

United Continental Holdings, Inc.
Form 10-Q
July 23, 2015

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 June 30, 2015

OR

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

| Commission | Executive Office Address and | State of | I.R.S. Employer |
|--------------------------|---|---------------------------|----------------------------------|
| File Number 001-06033 | Telephone Number United Continental Holdings, Inc. 233 South Wacker Drive, Chicago, Illinois 60606 (872) 825-4000 | Incorporation Delaware | Identification No. 36-2675207 |

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

001-10323

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 July 14, 2015 is shown below:

United Continental Holdings, Inc. 377,762,286 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 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.

United Continental Holdings, Inc.

United Airlines, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2015

| | Page |
|---|---|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. | <u>Financial Statements</u> |
| | United Continental Holdings, Inc.: |
| | <u>Statements of Consolidated Operations</u> 3 |
| | <u>Statements of Consolidated Comprehensive Income (Loss)</u> 4 |
| | <u>Consolidated Balance Sheets</u> 5 |
| | <u>Condensed Statements of Consolidated Cash Flows</u> 7 |
| | United Airlines, Inc.: |
| | <u>Statements of Consolidated Operations</u> 8 |
| | <u>Statements of Consolidated Comprehensive Income (Loss)</u> 9 |
| | <u>Consolidated Balance Sheets</u> 10 |
| | <u>Condensed Statements of Consolidated Cash Flows</u> 12 |
| | <u>Combined Notes to Condensed Consolidated Financial Statements</u> |
| | <u>(United Continental Holdings, Inc. and United Airlines, Inc.)</u> 13 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 27 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 39 |
| Item 4. | <u>Controls and Procedures</u> 40 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. | <u>Legal Proceedings</u> 41 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 41 |
| Item 6. | <u>Exhibits</u> 41 |
| | <u>Signatures</u> 42 |
| | <u>Exhibit Index</u> 43 |

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 June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating revenue: | | | | |
| Passenger Mainline | \$ 6,961 | \$ 7,148 | \$ 12,899 | \$ 12,996 |
| Passenger Regional | 1,715 | 1,833 | 3,197 | 3,369 |
| Total passenger revenue | 8,676 | 8,981 | 16,096 | 16,365 |
| Cargo | 229 | 232 | 471 | 441 |
| Other operating revenue | 1,009 | 1,116 | 1,955 | 2,219 |
| | 9,914 | 10,329 | 18,522 | 19,025 |
| Operating expense: | | | | |
| Salaries and related costs | 2,454 | 2,187 | 4,755 | 4,340 |
| Aircraft fuel | 2,106 | 3,101 | 3,970 | 6,018 |
| Regional capacity purchase | 583 | 591 | 1,153 | 1,150 |
| Landing fees and other rent | 553 | 567 | 1,096 | 1,139 |
| Depreciation and amortization | 445 | 417 | 874 | 826 |
| Aircraft maintenance materials and outside repairs | 431 | 471 | 828 | 929 |
| Distribution expenses | 348 | 346 | 660 | 664 |
| Aircraft rent | 194 | 222 | 395 | 446 |
| Special charges (Note 10) | 55 | 169 | 119 | 221 |
| Other operating expenses | 1,300 | 1,352 | 2,486 | 2,735 |
| | 8,469 | 9,423 | 16,336 | 18,468 |
| Operating income | 1,445 | 906 | 2,186 | 557 |
| Nonoperating income (expense): | | | | |
| Interest expense | (167) | (186) | (340) | (373) |
| Interest capitalized | 13 | 13 | 25 | 27 |
| Interest income | 6 | 4 | 11 | 9 |
| Miscellaneous, net (Note 10) | (100) | 54 | (174) | (35) |
| | (248) | (115) | (478) | (372) |
| Income before income taxes | 1,197 | 791 | 1,708 | 185 |
| Income tax expense | 4 | 2 | 7 | 5 |
| Net income | \$ 1,193 | \$ 789 | \$ 1,701 | \$ 180 |
| Earnings per share, basic | \$ 3.14 | \$ 2.12 | \$ 4.46 | \$ 0.48 |
| Earnings per share, diluted | \$ 3.14 | \$ 2.01 | \$ 4.45 | \$ 0.47 |

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

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

UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 1,193 | \$ 789 | \$ 1,701 | \$ 180 |
| Other comprehensive income (loss), net change related to: | | | | |
| Fuel derivative financial instruments | 147 | 32 | 233 | 25 |
| Employee benefit plans | 28 | (18) | 30 | (39) |
| Investments and other | (10) | (5) | 4 | (5) |
| | 165 | 9 | 267 | (19) |
| Total comprehensive income, net | \$ 1,358 | \$ 798 | \$ 1,968 | \$ 161 |

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

UNITED CONTINENTAL HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

| | (Unaudited) | |
|---|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,796 | \$ 2,002 |
| Short-term investments | 2,189 | 2,382 |
| Receivables, less allowance for doubtful accounts (2015 \$22; 2014 \$22) | 1,471 | 1,146 |
| Fuel hedge collateral deposits | 181 | 577 |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2015 \$187; 2014 \$169) | 656 | 666 |
| Deferred income taxes | 619 | 591 |
| Prepaid expenses and other | 881 | 774 |
| | 8,793 | 8,138 |
| Operating property and equipment: | | |
| Owned | | |
| Flight equipment | 22,555 | 21,107 |
| Other property and equipment | 4,220 | 4,016 |
| | 26,775 | 25,123 |
| Less Accumulated depreciation and amortization | (7,726) | (7,079) |
| | 19,049 | 18,044 |
| Purchase deposits for flight equipment | | |
| | 951 | 706 |
| Capital leases | | |
| Flight equipment | 1,300 | 1,272 |
| Other property and equipment | 332 | 331 |
| | 1,632 | 1,603 |
| Less Accumulated amortization | (931) | (886) |
| | 701 | 717 |
| | 20,701 | 19,467 |
| Other assets: | | |
| Goodwill | 4,523 | 4,523 |
| Intangibles, less accumulated amortization (2015 \$1,093; 2014 \$1,049) | 4,220 | 4,284 |
| Restricted cash | 214 | 276 |
| Other, net | 916 | 665 |
| | 9,873 | 9,748 |
| | \$ 39,367 | \$ 37,353 |

