United Continental Holdings, Inc.
Form 10-Q
October 21, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ______ to ______

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

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

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

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

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

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

United Continental Holdings, Inc.	Large accelerated filer	¨	Accelerated filer	x
	Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
United Air Lines, Inc.	Large accelerated filer	¨	Accelerated filer	¨
	Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

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 x
United Air Lines, Inc. Yes ¨ No x

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

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

OMISSION OF CERTAIN INFORMATION

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

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

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

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

Table of Contents

United Continental Holdings, Inc. and Subsidiary Companies and

United Air Lines, Inc. and Subsidiary Companies

Report on Form 10-Q

For the Quarter Ended September 30, 2010

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
United Continental Holdings, Inc.:	
Statements of Consolidated Operations	3
Statements of Consolidated Financial Position	4
Condensed Statements of Consolidated Cash Flows	6
United Air Lines, Inc.:	
Statements of Consolidated Operations	7
Statements of Consolidated Financial Position	8
Condensed Statements of Consolidated Cash Flows	10
Combined Notes to Condensed Consolidated Financial Statements (United Continental Holdings, Inc. and United Air Lines, Inc.)	11
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	47
Item 4. Controls and Procedures	47
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	49
Item 1A. Risk Factors	49
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 5. Other Information	54
Item 6. Exhibits	56
Signatures	57
Exhibit Index	58

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

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

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions, except shares)

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

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

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions, except shares)

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

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED CONTINENTAL HOLDINGS, INC.

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

(In millions)

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

Cash and cash equivalents at end of the period	$ 4,938	$ 2,525

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED AIR LINES, INC.

STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

(In millions)

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

Net income (loss)	$ 399	$ (55)	$ 606	$ (405)

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED AIR LINES, INC.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions, except shares)

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

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

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED AIR LINES, INC.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions, except shares)

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

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

9

Table of Contents

UNITED AIR LINES, INC.

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

(In millions)

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

Cash and cash equivalents at end of the period	$ 4,932	$ 2,519

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

Table of Contents

UNITED CONTINENTAL HOLDINGS, INC. and

UNITED AIR LINES, INC.

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Basis of Presentation

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

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

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

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

(2) Merger and Related Matters

Description of Transaction

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

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

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

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

Expenses Related to the Merger

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

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

Tax Matters

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

(5) Per Share Amounts (UAL Only)

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

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

Diluted weighted average shares outstanding	235.4	145.6	231.4	145.1
Earnings (loss) per share, diluted	$ 1.75	$ (0.39)	$ 2.78	$ (2.83)
Potentially dilutive shares excluded from diluted per share amounts:				
Restricted shares and units and stock options	5.1	7.4	5.2	7.4
4.5% Senior Limited-Subordination Convertible Notes due 2021		22.2		22.2
5% Senior Convertible Notes due 2021		3.4	3.4	3.4

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

Table of Contents

(6) Share-Based Compensation

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

(7) Income Taxes

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

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

(8) Postretirement Plans

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

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

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

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

(9) Segment Information

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

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

Consolidated earnings (loss) before income taxes and equity in earnings of affiliates	$ 398	$ (60)	$ 603	$ (454)

(a) Asset impairment, merger-related costs, and special items are only applicable to the Mainline segment.
(b) Equity earnings are part of the Mainline segment.

(10) Comprehensive Income (Loss)

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

(11) Fair Value Measurements and Derivative Instruments

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

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents

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

(In millions)	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value Measurements at September 30, 2010		
Assets and liabilities measured at fair value on a recurring basis:				
Financial assets:				
Money market funds	$ 4,691	$ 4,691	$	$
Noncurrent EETC available-for-sale securities	63			63
Current fuel derivative purchased call options	120		120	
Current fuel derivative swaps	66		66	
Total financial assets	$ 4,940	$ 4,691	$ 186	$ 63
Financial liabilities:				
Current fuel derivative instruments	$ 9	$	$ 9	$
Total financial liabilities	$ 9	$	$ 9	$
		Fair Value Measurements at December 31, 2009		
Financial assets:				
Money market funds	$ 3,061	$ 3,061	$	$
Noncurrent EETC available-for-sale securities	51			51
Current fuel derivative purchased call options	94		94	
Current fuel derivative swaps	44		44	
Total financial assets	$ 3,250	$ 3,061	$ 138	$ 51
Financial liabilities:				
Current fuel derivative instruments	$ 5	$	$ 5	$
Total financial liabilities	$ 5	$	$ 5	$

Level 3 Financial Assets and Liabilities

(In millions)	Available-for-Sale Securities Three Months Ended	Available-for-Sale Securities Nine Months Ended

	September 30, 2010		September 30, 2010	
Balance at beginning of period	$	61	$	51
Unrealized gains relating to instruments held at reporting date		4		16
Return of principal		(2)		(4)
Balance at end of period	$	63	$	63

As of September 30, 2010, the Company s EETC securities have an amortized cost basis of $70 million and unrealized losses of $7 million and represent a portion of the Company s previously issued and outstanding EETC securities which were repurchased in open market transactions in 2007. As of September 30, 2010, these investments have been in an unrealized loss position for a period of over twelve months. However, United has not recognized an impairment loss in earnings related to these securities because United does not intend or expect to be required to sell the securities and expects to recover its entire amortized cost basis. United expects to collect the full principal balance and all related interest payments. All changes in the fair value of these investments have been classified within Accumulated other comprehensive income in the Financial Statements.

