flow provided by operations was \$4.9 billion for both the nine months ended September 30, 2016 and September 30, 2015. Operating income for the first nine months of 2016 decreased \$0.8 billion versus the year-ago period. However, operating income in 2016 was affected by the \$0.4 billion non-cash impairment of the Newark slots. In regard to

Table of Contents

year-over-year changes in working capital items, frequent flyer deferred revenue and advanced purchase of miles decreased by approximately \$0.3 billion due to increased utilization of pre-purchased miles, which was offset by the change in payables and accrued liabilities. Other changes in working capital items were largely offsetting in the first nine months of 2016 versus the first nine months of 2015. Significant cash payments in 2016 included \$0.7 billion in profit sharing and \$0.4 billion in pension funding.

Investing Activities. Capital expenditures were \$2.3 billion and \$2.0 billion in the nine months ended September 30, 2016 and 2015, respectively. Capital expenditures for the nine months ended September 30, 2016 were primarily attributable to the purchase of aircraft, facility and fleet-related costs. In June 2015, through a wholly-owned subsidiary, we invested \$100 million for an ownership stake of approximately five percent in Azul Linhas Aereas Brasileiras S.A., Brazil's third-largest airline, which provides a range of customer benefits including codesharing of flights (subject to government approval), joint loyalty-program participation and expanded connection opportunities on routes between the U.S. and Brazil, a key market for United, in addition to other points in North and South America.

Financing Activities. During the nine months ended September 30, 2016, the Company made debt and capital lease payments of \$1.0 billion.

In the nine months ended September 30, 2016, United completed two EETC offerings for a total principal amount of \$2.0 billion. Of the \$2.0 billion, United has received and recorded \$321 million of proceeds as debt as of September 30, 2016. United expects to receive all proceeds from the pass-through trusts by the end of the second quarter of 2017. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on EETC pass-through trusts.

In the nine months ended September 30, 2016, United borrowed approximately \$272 million aggregate principal amount from various financial institutions to finance the purchase of several aircraft delivered in 2016. The notes evidencing these borrowings, which are secured by the related aircraft, mature in 2028 and have interest rates comprised of the London Interbank Offered Rate (LIBOR) plus a specified margin.

In the first quarter of 2015, the holders of substantially all of the remaining \$202 million principal amount of United's 4.5% Convertible Notes due 2015 exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock.

In the first quarter of 2015, UAL used cash to repurchase \$18 million par value 2026 Notes in market transactions. On April 1, 2015, UAL used cash to redeem, at par, the remaining \$303 million balance of the 2026 Notes.

In the first quarter of 2015, UAL used cash to repurchase \$13 million par value 2028 Notes in market transactions. On May 1, 2015, UAL used cash to redeem, at par, the remaining \$298 million balance of the 2028 Notes.

In the first nine months of 2015, United issued \$0.9 billion of debt related to a 2014 EETC offering to finance new aircraft.

In the first nine months of 2015, United borrowed approximately \$480 million aggregate principal amount from various financial institutions to finance the purchase of several aircraft delivered in 2015. The notes evidencing these borrowings, which are secured by the related aircraft, have maturity dates ranging from 2025 to 2027 and interest rates comprised of LIBOR plus a specified margin.

As of September 30, 2016, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's Credit Agreement. See Note 11 in the Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Annual Report) for additional information on the terms of the Credit Agreement.

The obligations of United under the Credit Agreement are secured by liens on certain international route authorities between certain specified cities, certain take-off and landing rights and related assets of United. Certain covenants in the Credit Agreement and in the Company's indentures are summarized in Note 11 of the 2015 Annual Report. The Company was in compliance with all of these covenants as of September 30, 2016.

Share Repurchase Programs. In the three and nine months ended September 30, 2016, UAL repurchased 5 million and 48 million shares of UAL common stock in open market transactions, respectively, for \$255 million and \$2.4 billion, respectively. As of September 30, 2016, the Company had approximately \$2 billion remaining to purchase shares under its existing share repurchase authority.