UNITED CONTINENTAL HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

| | (Unaudited) | |
|---|---------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Advance ticket sales | \$ 5,175 | \$ 3,701 |
| Frequent flyer deferred revenue | 2,116 | 2,058 |
| Accounts payable | 2,322 | 1,882 |
| Accrued salaries and benefits | 1,846 | 1,818 |
| Current maturities of long-term debt | 1,047 | 1,313 |
| Current maturities of capital leases | 111 | 110 |
| Fuel derivative instruments | 401 | 694 |
| Other | 792 | 932 |
| | 13,810 | 12,508 |
| Long-term debt | 9,938 | 10,121 |
| Long-term obligations under capital leases | 563 | 571 |
| Other liabilities and deferred credits: | | |
| Frequent flyer deferred revenue | 2,873 | 2,879 |
| Postretirement benefit liability | 1,927 | 1,933 |
| Pension liability | 1,468 | 2,226 |
| Advanced purchase of miles | 1,124 | 1,217 |
| Deferred income taxes | 1,623 | 1,591 |
| Lease fair value adjustment, net | 410 | 466 |
| Other | 1,509 | 1,445 |
| | 10,934 | 11,757 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock | | |
| Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 378,838,875 and 374,525,916 shares at June 30, 2015 and December 31, 2014, respectively | 4 | 4 |
| Additional capital invested | 7,938 | 7,721 |
| Accumulated deficit | (2,182) | (3,883) |
| Stock held in treasury, at cost | (826) | (367) |
| Accumulated other comprehensive income (loss) | (812) | (1,079) |
| | 4,122 | 2,396 |
| | \$ 39,367 | \$ 37,353 |

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

UNITED CONTINENTAL HOLDINGS, INC.

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

(In millions)

| | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities: | | |
| Net cash provided by operating activities | \$ 3,577 | \$ 2,158 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (1,311) | (953) |
| Purchases of short-term and other investments | (1,202) | (2,076) |
| Proceeds from sale of short-term and other investments | 1,397 | 1,602 |
| Investment in affiliates | (130) | |
| Proceeds from sale of property and equipment | 36 | 43 |
| Other, net | 37 | 52 |
| Net cash used in investing activities | (1,173) | (1,332) |
| Cash Flows from Financing Activities: | | |
| Payments of long-term debt | (1,319) | (912) |
| Repurchases of common stock | (445) | |
| Proceeds from issuance of long-term debt | 228 | 395 |
| Principal payments under capital leases | (53) | (58) |
| Other, net | (21) | (47) |
| Net cash used in financing activities | (1,610) | (622) |
| Net increase in cash and cash equivalents | 794 | 204 |
| Cash and cash equivalents at beginning of the period | 2,002 | 3,220 |
| Cash and cash equivalents at end of the period | \$ 2,796 | \$ 3,424 |
| Investing and Financing Activities Not Affecting Cash: | | |
| Property and equipment acquired through the issuance of debt and capital leases | \$ 776 | \$ 658 |
| Exchanges of certain convertible notes for common stock | 201 | 202 |

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

UNITED AIRLINES, INC.

STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

(In millions)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating revenue: | | | | |
| Passenger Mainline | \$ 6,961 | \$ 7,148 | \$ 12,899 | \$ 12,996 |
| Passenger Regional | 1,715 | 1,833 | 3,197 | 3,369 |
| Total passenger revenue | 8,676 | 8,981 | 16,096 | 16,365 |
| Cargo | 229 | 232 | 471 | 441 |
| Other operating revenue | 1,009 | 1,116 | 1,955 | 2,219 |
| | 9,914 | 10,329 | 18,522 | 19,025 |
| Operating expense: | | | | |
| Salaries and related costs | 2,454 | 2,187 | 4,755 | 4,340 |
| Aircraft fuel | 2,106 | 3,101 | 3,970 | 6,018 |
| Regional capacity purchase | 583 | 591 | 1,153 | 1,150 |
| Landing fees and other rent | 553 | 567 | 1,096 | 1,139 |
| Depreciation and amortization | 445 | 417 | 874 | 826 |
| Aircraft maintenance materials and outside repairs | 431 | 471 | 828 | 929 |
| Distribution expenses | 348 | 346 | 660 | 664 |
| Aircraft rent | 194 | 222 | 395 | 446 |
| Special charges (Note 10) | 55 | 169 | 119 | 221 |
| Other operating expenses | 1,299 | 1,352 | 2,485 | 2,727 |
| | 8,468 | 9,423 | 16,335 | 18,460 |
| Operating income | 1,446 | 906 | 2,187 | 565 |
| Nonoperating income (expense): | | | | |
| Interest expense | (167) | (188) | (340) | (377) |
| Interest capitalized | 13 | 13 | 25 | 27 |
| Interest income | 6 | 4 | 11 | 9 |
| Miscellaneous, net (Note 10) | (101) | 36 | (175) | (30) |
| | (249) | (135) | (479) | (371) |
| Income before income taxes | 1,197 | 771 | 1,708 | 194 |
| Income tax expense | 4 | 2 | 6 | 5 |
| Net income | \$ 1,193 | \$ 769 | \$ 1,702 | \$ 189 |

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

UNITED AIRLINES, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|--------|---------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 1,193 | \$ 769 | \$ 1,702 | \$ 189 |
| Other comprehensive income (loss), net change related to: | | | | |
| Fuel derivative financial instruments | 147 | 32 | 233 | 25 |
| Employee benefit plans | 28 | (18) | 30 | (39) |
| Investments and other | (9) | (6) | 5 | (5) |
| | 166 | 8 | 268 | (19) |
| Total comprehensive income, net | \$ 1,359 | \$ 777 | \$ 1,970 | \$ 170 |