Derivative instruments, money market funds and investments presented in the table above have fair values equal to their carrying values. The table below presents the carrying values and estimated fair values of the Company s financial instruments not presented in the table above.

	September 30, 2010	
(In millions)	**Carrying Amount**	**Fair Value**
UAL long-tem debt (including current portion) (a)	$ 7,474	$ 8,298
Lease deposits	279	300

(a) United s carrying value and fair value of long-term debt, which exclude the UAL $345 million aggregate principal amount of 6% Senior Convertible Notes due 2029, are $7,129 million and $7,318 million, respectively.

Fair value of the above financial instruments was determined as follows.

Description	**Fair Value Methodology**
Cash, Cash Equivalents, Restricted Cash, Accounts Receivable, Fuel Hedge Collateral Deposits, Accounts Payable and Other Accrued Liabilities	The carrying amounts approximate fair value because of the short-term maturity of these assets. Money market funds are classified within cash and cash equivalents.
Enhanced Equipment Trust Certificates	The EETCs are not actively traded on an exchange. Fair value is based on the trading prices of United s EETCs or similar EETC instruments issued by other airlines. The Company uses internal models and observable and unobservable inputs to corroborate third party quotes. Because certain inputs are unobservable, the Company categorized inputs to the EETC fair value valuation as Level 3. Significant inputs to the valuation models include contractual terms, risk-free interest rates and credit spreads.
Fuel Derivative Instruments	Derivative contracts are privately negotiated contracts and are not exchange traded. Fair value measurements are estimated using option pricing models that employ observable and unobservable inputs. Inputs to the valuation models include contractual terms, market prices, yield curves, fuel price curves and measures of volatility, among others.
Long-Term Debt	The fair value is based on the quoted market prices for the same or similar issues and discounted cash flow models using appropriate market rates. The Company s credit risk was considered in estimating fair value.

Fair Value of Nonfinancial Assets

See Note 15, Asset Impairments, Merger-related Costs and Special Items, for information related to fair value measurements of nonfinancial assets performed during the 2010 and 2009 periods.

Derivative Credit Risk and Fair Value

The Company is exposed to credit losses in the event of nonperformance by counterparties to its derivative instruments. The Company enters into master netting agreements with its derivative counterparties. While the Company records derivative instruments on a gross basis, the Company monitors its net derivative position with each counterparty to monitor credit risk. As of September 30, 2010, the Company had a net derivative asset of $178 million with certain of its counterparties; therefore, this amount represents the potential credit-risk loss if all of these counterparties fail to perform. The Company had a net derivative payable of $1 million with its remaining fuel counterparties at September 30, 2010.

Based on the fair value of the Company s 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 reviews the credit risk associated with its derivative counterparties and may require collateral based on contract terms from its counterparties in the event the Company has a significant net derivative asset with its counterparties. The Company routinely reviews the credit risk associated with its counterparties which may hold the Company s collateral to assess whether the collateral is fully recoverable from its counterparties. As of September 30, 2010, the Company held $8 million of collateral, which had been received from its counterparties, and the Company was not required to provide any collateral to its counterparties.

The Company considered its own credit risk and its counterparties credit risk in determining the fair value of its financial instruments. The Company considered credit risk to have a minimal impact on fair value because varying amounts of collateral are either provided by United to its hedging counterparties or received by United from its hedging counterparties based on current market exposure and the credit-worthiness of United and its counterparties.

(12) Derivative Instruments

The following section includes additional information regarding derivative instruments not already disclosed above.

Aircraft Fuel Hedges. The Company has a risk management strategy to hedge a portion of its price risk related to projected jet fuel requirements. Jet fuel is one of the Company s most significant operating expenses. Jet fuel is a commodity with significant price volatility. Prices fluctuate based on market expectations of supply and demand, among other factors. Increases in fuel prices may adversely impact the Company s financial performance, operating cash flows and financial position as greater amounts of cash may be required to obtain jet fuel for operations. The Company periodically enters into derivative contracts to mitigate the adverse financial impact of potential increases in the price of jet fuel. The Company does not enter into derivative instruments for non-risk management purposes. Prior to April 1, 2010, the Company s fuel hedges were not accounted for as fair value or cash flow hedges under accounting principles related to hedge accounting. Effective April 1, 2010, the Company designated substantially all of its outstanding fuel derivative contracts, which settle in periods subsequent to June 30, 2010, as cash flow hedges under applicable accounting standards. In addition, substantially all new fuel derivative contracts entered into subsequent to April 1, 2010 were designated as cash flow hedges.

Accounting pronouncements pertaining to derivative instruments and hedging are complex with stringent requirements, including documentation of hedging strategy, statistical analysis to qualify a commodity for hedge accounting both on a historical and a prospective basis, and strict contemporaneous documentation that is required at the time each hedge is designated as a cash flow hedge. 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 jet fuel to changes in the prices of the commodities used for hedging purposes.

Upon proper qualification, the Company accounts for its fuel derivative instruments as cash flow hedges. All derivatives designated as hedges that meet certain requirements are granted special hedge accounting treatment. Generally, utilizing the special hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective, as defined, are recorded in Accumulated other comprehensive income (loss) (AOCI) until the underlying jet 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 jet fuel and that its hedges may not continue to qualify for special 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 jet fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is recorded to Nonoperating - Miscellaneous, net in the income statement.