Table of Contents

UAL may repurchase shares through the open market, privately negotiated transactions, block trades or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of UAL common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

Commitments, Contingencies and Liquidity Matters. As described in the 2015 Annual Report, the Company's liquidity may be adversely impacted by a variety of factors, including, but not limited to, obligations associated with fuel hedge settlements and related collateral requirements, pension funding obligations, reserve requirements associated with credit card processing agreements, guarantees, commitments and contingencies.

As of September 30, 2016, United is the guarantor of \$171 million of aircraft mortgage debt issued by one of United's regional carriers.

See the 2015 Annual Report and Notes 5, 7, 8 and 9 to the financial statements contained in Part I, Item 1 of this report for additional information.

CRITICAL ACCOUNTING POLICIES

See Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2015 Annual Report for a discussion of the Company's critical accounting policies.

FORWARD-LOOKING INFORMATION

Certain statements throughout Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report are forward-looking and thus reflect our current expectations and beliefs with respect to certain future events and anticipated financial and operating performance. Such forward-looking statements are and will be subject to many risks and uncertainties relating to our operations and business environment that may cause actual results to differ materially from any future results expressed or implied in such forward-looking statements. Words such as expects, will, plans, anticipates, indicates, believes, forecast, guidance, outlook, goals and similar are intended to identify forward-looking statements.

Additionally, forward-looking statements include statements that do not relate solely to historical facts, such as statements which identify uncertainties or trends, discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except as required by applicable law.

Our actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: our ability to comply with the terms of our various financing arrangements; the costs and availability of financing; its ability to maintain adequate liquidity; our ability to execute our operational plans and revenue-generating initiatives, including optimizing its revenue; our ability to control our costs, including realizing benefits from our resource optimization efforts, cost reduction initiatives and fleet replacement programs; our ability to utilize our net operating losses; our ability to attract and retain customers; demand for transportation in the markets in which we operate; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact that global economic conditions have on customer travel patterns; excessive taxation and the inability to offset future taxable income; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally; its ability to cost-effectively hedge against increases in the price of aircraft fuel; any potential realized or unrealized gains or losses related to fuel or currency hedging programs; the effects of any hostilities, act of war or terrorist attack; the ability of other air carriers with whom we have alliances or partnerships to provide the services contemplated by the

Table of Contents

respective arrangements with such carriers; disruptions to our regional network; the costs and availability of aviation and other insurance; industry consolidation or changes in airline alliances; competitive pressures on pricing and on demand; its capacity decisions and the capacity decisions of our competitors; U.S. or foreign governmental legislation, regulation and other actions (including open skies agreements and environmental regulations); the impact of regulatory, investigative and legal proceedings and legal compliance risks; the impact of any management changes; labor costs; our ability to maintain satisfactory labor relations and the results of the collective bargaining agreement process with our union groups; any disruptions to operations due to any potential actions by our labor groups; weather conditions; and other risks and uncertainties set forth under Part I, Item 1A., Risk Factors of the 2015 Annual Report, as well as other risks and uncertainties set forth from time to time in the reports we file with the U.S. Securities and Exchange Commission (the SEC).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in market risk from the information provided in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2015 Annual Report except as follows:

Aircraft Fuel. As of September 30, 2016, the Company had hedged approximately 13% of its projected fuel requirements (126 million gallons) for the remainder of 2016 with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of September 30, 2016, the Company had fuel hedges expiring through December 2016.

At September 30, 2016, fuel derivatives were in a net liability position of \$4 million. See Note 7 to the financial statements included in Part I, Item 1 of this report for additional information related to fuel hedges.

The fuel derivative portfolio is comprised of many individual derivative contracts (primarily option contracts) on multiple underlying commodities and entered into at various points in time, resulting in a wide range of strike prices with several hedge counterparties. The table below provides a view of the economic impact of the fuel derivative portfolio on the Company's fuel costs given significant moves (up to +/-30%) in market fuel prices after September 30, 2016 through the end of the year (in millions).