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

UNITED AIRLINES, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

| | (Unaudited) June 30, 2015 | December 31, 2014 |
|--|------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,790 | \$ 1,996 |
| Short-term investments | 2,189 | 2,382 |
| Receivables, less allowance for doubtful accounts (2015 \$22; 2014 \$22) | 1,471 | 1,146 |
| Fuel hedge collateral deposits | 181 | 577 |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2015 \$187; 2014 \$169) | 656 | 666 |
| Deferred income taxes | 619 | 591 |
| Prepaid expenses and other | 929 | 823 |
| | 8,835 | 8,181 |
| Operating property and equipment: | | |
| Owned | | |
| Flight equipment | 22,555 | 21,107 |
| Other property and equipment | 4,220 | 4,016 |
| | 26,775 | 25,123 |
| Less Accumulated depreciation and amortization | (7,726) | (7,079) |
| | 19,049 | 18,044 |
| Purchase deposits for flight equipment | | |
| | 951 | 706 |
| Capital leases | | |
| Flight equipment | 1,300 | 1,272 |
| Other property and equipment | 332 | 331 |
| | 1,632 | 1,603 |
| Less Accumulated amortization | (931) | (886) |
| | 701 | 717 |
| | 20,701 | 19,467 |
| Other assets: | | |
| Goodwill | 4,523 | 4,523 |
| Intangibles, less accumulated amortization (2015 \$1,093; 2014 \$1,049) | 4,220 | 4,284 |
| Restricted cash | 214 | 276 |
| Other, net | 916 | 1,377 |
| | 9,873 | 10,460 |
| | \$ 39,409 | \$ 38,108 |

(continued on next page)

UNITED AIRLINES, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

| | (Unaudited) June 30, 2015 | December 31, 2014 |
|---|------------------------------|-------------------|
| LIABILITIES AND STOCKHOLDER S EQUITY | | |
| Current liabilities: | | |
| Advance ticket sales | \$ 5,175 | \$ 3,701 |
| Frequent flyer deferred revenue | 2,116 | 2,058 |
| Accounts payable | 2,327 | 1,886 |
| Accrued salaries and benefits | 1,846 | 1,818 |
| Current maturities of long-term debt | 1,047 | 1,313 |
| Current maturities of capital leases | 111 | 110 |
| Fuel derivative instruments | 401 | 694 |
| Other | 791 | 933 |
| | 13,814 | 12,513 |
| Long-term debt | 9,938 | 10,120 |
| Long-term obligations under capital leases | 563 | 571 |
| Other liabilities and deferred credits: | | |
| Frequent flyer deferred revenue | 2,873 | 2,879 |
| Postretirement benefit liability | 1,927 | 1,933 |
| Pension liability | 1,468 | 2,226 |
| Advanced purchase of miles | 1,124 | 1,217 |
| Deferred income taxes | 1,623 | 1,591 |
| Lease fair value adjustment, net | 410 | 466 |
| Other | 1,509 | 1,957 |
| | 10,934 | 12,269 |
| Commitments and contingencies | | |
| Stockholder s equity: | | |
| Common stock at par, \$0.01 par value; authorized 1,000 shares; issued and outstanding 1,000 shares at both June 30, 2015 and December 31, 2014 | | |
| Additional capital invested | 6,912 | 7,347 |
| Accumulated deficit | (1,926) | (3,628) |
| Accumulated other comprehensive income (loss) | (811) | (1,079) |
| Receivable from related parties | (15) | (5) |
| | 4,160 | 2,635 |
| | \$ 39,409 | \$ 38,108 |

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

UNITED AIRLINES, INC.

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

(In millions)

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities: | | |
| Net cash provided by operating activities | \$ 3,568 | \$ 2,149 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (1,311) | (953) |
| Purchases of short-term investments and other investments | (1,202) | (2,076) |
| Proceeds from sale of short-term and other investments | 1,397 | 1,602 |
| Investment in affiliates | (130) | |
| Proceeds from sale of property and equipment | 36 | 43 |
| Other, net | 37 | 52 |
| Net cash used in investing activities | (1,173) | (1,332) |
| Cash Flows from Financing Activities: | | |
| Payments of long-term debt | (1,319) | (912) |
| Dividend to UAL | (445) | |
| Proceeds from issuance of long-term debt | 228 | 395 |
| Principal payments under capital leases | (53) | (58) |
| Other, net | (12) | (38) |
| Net cash used in financing activities | (1,601) | (613) |
| Net increase in cash and cash equivalents | 794 | 204 |
| Cash and cash equivalents at beginning of the period | 1,996 | 3,214 |
| Cash and cash equivalents at end of the period | \$ 2,790 | \$ 3,418 |
| Investing and Financing Activities Not Affecting Cash: | | |
| Property and equipment acquired through the issuance of debt and capital leases | \$ 776 | \$ 658 |
| Transfer of UAL subsidiaries to United | | 186 |
| Conversion of convertible notes to UAL common stock | | 156 |

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

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

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The UAL and United unaudited condensed consolidated financial statements shown here have been prepared as required by the U.S. Securities and Exchange Commission (the SEC). Some information and footnote disclosures normally included in financial statements that comply with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted as permitted by the SEC. The financial statements include all adjustments, including normal recurring adjustments and other adjustments, which are considered necessary for a fair presentation of the Company's financial position and results of operations. The UAL and United financial statements should be read together with the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Annual Report). The Company's quarterly financial data is subject to seasonal fluctuations and historically its second and third quarter financial results, which reflect higher travel demand, are better than its first and fourth quarter financial results.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Recently Issued Accounting Standards. The Financial Accounting Standards Board (FASB) amended the FASB Accounting Standards Codification and created a new Topic 606, *Revenue from Contracts with Customers*. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification, and is effective for annual reporting periods beginning after December 15, 2017. The FASB also approved permitting early adoption of the standard, but not before January 1, 2017. The Company is evaluating the impact on its financial statements and whether to adopt this standard early.

The FASB issued Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. As of June 30, 2015, the Company had approximately \$185 million of unamortized debt issuance costs recorded as an asset on its balance sheet classified as Other, net. The Company will reclassify the unamortized debt issuance costs and present debt net of those unamortized costs on its balance sheet upon adoption of this standard.

The FASB issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the standard, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient will no longer be categorized in the fair value hierarchy. It is effective for fiscal years and interim periods beginning after December 15, 2015, but early adoption is permitted. As of June 30, 2015, the Company had approximately \$200 million of such investments as part of its Short-term investments balance sheet total. In addition, pension plan investments measured at net asset value per share, if any, will no longer be categorized within the fair value hierarchy beginning with the Company's Annual Report on Form 10-K for the year ending December 31, 2015. The Company is evaluating the impact the adoption of this standard will have on its financial statements for both Short-term investments and pension plan investment balance sheet totals.