20

Table of Contents

If the Company terminates 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. The Company did not have any such situations during the 2010 periods.

All cash flows associated with purchasing and selling derivatives are classified as operating cash flows in the Financial Statements.

The Company records each derivative instrument as a derivative asset or liability (on a gross basis) in its Financial Statements, 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. As of September 30, 2010, all of the Company s fuel derivatives were designated as cash flow hedges. As of December 31, 2009, none of the Company s fuel derivatives were designated as cash flow hedges.

	Asset Derivatives		Liability Derivatives	
(In millions)	**Balance Sheet Location**	**September 30, 2010**	**Balance Sheet Location**	**September 30, 2010**
Derivatives designated as cash flow hedges				
Fuel contracts due within one year	Receivables	$ 186	Other current liabilities	$ 9
	Balance Sheet Location	**December 31, 2009**	**Balance Sheet Location**	**December 31, 2009**
Derivatives not designated as cash flow hedges				
Fuel contracts due within one year	Receivables	$ 138	Other current liabilities	$ 5

The following tables present the impact of fuel derivative instruments and their location within the Financial Statements for the three and nine month periods ended September 30, 2010 and 2009 (in millions):

Fuel derivatives not designated as cash flow or fair value hedges (a)	**Mainline Fuel**		**Nonoperating Income (Expense)**		**Total**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Three Months Ended September 30,						
Cash net losses on settled contracts	$	$ (92)	$	$ (39)	$	$ (131)
Non-cash net mark-to-market gains		25		34		59
Total fuel hedge gains (losses)	$	$ (67)	$	$ (5)	$	$ (72)
Nine Months Ended September 30,						
Cash net losses on settled contracts	$ (29)	$ (491)	$	$ (215)	$ (29)	$ (706)
Non-cash net mark-to-market gains	(6)	521		241	(6)	762
Total fuel hedge gains (losses)	$ (35)	$ 30	$	$ 26	$ (35)	$ 56

(a) The Company did not have any undesignated cash flow hedges during the three month period ended September 30, 2010.

Fuel derivatives designated as cash flow hedges	Amount of Gain (Loss) Recognized in AOCI on Derivatives (effective portion)		Gain (Loss) Reclassified from AOCI into Income (Fuel Expense) (Effective Portion)		Amount of Gain (Loss) Recognized in Income (Nonoperating Expense) (Ineffective Portion)	
	2010	2009	2010	2009	2010	2009
Three Months Ended September 30,	$ 79	$	$ (72)	$	$ 12	$
Nine Months Ended September 30,	$ 6	$	$ (72)	$	$ 9	$

Table of Contents

None of the above hedge gains/losses were allocated to Regional Affiliates expense for any periods presented. As of September 30, 2010, an existing gain of $6 million recorded in AOCI will be reclassified into earnings within twelve months.

As of September 30, 2010, for the last three months of 2010 and the first nine months of 2011, United had hedged approximately 78% and 37%, respectively, of its expected consolidated fuel consumption with a combination of swaps and purchased call options. This hedge coverage does not reflect UAL s changes in hedge instruments and future fuel consumption resulting from the merger. The Company s hedge position at September 30, 2010, consisted of a notional amount of 14 million barrels with purchased call options at a weighted-average crude oil equivalent strike price of $82 per barrel and 14 million barrels with swaps at a crude oil equivalent average price of $81 per barrel.

(13) Commitments, Contingent Liabilities and Uncertainties

General Guarantees and Indemnifications. In the normal course of business, the Company enters into numerous real estate leasing and aircraft financing arrangements that have various guarantees included in the contracts. These guarantees are primarily in the form of indemnities. In both leasing and financing transactions, the Company typically indemnifies the lessors and any tax/financing parties against tort liabilities that arise out of the use, occupancy, operation or maintenance of the leased premises or financed aircraft. Currently, the Company believes that any future payments required under these guarantees or indemnities would be immaterial, as most tort liabilities and related indemnities are covered by insurance (subject to deductibles). Additionally, certain leased premises such as fueling stations or storage facilities include indemnities of such parties for any environmental liability that may arise out of or relate to the use of the leased premises.

Labor Negotiations. Approximately 82% of United s employees currently are represented by various U.S. labor organizations. United has been in negotiations for amended collective bargaining agreements with all of its unions since 2009. Consistent with commitments contained in its current labor contracts, United has filed for mediation assistance in conjunction with four of its six unions: the Air Line Pilots Association (ALPA), the Association of Flight Attendants-Communication Workers of America, the International Association of Machinists and Aerospace Workers and the Professional Airline Flight Control Association. While the labor contract with the International Brotherhood of Teamsters also contemplates filing for mediation, the parties agreed to continue in direct negotiations. The current contract with the International Federation of Professional and Technical Engineers does not contemplate filing for mediation.

After the Company s May 2010 merger announcement, ALPA opted to suspend Section 6 negotiations at both United and Continental in order to focus on joint negotiations for a new collective bargaining agreement that would apply to the combined company. On July 20, 2010, United and Continental reached agreement with ALPA on a Transition and Process Agreement that provides a framework for conducting pilot operations of the two employee groups until the parties reach agreement on a joint collective bargaining agreement and the carriers obtain a single operating certificate. On August 10, 2010, United and Continental began joint negotiations with ALPA and those negotiations are presently ongoing.