Change in market fuel prices (a)	Period from October 1, 2016 to December 31, 2016		
	(Increase) decrease to unhedged fuel cost (b)	Fuel derivative gain (loss) (c)	Net (increase) decrease to fuel cost
30%	\$ (414)	\$ 5	\$ (409)
20%	(276)		(276)
10%	(138)		(138)
(10)%	138	(13)	125
(20)%	276	(16)	260
(30)%	414	(16)	398

(a) Projected using equal shifts in spot and forward prices for aircraft fuel and crude oil underlying hedge contracts at September 30, 2016 levels.

(b) Projections based on an average forward price of \$1.43 per gallon, excluding taxes and other delivery costs and estimated consumption of 1.0 billion gallons for the three months ending December 31, 2016.

(c) Change in projected cash gain/(loss) on existing fuel derivatives as of September 30, 2016. Includes all fuel derivatives whether or not the fuel derivatives are designated for hedge accounting. Within these price ranges, the Company would neither receive nor post collateral.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Control and Procedures

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted to the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL's and United's disclosure controls and procedures were designed and operating effectively to report the information each company is required to disclose in the reports they file with the SEC on a timely basis. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of UAL and United have concluded that as of September 30, 2016, disclosure controls and procedures of each of UAL and United were effective.

Changes in Internal Control over Financial Reporting during the Quarter Ended September 30, 2016

During the three months ended September 30, 2016, there were no changes in UAL's or United's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, their internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS.

See Part I, Item 1A., Risk Factors, of the 2015 Annual Report and Part II, Item 1A., Risk Factors of the Company's Form 10-Q for the quarter ended June 30, 2016 (the Second Quarter 2016 Form 10-Q) for a detailed discussion of the risk factors affecting UAL and United. The disclosures below include updates to certain risk factor disclosures included in the 2015 Annual Report, which are in addition to, and not in lieu of, those disclosures contained in the 2015 Annual Report and the Second Quarter 2016 Form 10-Q.

Union disputes, employee strikes or slowdowns, and other labor-related disruptions, as well as the integration of United's workforces in connection with the Company's merger transaction in 2010, could adversely affect the Company's operations and could result in increased costs that could have a material financial impact on the Company.

United is a highly unionized company. As of September 30, 2016, the Company and its subsidiaries had approximately 87,500 active employees, of whom approximately 80% were represented by various U.S. labor organizations.

The successful integration of United's workforces in connection with the Company's merger transaction in 2010 and achievement of the anticipated benefits of the combined company depend in part on integrating employee groups and maintaining productive employee relations. In order to fully integrate the Company's 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 is governed by a combination of the Railway Labor Act (the RLA), the McCaskill-Bond Amendment, and where applicable, the existing provisions of collective bargaining agreements and union policies. A delay in or failure to integrate employee groups presents the potential for increased operating costs and labor disputes that could adversely affect the Company's operations.

The Company has reached joint collective bargaining agreements with all but one of its employee groups since the merger transaction in 2010. Only the Company's technicians and related employees remain without a combined collective bargaining agreement. The Company has reached a tentative agreement with its technicians and related employees for a joint collective bargaining agreement and will submit it for ratification by the union's membership. The Company can provide no assurance that a successful or timely resolution of these labor negotiations will be achieved.

Union disputes and other labor-related actions can disrupt the Company's operations. There is a risk that unions or individual employees might still pursue judicial or arbitral claims arising out of changes implemented as a result of the Company's merger transaction in 2010. There is also a possibility that employees or unions could engage in job actions such as slowdowns, work-to-rule campaigns, sick-outs or other actions designed to disrupt the Company's normal operations, in an attempt to pressure the Company in collective bargaining negotiations. Although the RLA makes such actions unlawful until the parties have been lawfully released to self-help, and the Company can seek injunctive relief against premature self-help, such actions can cause significant harm even if ultimately enjoined. In addition, joint collective bargaining agreements with the Company's represented employee groups increase the Company's labor costs, which increase could have a material financial impact on the Company.