NOTE 2 - EARNINGS PER SHARE

The table below represents the computation of UAL's basic and diluted earnings per share amounts and the number of securities that have been excluded from the computation of diluted earnings per share amounts because they were antidilutive (in millions, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Basic earnings per share: | | | | |
| Earnings available to common stockholders | \$ 1,193 | \$ 789 | \$ 1,701 | \$ 180 |
| Basic weighted-average shares outstanding | 380 | 373 | 381 | 371 |
| Earnings per share, basic | \$ 3.14 | \$ 2.12 | \$ 4.46 | \$ 0.48 |
| Diluted earnings per share: | | | | |
| Earnings available to common stockholders | \$ 1,193 | \$ 789 | \$ 1,701 | \$ 180 |
| Effect of convertible notes | | 7 | | 6 |
| Earnings available to common stockholders including the effect of dilutive securities | \$ 1,193 | \$ 796 | \$ 1,701 | \$ 186 |
| Diluted shares outstanding: | | | | |
| Basic weighted-average shares outstanding | 380 | 373 | 381 | 371 |
| Effect of convertible notes | | 22 | | 21 |
| Effect of restricted stock and employee stock options | | 1 | 1 | |
| Diluted weighted-average shares outstanding | 380 | 396 | 382 | 392 |
| Earnings per share, diluted | \$ 3.14 | \$ 2.01 | \$ 4.45 | \$ 0.47 |
| Potentially dilutive shares excluded from diluted per share amounts: | | | | |
| Restricted stock and stock options | | 1 | | 2 |
| Convertible notes | | | | 4 |

In January 2015, the holders of substantially all of the remaining \$202 million principal amount of United's 4.5% Convertible Notes due 2015 (the 4.5% Convertible Notes) exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock. There is no convertible debt outstanding as of June 30, 2015.

In 2014, UAL's Board of Directors authorized a share repurchase program to acquire up to \$1 billion of UAL's common stock. UAL spent \$250 million and \$450 million to repurchase approximately 4.4 million and 7.3 million shares of UAL common stock in open market transactions in the three and six months ended June 30, 2015, respectively. As of June 30, 2015, the Company has \$230 million remaining to spend under the share repurchase program. On July 21, 2015, UAL's Board of Directors authorized a new \$3 billion share repurchase program, which the Company expects to complete by December 31, 2017. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2.,

Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

NOTE 3 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

| UAL (a) | Pension and Other Postretirement Liabilities | Derivative Contracts | Investments and Other | Total |
|----------------------------------|---|-------------------------|--------------------------|------------|
| Balance at March 31, 2015 | \$ (585) | \$ (413) | \$ 21 | \$ (977) |
| Changes in value | 20 | 29 | (10) | 39 |
| Amounts reclassified to earnings | 8 | 118 | | 126 |
| Net change | 28 | 147 | (10) | 165 |
| Balance at June 30, 2015 | \$ (557) | \$ (266) | \$ 11 | \$ (812) |
| Balance at December 31, 2014 | \$ (587) | \$ (499) | \$ 7 | \$ (1,079) |
| Changes in value | 12 | (46) | 5 | (29) |
| Amounts reclassified to earnings | 18 | 279 | (1) | 296 |
| Net change | 30 | 233 | 4 | 267 |
| Balance at June 30, 2015 | \$ (557) | \$ (266) | \$ 11 | \$ (812) |

| UAL (a) | Pension and Other Postretirement Liabilities | Derivative Contracts | Investments and Other | Total |
|----------------------------------|---|-------------------------|--------------------------|--------|
| Balance at March 31, 2014 | \$ 563 | \$ 4 | \$ 13 | \$ 580 |
| Changes in value | | 31 | 1 | 32 |
| Amounts reclassified to earnings | (18) | 1 | (6) | (23) |
| Net change | (18) | 32 | (5) | 9 |
| Balance at June 30, 2014 | \$ 545 | \$ 36 | \$ 8 | \$ 589 |
| Balance at December 31, 2013 | \$ 584 | \$ 11 | \$ 13 | \$ 608 |
| Changes in value | (5) | 21 | 1 | 17 |
| Amounts reclassified to earnings | (34) | 4 | (6) | (36) |
| Net change | (39) | 25 | (5) | (19) |
| Balance at June 30, 2014 | \$ 545 | \$ 36 | \$ 8 | \$ 589 |

| Details about AOCI Components | Amount Reclassified from AOCI to Income | | | | Affected Line Item in the Statements of Consolidated Operations |
|--|--|------|------------------------------|------|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
| | 2015 | 2014 | 2015 | 2014 | |
| Derivatives designated as cash flow hedges | | | | | |

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

| | | | | | |
|---|--------|---------|--------|---------|----------------------------|
| Fuel contracts-reclassifications of (gains) losses into earnings (b) | \$ 118 | \$ 1 | \$ 279 | \$ 4 | Aircraft fuel |
| Amortization of pension and post-retirement items | | | | | |
| Amortization of unrecognized (gains) losses and prior service cost (credit) (b) (c) | \$ 8 | \$ (18) | \$ 18 | \$ (34) | Salaries and related costs |
| Investments and other | | | | | |
| Available for sale securities-reclassifications of gains into earnings (b) | \$ | \$ (6) | \$ (1) | \$ (6) | Miscellaneous, net |

(a) UAL and United amounts are substantially the same except for additional gains (losses) related to investments and other of \$1 million at United for the three and six months ended June 30, 2015 and \$(1) million at United for the three months ended June 30, 2014.

(b) Income tax expense for these items was offset by the Company's valuation allowance.

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

NOTE 4 - INCOME TAXES

Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of changes to existing valuation allowances. We continue 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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible. The Company's management assesses available positive and negative evidence regarding the Company's ability to realize its deferred tax assets and records a valuation allowance when it is more likely than not that deferred tax assets will not be realized. To form a conclusion, management considers positive evidence in the form of reversing temporary differences, projections of future taxable income and tax planning strategies and negative evidence such as historical losses. Although the Company is not in a three-year cumulative loss position at June 30, 2015, management has determined that the low level of cumulative pre-tax income, combined with the Company's history of operating losses resulted in a determination that a valuation allowance is still necessary. Management will continue to evaluate future financial performance to determine whether such performance is both sustained and significant enough to provide sufficient evidence to support reversal of the valuation allowance. The valuation allowance balance at June 30, 2015 was \$4.1 billion.

