

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

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

FORM 10-Q

(Mark One)

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

OR

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

Exact Name of Registrant as

Specified in its Charter, Principal

Commission

Executive Office Address and

State of

I.R.S. Employer

File Number
001-06033

Telephone Number
United Continental Holdings, Inc.

Incorporation
Delaware

Identification No.
36-2675207

233 South Wacker Drive,
Chicago, Illinois 60606

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001-10323

(872) 825-4000
 United Airlines, Inc.

Delaware

74-2099724

233 South Wacker Drive,

Chicago, Illinois 60606

(872) 825-4000

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

United Continental Holdings, Inc. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 United Airlines, Inc. Large accelerated filer Accelerated filer Non-accelerated filer 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
 United Airlines, Inc. Yes No

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

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

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

OMISSION OF CERTAIN INFORMATION

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

Table of Contents

United Continental Holdings, Inc.

United Airlines, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2016

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	
<u>Financial Statements</u>	
United Continental Holdings, Inc.:	
<u>Statements of Consolidated Operations</u>	3
<u>Statements of Consolidated Comprehensive Income (Loss)</u>	4
<u>Consolidated Balance Sheets</u>	5
<u>Condensed Statements of Consolidated Cash Flows</u>	7
United Airlines, Inc.:	
<u>Statements of Consolidated Operations</u>	8
<u>Statements of Consolidated Comprehensive Income (Loss)</u>	9
<u>Consolidated Balance Sheets</u>	10
<u>Condensed Statements of Consolidated Cash Flows</u>	12
<u>Combined Notes to Condensed Consolidated Financial Statements</u> <u>(United Continental Holdings, Inc. and United Airlines, Inc.)</u>	13
Item 2.	26
Item 3.	38
Item 4.	39
<u>PART II. OTHER INFORMATION</u>	
Item 1A.	40
Item 2.	41
Item 6.	41
<u>Signatures</u>	42
<u>Exhibit Index</u>	43

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

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

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Earnings per share, diluted	\$ 3.01	\$ 12.82	\$ 5.57	\$ 17.15
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The accompanying Combined Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents**UNITED CONTINENTAL HOLDINGS, INC.****STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****(In millions)**

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

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

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

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

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

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

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

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

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

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

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

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