See Notes 15 and 16 to the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and Note 8 to the financial statements included in this report for additional information on labor negotiations and costs.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

(a) None

(b) None

(c) The following table presents repurchases of UAL common stock made in the third quarter of fiscal year 2016:

Period	Total number of shares purchased (a)(b)	Average price paid per share (b)(c)	Total number of shares purchased as part of publicly announced plans or programs (a)	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (a)
July 1, 2016 through July 31, 2016	550,528	\$ 47.26	550,528	\$ 2,229
August 1, 2016 through August 31, 2016	2,574,396	47.22	2,574,396	2,107
September 1, 2016 through September 30, 2016	2,094,511	51.36	2,094,511	2,000
Total	5,219,435		5,219,435	

(a) In the three and nine months ended September 30, 2016, UAL repurchased approximately 5 million and 48 million shares of UAL common stock in open market transactions, respectively, for \$255 million and \$2.4 billion, respectively. The repurchases in the three and nine months ended September 30, 2016 were primarily pursuant to the Company's previous \$3 billion share repurchase authority, which is now exhausted.

As of September 30, 2016, the Company had approximately \$2 billion remaining to purchase shares under its \$2 billion share repurchase authority that was approved in July 2016. UAL may repurchase shares through the open market, privately negotiated transactions, block trades or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of UAL common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

(b) The table does not include shares withheld from employees to satisfy certain tax obligations due upon the vesting of restricted stock units. The United Continental Holdings, Inc. 2008 Incentive Compensation Plan provides for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock units. However, this plan does not specify a maximum number of shares that may be withheld for this purpose. A total of 380 shares were withheld under this plan in the third quarter of 2016 at an average share price of \$45.52. These shares of common stock withheld to satisfy tax withholding obligations may be deemed to be issuer purchases of shares that are required to be disclosed pursuant to this Item.

(c) Average price paid per share is calculated on a settlement basis and excludes commission.

ITEM 6. EXHIBITS.

A list of exhibits included as part of this Form 10-Q is set forth in an Exhibit Index that immediately precedes the exhibits.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

United Continental Holdings, Inc.
(Registrant)

Date: October 17, 2016

By: /s/ Andrew C. Levy

Andrew C. Levy
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: October 17, 2016

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller
(principal accounting officer)

United Airlines, Inc.
(Registrant)

Date: October 17, 2016

By: /s/ Andrew C. Levy

Andrew C. Levy
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: October 17, 2016

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller
(principal accounting officer)

Table of Contents**EXHIBIT INDEX**

Exhibit No.	Registrant	Exhibit
10.1	UAL	Form of Stock Option Award Notice pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan
10.2	UAL	Form of Restricted Stock Unit Award Notice pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan
12.1	UAL	United Continental Holdings, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges
12.2	United	United Airlines, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges
31.1	UAL	Certification of the Principal Executive Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.2	UAL	Certification of the Principal Financial Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.3	United	Certification of the Principal Executive Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.4	United	Certification of the Principal Financial Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
32.1	UAL	Certification of the Chief Executive Officer and Chief Financial Officer of United Continental Holdings, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
32.2	United	Certification of the Chief Executive Officer and Chief Financial Officer of United Airlines, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
101.1	UAL	XBRL Instance Document
	United	
101.2	UAL	XBRL Taxonomy Extension Schema Document
	United	
101.3	UAL	XBRL Taxonomy Extension Calculation Linkbase Document
	United	
101.4	UAL	XBRL Taxonomy Extension Definition Linkbase Document
	United	
101.5	UAL	XBRL Taxonomy Extension Labels Linkbase Document
	United	
101.6	UAL	XBRL Taxonomy Extension Presentation Linkbase Document
	United	