NOTE 5 - EMPLOYEE BENEFIT PLANS

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

| | Pension Benefits | | Other Postretirement Benefits | |
|--|---------------------------|--------------|--------------------------------------|-------------|
| | Three Months Ended | | Three Months Ended | |
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 31 | \$ 25 | \$ 5 | \$ 4 |
| Interest cost | 50 | 50 | 21 | 22 |
| Expected return on plan assets | (49) | (44) | (1) | |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 22 | 2 | (14) | (20) |
| Total | \$ 54 | \$ 33 | \$ 11 | \$ 6 |

| | Pension Benefits | | Other Postretirement Benefits | |
|--|-------------------------|--------------|--------------------------------------|--------------|
| | Six Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 62 | \$ 49 | \$ 10 | \$ 9 |
| Interest cost | 100 | 101 | 41 | 44 |
| Expected return on plan assets | (98) | (89) | (1) | (1) |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 44 | 5 | (27) | (39) |
| Settlement loss | 1 | | | |
| Total | \$ 109 | \$ 66 | \$ 23 | \$ 13 |

During the three and six months ended June 30, 2015, the Company contributed \$620 million and \$800 million, respectively, to its U.S. domestic tax-qualified defined benefit pension plans.

Share-Based Compensation. The Company generally grants incentive compensation awards, including long-term equity based awards, during the first quarter of the calendar year. During the first quarter of 2015, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 0.2 million shares of restricted stock and 0.3 million restricted stock units (RSUs) that vest

pro-rata over three years on the anniversary of the grant date. The time-vested RSUs are cash-settled based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company also granted 0.6 million performance-based RSUs that will vest based on the Company's return on invested capital and the Company's relative improvement in pre-tax margin for the three years ending December 31, 2017. If these performance conditions are achieved, cash payments will be made after the end of the performance period based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company accounts for the RSUs as liability awards.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Share-based compensation expense | \$ 16 | \$ 14 | \$ 33 | \$ 46 |
| | June 30, 2015 | | December 31, 2014 | |
| Unrecognized share-based compensation | \$ 72 | \$ 62 | | |

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

NOTE 6 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

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

| | Total | June 30, 2015 | | | Total | December 31, 2014 | | |
|--|----------|---------------|---------|---------|----------|-------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| UAL | | | | | | | | |
| Cash and cash equivalents | \$ 2,796 | \$ 2,796 | \$ | \$ | \$ 2,002 | \$ 2,002 | \$ | \$ |
| Short-term investments: | | | | | | | | |
| Asset-backed securities | 726 | | 726 | | 901 | | 901 | |
| Corporate debt | 868 | | 868 | | 876 | | 876 | |
| Certificates of deposit placed through an account registry service (CDARS) | 279 | | 279 | | 256 | | 256 | |
| Auction rate securities | 16 | | | 16 | 26 | | | 26 |
| U.S. government and agency notes | 45 | | 45 | | 68 | | 68 | |
| Other fixed income securities | 255 | | 255 | | 255 | | 255 | |
| Enhanced equipment trust certificates (EETC) | 27 | | | 27 | 28 | | | 28 |
| Fuel derivatives liability, net | (361) | | (361) | | (717) | | (717) | |
| Foreign currency derivatives asset, net | 6 | | 6 | | 2 | | 2 | |
| Restricted cash | 283 | 283 | | | 320 | 320 | | |

| United | | | | | | | | |
|--|----------|----------|---------|---------|----------|----------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 2,790 | \$ 2,790 | \$ | \$ | \$ 1,996 | \$ 1,996 | \$ | \$ |
| Short-term investments: | | | | | | | | |
| Asset-backed securities | 726 | | 726 | | 901 | | 901 | |
| Corporate debt | 868 | | 868 | | 876 | | 876 | |
| CDARS | 279 | | 279 | | 256 | | 256 | |
| Auction rate securities | 16 | | | 16 | 26 | | | 26 |
| U.S. government and agency notes | 45 | | 45 | | 68 | | 68 | |
| Other fixed income securities | 255 | | 255 | | 255 | | 255 | |
| EETC | 27 | | | 27 | 28 | | | 28 |
| Fuel derivatives liability, net | (361) | | (361) | | (717) | | (717) | |
| Foreign currency derivatives asset, net | 6 | | 6 | | 2 | | 2 | |
| Restricted cash | 283 | 283 | | | 320 | 320 | | |
| Convertible debt derivative asset | | | | | 712 | | | 712 |
| Convertible debt derivative option liability | | | | | (511) | | | (511) |

United's debt-related derivatives presented in the tables above related to (a) supplemental indentures that provided that United's convertible debt was convertible into shares of UAL common stock upon the terms and conditions specified in the indentures, and (b) the embedded conversion options in United's convertible debt that were required to be separated and accounted for as though they were free-standing derivatives as a result of the United debt becoming convertible into the common stock of a different reporting entity. The derivatives described above related to the 4.5% Convertible Notes. Gains (losses) on these derivatives were recorded in Nonoperating income (expense): Miscellaneous, net in United's statements of consolidated operations. These derivatives along with their gains (losses) were reported in United's separate financial statements and were eliminated in consolidation for UAL. In January 2015, the holders of substantially all of the remaining \$202 million principal amount of the 4.5% Convertible Notes exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock. The derivative assets and liabilities associated with the 4.5% Convertible Notes were settled in connection with the retirement of the related convertible debt, and the final accounting did not materially impact UAL's or United's statements of consolidated operations.

Available-for-sale investment maturities - The short-term investments shown in the table above are classified as available-for-sale. As of June 30, 2015, asset-backed securities have remaining maturities of less than one year to approximately 40 years, corporate debt securities have remaining maturities of less than one year to approximately seven years and CDARS have maturities of less than one year. U.S. government and other securities have maturities of less than one year to approximately three years. The EETC securities mature in 2019.