The process for integrating the labor groups of United and Continental is governed by a combination of the Railway Labor Act (RLA), the McCaskill-Bond Act, and where applicable, the existing provisions of United and Continental s collective bargaining agreements and union policies. Under the RLA, the National Mediation Board has exclusive authority to resolve union representation disputes arising out of airline mergers. Under the McCaskill-Bond Act, the carriers must provide for fair and equitable integration of seniority lists, including arbitration where the interested parties cannot reach a consensual agreement. Pending operational integration, the Company will apply the terms of the existing collective bargaining agreements unless other terms have been negotiated. The outcome of these labor negotiations may materially impact the Company s future financial results. However, the Company is unable at this time to assess the timing or magnitude of the impact, if any.

Legal Contingencies. The Company has certain contingencies resulting from litigation and claims incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the information currently available, the views of legal counsel, the nature of contingencies to which the Company is subject and prior experience, that the ultimate disposition of the litigation and claims will not materially affect the Company s consolidated

financial position or results of operations. When appropriate, the Company accrues for these matters based on its assessments of the likely outcomes of their eventual disposition. The amounts of these liabilities could increase or decrease in the near term, based on revisions to estimates relating to the various claims.

The Company anticipates that if ultimately found liable, its damages from claims arising from the events of September 11, 2001, could be significant; however, the Company believes that, under the Air Transportation Safety and System Stabilization Act of 2001, its liability will be limited to its insurance coverage.

The Company continues to analyze whether any potential liability may result from air cargo/passenger surcharge cartel investigations following the receipt of a Statement of Objections that the European Commission (the Commission) issued to 26 companies on December 18, 2007. The Statement of Objections sets out evidence related to the utilization of fuel and security surcharges and exchange of pricing information that the Commission views as supporting the conclusion that an illegal price-fixing cartel had been in operation in the air cargo transportation industry. United has provided written and oral responses vigorously disputing the Commission s allegations against the Company. Nevertheless, United will continue to cooperate with the Commission s ongoing investigation. Based on its evaluation of all information currently available, the Company has determined that no reserve for potential liability is required and will continue to defend itself against all allegations that it was aware of or participated in cartel activities. However, penalties for violation of European competition laws can be substantial and a finding that the Company engaged in improper activity could have a material adverse impact on its consolidated financial position and results of operations.

Trans-Atlantic Joint Venture. As previously disclosed in the Company s 2009 Annual Report, United, Continental, Air Canada and Lufthansa are implementing a trans-Atlantic joint venture, which remains under review by the European Commission. As part of the joint venture, we are in negotiations to implement a revenue-sharing structure amongst the joint venture participants. As currently contemplated, the revenue sharing structure would result in payments among participants based on a formula that compares current period unit revenue performance on trans-Atlantic routes to a historic period or baseline, which is reset annually. The payments would be calculated on a quarterly basis and subject to a cap. Assuming that revenue sharing is implemented and that the revenue sharing formula is applied retroactively for the period from January 1, 2010 to September 30, 2010, as currently contemplated, United estimates its liability for revenue sharing payments to joint venture carriers that United relatively outperformed would be approximately $40 million. Future results will be impacted by the current year results, which will serve as the baseline in future years for calculating relative performance in the revenue sharing formula.

Contingent Senior Unsecured Notes. UAL is obligated under an indenture to issue to the Pension Benefit Guaranty Corporation (PBGC) up to $500 million aggregate principal amount of 8% Contingent Senior Notes (the 8% Notes) in specified circumstances. The 8% Notes would be issued to the PBGC in up to eight equal tranches of $62.5 million upon the occurrence of certain financial triggering events (with one tranche issued as a result of each triggering event up to the eight total tranches). A triggering event occurs when, among other things, the Company s earnings before income taxes, depreciation, amortization and rent (EBITDAR) exceeds $3.5 billion over the prior twelve months ending June 30 or December 31 of any applicable fiscal year. The twelve month measurement periods began with the fiscal year ended December 31, 2009 and will end with the fiscal year ending December 31, 2017. In certain circumstances, UAL common stock may be issued in lieu of issuance of the 8% Notes.

Other Contingencies. The Company is party to a multiyear technology services agreement and has engaged in discussions with the counterparty to amend or restructure certain performance obligations. In the event that these discussions are not successful, the counterparty may assert claims for damages, and the Company could incur other cash and non-cash costs, which in the aggregate could exceed $100 million. The ultimate outcome of these discussions and the exact amount of the damages and costs, if any, to the Company cannot be predicted with certainty at this time. The Company s current estimate of these costs is included within its estimated fourth quarter 2010 merger-related costs described in Note 2, Merger and Related Matters, because the closing of the merger further impacts the Company s plans with respect to this agreement.

Commitments. During the first quarter of 2010, the Company executed definitive agreements to purchase 25 Boeing 787-8 Dreamliner aircraft and 25 Airbus A350 XWB aircraft, with future purchase rights for an additional 50 planes of each aircraft type, subject to availability of such aircraft at the time of exercise of the future purchase rights. The 25 Boeing 787-8 Dreamliner aircraft and 25 Airbus A350 XWB aircraft are expected to be delivered between 2016 and 2019. The Company has secured considerable backstop financing commitments from its aircraft and engine manufacturers, subject to certain customary conditions. The backstop financing commitments and the Company s deferral and substitution rights for the new aircraft are designed to allow the Company to manage changing market conditions throughout the aircraft delivery cycle. However, there is no guarantee that we will be able to obtain any or all of the backstop financing for the aircraft and engines on acceptable terms when necessary.