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

| | Fair Value of Debt by Fair Value Hierarchy Level | | | | | | | | | |
|-------------|---|----------------------|-------------------|----------|-----------|----------------------------|--------------------------|-------------------|--|--|
| | Carrying Amount | June 30, 2015 | | | | Carrying Amount | December 31, 2014 | | | |
| | | Total | Fair Value | | | | Total | Fair Value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 | | |
| UAL debt | \$ 10,985 | \$ 11,388 | \$ 8,573 | \$ 2,815 | \$ 11,434 | \$ 12,386 | \$ 8,568 | \$ 3,818 | | |
| United debt | 10,985 | 11,388 | 8,573 | 2,815 | 11,433 | 12,386 | 8,568 | 3,818 | | |

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

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

NOTE 7 - HEDGING ACTIVITIES

Fuel Derivatives

The Company routinely hedges a portion of its expected aircraft fuel requirements to protect against increases in the price of fuel. The Company may restructure hedges in response to market conditions prior to their original settlement dates which may result in changes in hedge coverage levels and the potential recognition of gains or losses on such hedge contracts. As of June 30, 2015, the Company had hedged approximately 22% and 5% of its projected fuel requirements (442 million gallons and 180 million gallons, respectively) for the remainder of 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of June 30, 2015, the Company had fuel hedges expiring through March 2016.

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

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

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

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

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

| Classification | Balance Sheet Location | June 30, 2015 | December 31, 2014 |
|---|---|------------------|----------------------|
| <u>Derivatives designated as cash flow hedges</u> | | | |
| <i>Assets:</i> | | | |
| Fuel contracts due within one year | Receivables | \$ 23 | \$ |
| Total assets | | \$ 23 | \$ |
| <i>Liabilities:</i> | | | |
| Fuel contracts due within one year | Fuel derivative instruments | \$ 261 | \$ 450 |
| Fuel contracts with maturities greater than one year | Other liabilities and deferred credits: Other | | 27 |
| Total liabilities | | \$ 261 | \$ 477 |
| <u>Derivatives not designated for hedge accounting</u> | | | |
| <i>Assets:</i> | | | |
| Fuel contracts due within one year | Receivables | \$ 9 | \$ 6 |
| Fuel contracts with maturities greater than one year | Other assets: Other, net | 8 | |
| Total assets | | \$ 17 | \$ 6 |
| <i>Liabilities:</i> | | | |
| Fuel contracts due within one year | Fuel derivative instruments | \$ 140 | \$ 244 |
| Fuel contracts with maturities greater than one year | Other liabilities and deferred credits: Other | | 2 |
| Total liabilities | | \$ 140 | \$ 246 |
| <u>Total derivatives</u> | | | |
| <i>Assets:</i> | | | |
| Fuel contracts due within one year | Receivables | \$ 32 | \$ 6 |
| Fuel contracts with maturities greater than one year | Other assets: Other, net | 8 | |
| Total assets | | \$ 40 | \$ 6 |
| <i>Liabilities:</i> | | | |
| Fuel contracts due within one year | Fuel derivative instruments | \$ 401 | \$ 694 |
| Fuel contracts with maturities greater than one year | Other liabilities and deferred credits: Other | | 29 |
| Total liabilities | | \$ 401 | \$ 723 |

Derivative Credit Risk and Fair Value

The Company is exposed to credit losses in the event of nonperformance by counterparties to its derivative instruments. While the Company records derivative instruments on a gross basis, the Company monitors its net derivative position with each counterparty to monitor credit risk. Based on the fair value of our fuel derivative instruments, our counterparties may require us to post collateral when the price of the underlying commodity decreases, and we may require our counterparties to provide us with collateral when the price of the underlying commodity increases. The Company posted \$181 million and \$577 million of collateral with fuel derivative counterparties as of June 30, 2015 and December 31, 2014, respectively. The collateral is recorded as Fuel hedge collateral deposits on the Company's balance sheet.

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

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

| | June 30, 2015 | December 31, 2014 |
|---|--------------------------|------------------------------|
| Fuel derivative instruments | \$ (232) | \$ (209) |
| Other liabilities and deferred credits: Other | | (30) |
| Hedge derivatives liabilities, net | \$ (232) | \$ (239) |

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

Derivatives designated as cash flow hedges

| | Amount of Gain Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended June 30, | | Loss Reclassified from AOCI into Fuel Expense Three Months Ended June 30, | | Amount of Gain Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Three Months Ended June 30, | |
|----------------|--|-------|---|--------|--|------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Fuel contracts | \$ 29 | \$ 31 | \$ (118) | \$ (1) | \$ | \$ 5 |

Derivatives designated as cash flow hedges

| | Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Six Months Ended June 30, | | Loss Reclassified from AOCI into Fuel Expense Six Months Ended June 30, | | Amount of Gain Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Six Months Ended June 30, | |
|----------------|---|-------|---|--------|--|------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Fuel contracts | \$ (46) | \$ 21 | \$ (279) | \$ (4) | \$ | \$ 4 |

Derivatives not designated for hedge accounting

Fuel contracts

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------|---------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Amount of gain (loss) recognized in Nonoperating income (expense): Miscellaneous, net | \$ 41 | \$ 39 | \$ (2) | \$ (1) |

Foreign Currency Derivatives

The Company generates revenues and incurs expenses in numerous foreign currencies. Changes in foreign currency exchange rates impact the Company's results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Some of the Company's more significant foreign currency exposures include the Canadian dollar, Chinese renminbi, European euro, British pound and Japanese yen. At times, the Company uses derivative financial instruments, such as options collars and forward contracts, to hedge its exposure to foreign currency. The Company does not enter into derivative instruments for non-risk management purposes. At June 30, 2015, the Company had foreign currency derivative contracts in place to hedge 38% and 22% of its projected European euro denominated net cash inflows for the remainder of 2015 and 2016, respectively, and 11% of its British pound denominated net cash inflows for the remainder of 2015. Net cash relates primarily to passenger ticket sales inflows partially offset by expenses paid in local currencies. At June 30, 2015, the fair value of the Company's foreign currency derivatives was an asset of \$6 million.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments. As of June 30, 2015, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing), Embraer S.A. (Embraer) and Airbus S.A.S. (Airbus) presented in the table below:

| Aircraft Type | Number of Firm Commitments (a) |
|------------------------|--------------------------------|
| Airbus A350-1000 | 35 |
| Boeing 737NG/737 MAX 9 | 123 |
| Boeing 777-300ER | 10 |
| Boeing 787-8/-9/-10 | 37 |
| Embraer E175 | 10 |

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

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2015, United expects to take delivery of eight Boeing 737NG aircraft and seven Boeing 787-9 aircraft. The 10 Embraer E175 aircraft are all scheduled for delivery through 2016.

As of June 30, 2015, United had financing commitments from banks to fund two Boeing 737-900ER aircraft and four Embraer E175 aircraft. These aircraft were delivered to United during the second quarter of 2015 and the financings were completed in July 2015. In addition, United has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing will be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. See Note 9 of this report for additional information on aircraft financing.

The table below summarizes United's commitments as of June 30, 2015 (including those assigned from UAL), which primarily relate to the acquisition of aircraft and related spare engines, aircraft improvements and include other commitments primarily to acquire information technology services and assets. Any incremental firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

| | (in billions) |
|-------------------------|---------------|
| Last six months of 2015 | \$ 1.6 |
| 2016 | 2.5 |
| 2017 | 2.0 |
| 2018 | 2.2 |
| 2019 | 3.0 |
| After 2019 | 10.6 |
| | \$ 21.9 |

In July 2015, the Company exercised its options for five additional Embraer E175 aircraft and all are scheduled for delivery in 2016. The Company is currently negotiating with certain regional carriers to own and/or sublease and operate all the outstanding firm Embraer E175 aircraft on order.

Aircraft Operating Leases

During the second quarter of 2015, the Company reached an agreement with AerCap Holdings N.V., a major aircraft leasing company, to lease used Airbus A319s. Eleven aircraft will be delivered over the next two years beginning in early 2016. In addition, up to 14 more aircraft may be delivered over the next five years subject to certain conditions.

Guarantees. United is the guarantor of approximately \$2.0 billion in aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon. These bonds, issued by various airport municipalities, are payable solely from rentals paid under long-term agreements with the respective governing bodies. The leasing arrangements associated with \$1.5 billion of these obligations are accounted for as operating leases with the associated expense recorded on a straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with \$294 million of these obligations are accounted for as capital leases. All of these bonds are due between 2015 and 2038.

In the Company's financing transactions that include loans, the Company typically agrees to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate, for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. At June 30, 2015, the Company had \$2.2 billion of floating rate debt and \$130 million of fixed rate debt, with remaining terms of up to 12 years, that are subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 12 years and an aggregate balance of \$2.3 billion, the Company bears the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

Labor Negotiations. As of June 30, 2015, United had approximately 84,000 active employees, of whom approximately 80% were represented by various labor organizations. We are in the process of negotiating joint collective bargaining agreements with our technicians and flight attendants.

NOTE 9 - DEBT

As of June 30, 2015, a substantial portion of our assets is pledged as collateral for our debt. These assets principally consist of aircraft, route authorities and loyalty program intangible assets. As of June 30, 2015, the Company was in compliance with its debt covenants.

4.5% Convertible Notes due 2015. At December 31, 2014, the remaining balance of these notes was \$202 million. In January 2015, the holders of substantially all of the remaining \$202 million principal amount of the 4.5% Convertible Notes exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock.

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

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

In the second quarter of 2015, the Company recorded a nonoperating special charge of \$128 million for the extinguishment of the 2026 Notes and the 2028 Notes. The nonoperating special charge is related to the write off of unamortized non-cash debt discounts. See Note 10 of this report for additional information.

2013 Credit and Guaranty Agreement. As of June 30, 2015, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's Credit and Guaranty Agreement.

EETCs. In August 2014, United created EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depository in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depository are not United's assets. Certain details of the pass-through trusts with proceeds received from issuance of debt in 2015 are as follows (in millions, except stated interest rate):

| EETC Date | Class | Principal | Final expected distribution date | Stated interest rate | Total debt recorded as of June 30, 2015 | Proceeds received from issuance of debt in the six months ended June 30, 2015 | Remaining proceeds from issuance of debt to be received in future periods |
|-------------|-------|-----------|----------------------------------|----------------------|---|---|---|
| August 2014 | A | \$ 823 | September 2026 | 3.75% | \$ 823 | \$ 711 | \$ |
| August 2014 | B | 238 | September 2022 | 4.625% | 238 | 206 | |
| | | \$ 1,061 | | | \$ 1,061 | \$ 917 | \$ |

The table below presents contractual principal payments at June 30, 2015 under then-outstanding long-term debt agreements in each of the next five calendar years (in millions):

| | UAL and United |
|-------------------------|----------------|
| Last six months of 2015 | \$ 585 |
| 2016 | 1,192 |
| 2017 | 775 |
| 2018 | 1,310 |
| 2019 | 1,736 |
| After 2019 | 5,358 |
| | \$ 10,956 |

NOTE 10 - SPECIAL CHARGES

For the three and six months ended June 30, special charges consisted of the following (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating: | | | | |
| Severance and benefits | \$ 25 | \$ 38 | \$ 75 | \$ 52 |
| Integration-related costs | 14 | 17 | 32 | 51 |
| Costs associated with permanently grounding Embraer ERJ 135 aircraft | | 66 | | 66 |
| (Gains) losses on sale of assets and other special charges | 16 | 48 | 12 | 52 |
| Special charges | 55 | 169 | 119 | 221 |
| Nonoperating: | | | | |
| Loss on extinguishment of debt and other, net | 128 | | 134 | 21 |
| Income tax benefit | | | | (1) |
| Total operating and nonoperating special charges, net of income taxes | \$ 183 | \$ 169 | \$ 253 | \$ 241 |

During the three and six months ended June 30, 2015, the Company recorded \$25 million and \$75 million, respectively, of severance and benefits primarily related to a voluntary early-out program for its flight attendants. In 2014, more than 2,500 flight attendants elected to voluntarily separate from the Company and will receive a severance payment, with a maximum value of \$100,000 per participant, based on years of service, with retirement dates through the end of 2015. The Company will record approximately \$25 million of additional expense through the remainder of 2015 associated with this program over the remaining required service periods.

Integration-related costs include compensation costs related primarily to systems integration and training for employees.

During the three and six months ended June 30, 2015, the Company recorded \$16 million and \$12 million, respectively, for the impairment of assets and other special gains and losses.

During the three and six months ended June 30, 2015, the Company recorded \$128 million and \$134 million, respectively, of losses as part of Nonoperating income (expense): Miscellaneous, net due to the write-off of the unamortized non-cash debt discount related to the extinguishment of the 2026 Notes and the 2028 Notes.