As of September 30, 2010, the Company had capital commitments of $7.7 billion that would require the payment of $75 million in the last three months of 2010, $200 million in 2011, $70 million in 2012, $70 million in 2013, $100 million in 2014 and $7.2 billion thereafter. These capital purchase commitments are primarily for the acquisition of the aforementioned aircraft, aircraft improvements, information technology assets and the relocation of the Company s operations center.

During the nine months ended September 30, 2010, the Company entered into a new lease of its San Francisco airport facility. The new lease begins July 1, 2011, and extends the Company s existing lease by ten years. Future rents are dependent on airport operating costs. Based on current airport rates, the new lease will increase the Company s future operating lease payments by approximately $34 million in 2011, $68 million in each of 2012, 2013 and 2014, and $442 million thereafter.

Municipal Bond Guarantees. The Company has guaranteed interest and principal payments on $270 million of the Denver International Airport bonds, which are due in 2032 unless the Company elects not to extend its lease in which case the bonds are due in 2023. The bonds were issued in two tranches, consisting of approximately $170 million aggregate principal amount of 5.25% discount bonds and $100 million aggregate principal amount of 5.75% premium bonds. The outstanding bonds and related guarantee are not recorded in the Company s Financial Statements at September 30, 2010 or December 31, 2009. The related lease expense is recorded on a straight-line basis resulting in ratable accrual of the final $270 million lease obligation over the expected lease term through 2032.

(14) Debt Obligations and Other Financing Transactions

As of September 30, 2010 and December 31, 2009, assets with a net carrying value of $8.5 billion and $8.0 billion, respectively, principally consisting of aircraft and related spare parts, route authorities and Mileage Plus intangible assets, were pledged under various loan and other agreements.

As described in the Company s 2009 Annual Report, UAL has $150 million face value 5% Senior Convertible Notes due in 2021 that may be redeemed at the noteholders option on February 1, 2011, and $726 million face value 4.5% Senior Limited-Subordination Convertible Notes due 2021 that may be redeemed at the noteholders option on June 30, 2011. As of September 30, 2010, UAL has included the net carrying value of these notes within the current portion of long-term debt, because the noteholders have the option to put the debt to the Company within one year. If a noteholder exercises the option, UAL may elect to the pay the repurchase price in cash, shares of its common stock or a combination thereof. These UAL instruments have been pushed down to United; therefore, the obligations are also reflected as a current obligation as of September 30, 2010 in United s Financial Statements.

Credit Facilities

The Company has a $255 million revolving loan commitment available under its Amended and Restated Revolving Credit, Term Loan and Guaranty Agreement, dated as of February 2, 2007 (the Amended Credit Facility). The Company used $252 million and $254 million of the commitment capacity for letters of credit at September 30, 2010 and December 31, 2009, respectively. In addition, under a separate agreement, the Company had $10 million and $20 million of letters of credit issued as of September 30, 2010 and December 31, 2009, respectively. Through a separate arrangement, the Company has an additional $150 million available under an unused credit facility.

Financing Transactions in 2010

In January 2010, United issued the remaining $612 million of equipment notes related to the Series 2009-1 EETCs of which $568 million was used to complete the prepayment of the remaining principal of the equipment notes issued in connection with the Series 2001-1 EETCs and the remaining proceeds of $44 million, before expenses and accrued interest due on the equipment notes related to the Series 2001-1 EETCs, provided the Company with incremental liquidity. During 2010, the Company received cash proceeds of $21 million, which was recorded as a nonoperating gain, from the distribution of the remaining Series 2001-1 EETC trust assets upon repayment of the note obligations.

In January 2010, United also issued the remaining $696 million of equipment notes related to the Series 2009-2 EETCs of which $493 million was used to prepay the remaining principal of the equipment notes issued in connection with the Series 2000-2 EETCs and the remaining proceeds of $203 million, before expenses and accrued interest due on the equipment notes related to the Series 2000-2 EETCs, provided the Company with incremental liquidity.

The EETC repayments discussed above combined with the portion of the Series 2009-1 and 2009-2 EETCs issued in 2009 reduced scheduled debt principal payments in 2010 and 2011 by approximately $440 million and $275 million, respectively. The equipment notes related to the Series 2009-1 and 2009-2 EETCs are secured by aircraft and have stated interest rates ranging from 9.75% to 12.0%.

In January 2010, the Company also issued $500 million aggregate principal amount of 9.875% Senior Secured Notes due 2013 and $200 million aggregate principal amount of 12.0% Senior Second Lien Notes due 2013 (together, the Senior Notes). The Senior Notes are secured by United s route authority to operate between the United States and Japan and beyond Japan to points in other countries, certain airport takeoff and landing slots and airport gate leaseholds utilized in connection with these routes. During the nine months ended September 30, 2010, the Company pledged certain aircraft, engines, flight simulators and certain domestic slots to secure its obligations under the Amended Credit Facility and to allow the release of the collateral securing the Company s obligations under the Senior Notes. In April 2010, the Company received $728 million upon perfection of the collateral securing the Company s obligations under the Senior Notes and satisfaction of certain other customary conditions. These proceeds are net of $28 million of issuance discount and fees and include the return of $56 million that had been placed in escrow by the Company pending completion of the financing.

In July 2010, the Company prepaid, with no prepayment penalty, its remaining capital lease obligations of $69 million on an aircraft financing. This prepayment unencumbered nine Airbus narrowbody aircraft. In August 2010, the Company prepaid, with no prepayment penalty, its debt obligations of $73 million with one of its regional affiliates. This prepayment unencumbered certain domestic slots and ground equipment.

On October 4, 2010, Continental notified certain noteholders of its intent to redeem $75 million principal amount of convertible notes at par plus accrued and unpaid interest on November 4, 2010. In lieu of this redemption, the noteholders may elect to convert their notes into shares of UAL common stock at a conversion price of $19.0476 per share.

Amended Credit Facility Covenants

The Company s Amended Credit Facility requires compliance with certain covenants, including a fixed charge coverage ratio. The required fixed charge coverage ratio is 1.5 to 1.0 for twelve month periods measured at the end of each calendar quarter. The Company was in compliance with this ratio and all of its Amended Credit Facility covenants as of September 30, 2010.

Although the Company was in compliance with all required financial covenants under the Amended Credit Facility as of September 30, 2010, continued compliance depends on many factors, some of which are beyond the Company s control, including the overall industry revenue environment and the level of fuel costs. There are no assurances that the Company will continue to comply with its debt covenants under the Amended Credit Facility. Failure to comply with applicable covenants in any reporting period would result in a default under the Amended Credit Facility, which could have a material adverse impact on the Company depending on the Company s ability to obtain a waiver of, or otherwise mitigate, the impact of the default.

Credit Card Processing Agreements

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

The Company s credit card processing agreement with Paymentech and JPMorgan Chase Bank, N.A. contains a cash reserve requirement. The amount of any such cash reserve will be determined based on the amount of unrestricted cash held by the Company as defined under the Amended Credit Facility. If the Company s unrestricted cash balance is at or more than $2.5 billion as of any calendar month-end measurement date, its required reserve will remain at $25 million. However, if the

Table of Contents

Company s unrestricted cash is less than $2.5 billion, its required reserve will increase to a percentage of relevant advance ticket sales. Based on the Company s September 30, 2010 unrestricted cash balance, the Company was not required to provide cash collateral above the current $25 million reserve balance.

Under the credit card processing agreement with American Express, the Company will be required to provide reserves based primarily on its unrestricted cash balance and net current exposure as of any calendar month-end measurement date. The agreement with American Express permits the Company to provide certain replacement collateral in lieu of cash collateral, as long as the Company s unrestricted cash is above $1.35 billion. Based on the Company s unrestricted cash balance at September 30, 2010, the Company was not required to provide any reserves under this agreement.

(15) Asset Impairments, Merger-related Costs and Special Items

For the three and nine month periods ended September 30, 2010 and 2009, asset impairment, merger-related costs and special items include the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Tradename impairments	$	$	$	$ 150
Aircraft and aircraft-related impairments	22	19	112	19
Merger-related costs	44		72	
LAX municipal bond litigation				27
Lease termination and other special items	(3)	24	3	54
Total asset impairments, merger-related costs and special items	$ 63	$ 43	$ 187	$ 250

In the three and nine month periods ended September 30, 2009, lease termination and other special items were primarily due to charges to accrue future rent obligations associated with the removal from service of the Company s B737 aircraft. The LAX municipal bond litigation charge of $27 million in the nine month period ended September 30, 2009 related to a pending legal matter that was unresolved upon the Company s emergence from bankruptcy in 2006.

For further information regarding merger and integration expenses, see Note 2, Merger and Related Matters, above. The Company s tradename and aircraft impairments in the table above were determined using fair value measurements. The table below provides additional information related to these fair value measurements during the nine month 2010 and 2009 periods, including the classification of these measurements within a fair value hierarchy as described in Note 11, Fair Value Measurements above.

(In millions)	**Fair Value Measurement Using Significant Unobservable Inputs (Level 3)**	**Total Gains/ (Losses) (Level 3)**
Nonfinancial assets measured at fair value on a nonrecurring basis:		
2010:		
Nonoperating aircraft	$ 157	$ (95)
Aircraft-related assets	$	$ (17)
2009:		
Tradenames	$ 420	$ (150)
Five B747 aircraft - nonoperating	184	(19)

26

On a quarterly basis, the Company reviews the carrying values of its five nonoperating B747 aircraft and approximately 30 nonoperating B737 aircraft, which are being marketed for sale, to assess whether the carrying values are recoverable. As a result of this assessment, in the second and third quarters of 2010, the carrying values of these nonoperating aircraft were reduced to estimated fair values and aircraft impairment charges of $73 million and $22 million, respectively, were recorded. The decline in estimated fair value during these quarters was due to the Company s observation of recent market transactions for similar aircraft. The Company primarily utilized a market approach to estimate the fair value of these aircraft; however, the market for these aircraft is not active and the Company s estimates required the use of unobservable inputs such as adjustments for the maintenance condition of the aircraft. As a result, this fair value measure was considered a Level 3 measurement. In addition, during the first quarter of 2010, the Company estimated that certain of its aircraft-related assets were fully impaired, resulting in a charge of $17 million. The aircraft impairment charges incurred in the 2009 periods were due to similar factors that resulted in the 2010 impairment charges.

The intangible asset impairments in the table above were due to interim impairment tests of the Company s tradenames performed in the first and second quarters of 2009. The Company performed interim impairment tests due to events and changes in circumstances during those periods that indicated an impairment might have occurred. The primary factor deemed by management to have constituted a potential impairment triggering event was a significant decline in unit revenues experienced in the 2009 periods. The Company estimated the fair value of its tradenames using a discounted cash flow model. The key inputs to the discounted cash flow model were the Company s historical and estimated future revenues, an assumed royalty rate and discount rate among others. While certain of these inputs are observable, significant judgment was required to select certain inputs from observable and unobservable market data. This fair value measurement was considered a Level 3 measurement. The decrease in fair value of the tradenames was due to estimated lower revenues resulting from the weak economic environment and the Company s capacity reductions, among other factors.

Due to extreme fuel price volatility, the uncertain economic environment, including credit market conditions, as well as other uncertainties, the Company can provide no assurance that a material impairment of its tangible or intangible assets will not occur in a future period. The Company will continue to monitor circumstances and events in future periods to determine whether additional asset impairment testing is warranted.

Table of Contents

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

The Company s operations consist primarily of the transportation of persons, property and mail throughout the U.S. and abroad. United provides these services through full-sized jet aircraft (which we refer to as its Mainline operations), as well as smaller aircraft in its regional operations (aircraft having 70 or fewer seats) conducted under contract by United Express® carriers. The Company is one the largest passenger airlines in the world and serves virtually every major market around the world, either directly or through participation in the Star Alliance®, the world s largest airline network. Based on flight schedules from October 2010 to October 2011, United Continental Holdings, Inc. offers approximately 5,800 daily departures to 372 destinations through its United and Continental subsidiaries and these subsidiaries regional affiliates. Including regional flights operated on its behalf, United offers approximately 3,400 daily departures to 231 destinations.

This Quarterly Report on Form 10-Q is a combined report of UAL and United including their respective unaudited condensed consolidated financial statements (the Financial Statements). As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL as included within the *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)* (the Footnotes), unless otherwise noted. United s operating revenues and operating expenses comprise nearly 100% of UAL s pre-merger revenues and operating expenses. In addition, United comprises substantially all of UAL s pre-merger assets, liabilities and operating cash flows. Therefore, the following qualitative discussion is applicable to both UAL and United, unless otherwise noted. Any significant differences between UAL and United results are separately disclosed and explained. United meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format allowed under that General Instruction.

Recent Developments.

Merger

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

We expect the merger to deliver $1.0 billion to $1.2 billion in net annual synergies on a run-rate basis by 2013, including between $800 million and $900 million of incremental annual revenues, in large part from expanded customer options resulting from the greater scope and scale of the network, and additional international service enabled by the broader network of the combined carrier. Expected synergies are in addition to the significant benefits derived from our participation in Star Alliance and expected from the related joint venture relationships. We expect the combined company to realize between $200 million and $300 million of net cost synergies on a run-rate basis by 2013. We also expect that the combined company will incur substantial expenses in connection with the merger. While we have assumed that a certain level of merger-related expenses will be incurred, there are many factors that could affect the total amount or the timing of those expenses, and many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that the combined company expects to achieve from the merger and likely will result in the combined company taking significant charges against earnings following the completion of the merger. In addition to transactional merger-related charges, the Company expects to incur material merger-related charges related to impairment of duplicative assets, contract termination costs, severance costs and accelerated share-based compensation, among others. The amount and timing of such charges are uncertain at present; however, the Company has already estimated certain of these charges as described in Note 2, Merger and Related Matters. The merger and certain other possible future transactions involving the sale

Table of Contents

or issuance of UAL common stock may impact the Company s ability to use its NOL carryforwards to offset future taxable income for U.S. federal income tax purposes. See Note 2, Merger and Related Matters and Item 1A, Risk Factors for additional information. As the merger occurred subsequent to September 30, 2010, Management s Discussion and Analysis of Financial Condition and Results of Operations does not include a discussion of the financial condition or results of operations of Continental.

Trans-Pacific Joint Venture. On October 6, 2010, United, Continental and All Nippon Airways received tentative antitrust immunity under a show-cause order from the DOT to enable the three carriers to establish a trans-Pacific joint venture.

Air Canada Joint Venture. On September 10, 2010, United and Air Canada entered into a memorandum of understanding to establish a revenue-sharing joint venture, expected to be effective in early 2011, subject to United and Air Canada making the necessary filings, obtaining regulatory approvals and finalizing documentation. The two carriers already benefit from antitrust immunity granted by the DOT.

The Company also has a trans-Atlantic joint venture, which is discussed below.

Summary of Financial Results. The air travel business is subject to seasonal fluctuations. Historically, the Company s results of operations are better in the second and third quarters as compared to the first and fourth quarters of each year, since its first and fourth quarter results normally reflect weaker travel demand. In addition, the Company s results of operations may be impacted by fuel price volatility, adverse weather, air traffic control delays, economic conditions and other factors in any period.

The table below highlights significant changes in the Company s results in the three and nine months ended September 30, 2010 as compared to the year-ago periods. See *Results of Operations*, below, for additional information regarding year-over-year changes in our financial results. Operating revenues improved in 2010 as compared to 2009 as the Company began to benefit from capacity reductions and improved economic conditions, which contributed to an increase in business travel, premium service demand and yields. In the nine months ended September 30, 2010, consolidated yield increased 18% and consolidated traffic increased 4% despite flat capacity, as compared to the year-ago period. The revenue benefit was partially offset by increased consolidated fuel expense, which was primarily due to an increase in market prices for fuel in the 2010 periods and higher net hedge gains in the year-ago periods. In addition, other revenue-driven expenditures such as distribution costs increased, partially offsetting the revenue gains.

	Three Months Ended September 30,				Nine Months Ended September 30,			
			Favorable (unfavorable)				Favorable (unfavorable)	
(In millions)	**2010**	**2009**	**$ Change**	**% Change**	**2010**	**2009**	**$ Change**	**% Change**
UAL Information								
Total revenues	$ 5,394	$ 4,433	$ 961	21.7	$ 14,796	$ 12,142	$ 2,654	21.9
Mainline fuel purchase cost	1,170	997	(173)	(17.4)	3,291	2,558	(733)	(28.7)
Operating non-cash undesignated fuel hedge (gains) losses	12	(25)	(37)	NM	18	(521)	(539)	NM
Operating cash fuel hedge losses	60	92	32	34.8	89	491	402	81.9
Regional Affiliates fuel expense (a)	292	222	(70)	(31.5)	829	564	(265)	(47.0)
Asset impairments, merger-related costs and special charges (see below)	63	43	(20)	(46.5)	187	250	63	25.2
Severance and other charges (see below)	11	17	6	35.3	29	17	(12)	(70.6)
Other operating expenses	3,251	2,999	(252)	(8.4)	9,315	8,870	(445)	(5.0)
Nonoperating non-cash undesignated fuel hedge (gains)		(34)	(34)	(100.0)		(241)	(241)	(100.0)
Nonoperating cash fuel hedge losses		39	39	100.0		215	215	100.0
Other nonoperating expense (b)	148	144	(4)	(2.8)	461	396	(65)	(16.4)
Income tax (benefit)		(4)	(4)	(100.0)	(1)	(46)	(45)	(97.8)
Net income (loss)	$ 387	$ (57)	$ 444	NM	$ 578	$ (411)	$ 989	NM

United net income (loss)	$	399	$	(55)	$	454	NM	$	606	$	(405)	$ 1,011	NM

(a) Regional Affiliates fuel expense is classified as part of Regional Affiliates expense in the Company s Financial Statements.
(b) Includes equity in earnings of affiliates.
NM Not meaningful

Details of significant items impacting the Company s results include:

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Income statement classification
Intangible asset impairments	$	$	$	$ 150	
Aircraft and aircraft-related impairments	22	19	112	19	
Merger-related costs	44		72		
LAX municipal bond litigation				27	
Lease termination and other special items	(3)	24	3	54	
Total asset impairments, merger-related costs and special items	63	43	187	250	Impairments, merger-related costs and special items
Severance	2	22	1	23	Salaries and related costs
Employee benefit obligation adjustment				(33)	Salaries and related costs
(Gain) loss on asset sales	5	(11)	15	(11)	Other operating expenses
Accelerated depreciation related to early asset retirement	4	6	13	38	Depreciation and amortization
Severance and other charges	11	17	29	17	
Total asset impairments, merger-related costs, special items and other charges	74	60	216	267	
Operating non-cash (gains) losses on undesignated fuel hedges	12	(25)	18	(521)	Aircraft fuel
Nonoperating non-cash fuel hedge (gains) on undesignated fuel hedges		(34)		(241)	Miscellaneous, net
Total non-cash fuel hedge (gains) losses on undesignated fuel hedges	12	(59)	18	(762)	
Income taxes related to impairments and other charges		(4)	(1)	(46)	Income taxes
Total asset impairments, merger-related costs and other charges and non-cash fuel hedge gains/losses on undesignated fuel hedges	$ 86	$ (3)	$ 233	$ (541)	

Table of Contents

The table below shows Mainline fuel and non-fuel unit costs in the third quarter of 2010 as compared to the year-ago period. Fuel costs are mostly uncontrollable by the Company.

(In millions, except unit costs)	Three Months Ended September 30, 2010	2009	2010 expense per ASM (in cents)	2009 expense per ASM (in cents)	% change per ASM
Mainline ASMs	32,431	32,193			
Mainline fuel expense	$ 1,242	$ 1,064	3.83	3.31	15.7
Asset impairments, merger-related costs, special items and other charges (see above)	74	60	0.23	0.19	21.1
Other operating expenses	2,629	2,446	8.10	7.59	6.7
Total Mainline operating expense	3,945	3,570	12.16	11.09	9.6
Regional Affiliates expense	914	775			
Consolidated operating expense	$ 4,859	$ 4,345			

Liquidity. The following table provides a summary of UAL s cash flows from operating, financing and investing activities for the nine months ended September 30, 2010 and 2009 and its total cash and restricted cash at September 30, 2010 and December 31, 2009.

		Nine Months Ended September 30, 2010	2009
Net cash provided by operating activities		$ 1,801	$ 878
Net cash used by investing activities			