During the six months ended June 30, 2014, the Company recorded \$52 million of severance and benefits primarily related to reductions of management and front-line employees, including from Hopkins International Airport (Cleveland), as part of its cost savings initiatives. The Company reduced its average daily departures from Cleveland by over 60 percent during the second quarter of 2014. The Company is currently evaluating its options regarding its long-term contractual commitments at Cleveland. The capacity reductions at Cleveland may result in further special charges, which could be significant, related to our contractual commitments.

During the three months ended June 30, 2014, the Company recorded \$66 million for the permanent grounding of 21 of the Company's Embraer ERJ 135 regional aircraft under lease through 2018, which included an accrual for remaining lease payments and an amount for maintenance return conditions. The Company decided to permanently ground these 21 Embraer ERJ 135 aircraft as a result of new Embraer E175 regional jet deliveries, the impact of pilot shortages at regional carriers and fuel prices.

During the six months ended June 30, 2014, the Company recorded \$33 million for charges related primarily to the impairment of its flight equipment held for disposal associated with its Boeing 737-300 and 737-500 fleets and incurred losses on sales of aircraft and other assets and other special losses totaling \$19 million.

During the three months ended March 31, 2014, the Company recorded \$21 million of losses due to exchange rate changes in Venezuela applicable to funds held in local currency.

Accruals

The accrual balance for severance and benefits was \$104 million as of June 30, 2015, compared to \$82 million as of June 30, 2014. The severance-related accrual as of June 30, 2015 is expected to be mostly paid through 2015. The following is a reconciliation of severance accrual activity for the period:

| | Severance and Benefits | |
|------------------------------|-----------------------------------|------|
| Balance at December 31, 2014 | \$ | 109 |
| Accrual | | 75 |
| Payments | | (80) |
| Balance at June 30, 2015 | \$ | 104 |

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

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

The Company transports people and cargo through its mainline operations, which utilize jet aircraft with at least 118 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express carriers. The Company serves virtually every major market around the world, either directly or through participation in Star Alliance®, the world's largest airline alliance. The Company operates an average of nearly 5,000 flights a day to 362 airports across six continents.

Second Quarter Financial Highlights

Second quarter 2015 net income was \$1.2 billion, or \$3.14 diluted earnings per share. Second quarter 2015 Non-GAAP net income was \$1.3 billion, or \$3.31 diluted earnings per share, which excludes \$183 million of operating and nonoperating special charges and \$116 million of Hedge Program Adjustments, consisting of \$26 million of mark-to-market gains recorded in Nonoperating expense from fuel derivative contracts settling in future periods and \$90 million of prior period losses recorded in Nonoperating expense on fuel derivative contracts settled in the current period.

Second quarter 2015 aircraft fuel cost decreased 32.1% year-over-year due to a decrease in fuel prices.

Unrestricted liquidity at June 30, 2015 was \$6.3 billion, including \$1.35 billion of undrawn commitments under the revolving credit facility of the Company's Credit and Guaranty Agreement (the Credit Agreement).

The Company announced a new strategic partnership with Azul Linhas Aereas Brasileiras S.A. (Azul), Brazil's third largest airline, which provides a range of customer benefits including codesharing of flights (subject to government approval), joint loyalty-program

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

participation and expanded connection opportunities on routes between the U.S. and Brazil, a key market for United, in addition to other points in North and South America.

UAL spent \$250 million to repurchase approximately 4.4 million shares of UAL common stock in open market transactions in the second quarter of 2015 under the Company's previously announced share repurchase program. As of June 30, 2015, the Company has \$230 million remaining to spend under the \$1 billion share repurchase program. On July 21, 2015, UAL's Board of Directors authorized a new \$3 billion share repurchase program, which the Company expects to complete by December 31, 2017. See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

Second Quarter Operational Highlights

Consolidated traffic increased 0.7% and consolidated capacity increased 2.3% during the second quarter of 2015 as compared to the second quarter of 2014. The Company's load factor for the second quarter of 2015 was 83.9%.

The Company took delivery of six Boeing 737-900ER aircraft, one Boeing 787-9 aircraft, three used Boeing 737-700 aircraft and nine Embraer E175 aircraft during the second quarter of 2015.

Outlook

The Company expects full-year 2015 consolidated capacity to increase between 1% and 1.5% year-over-year. The Company expects full year 2015 cost per available seat mile (CASM) excluding profit sharing, third-party business expense, fuel and special charges to be flat to up 0.5% year-over-year. We are unable to project CASM on a GAAP basis, as defined below, as the nature and amount of special charges are not determinable at this time.

Since the summer of 2014, the price of jet fuel declined and remains volatile. Based on projected fuel consumption in 2015, a one dollar change in the price of a barrel of crude oil would change the Company's annual fuel expense by approximately \$93 million. To protect against increases in the prices of aircraft fuel, the Company routinely hedges a portion of its future fuel requirements.

RESULTS OF OPERATIONS

The following discussion provides an analysis of results of operations and reasons for material changes therein for the three months ended June 30, 2015 as compared to the corresponding period in 2014.

Second Quarter 2015 Compared to Second Quarter 2014

The Company recorded net income of \$1.2 billion in the second quarter of 2015 as compared to net income of \$789 million in the second quarter of 2014. Excluding operating and nonoperating special charges and with Hedge Program Adjustments, the Company had net income of \$1.3 billion in the second quarter of 2015 as compared to net income of \$919 million in the second quarter of 2014. See Reconciliation of GAAP to Non-GAAP Financial Measures at the end of this item for additional information related to accounting principles generally accepted in the United States (GAAP) to Non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was \$1.4 billion for the second quarter of 2015, as compared to \$0.9 billion for the second quarter of 2014, an approximate \$0.5 billion improvement year-over-year. Significant components of our operating results for the three months ended June 30 are as follows (in millions, except percentage changes):

| | 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) |
|----------------------|----------|-----------|------------------------|--------------------------|
| Operating revenue | \$ 9,914 | \$ 10,329 | \$ (415) | (4.0) |
| Operating expense | 8,469 | 9,423 | (954) | (10.1) |
| Operating income | 1,445 | 906 | 539 | 59.5 |
| Nonoperating expense | (248) | (115) | 133 | NM |
| Income tax expense | 4 | 2 | 2 | 100.0 |
| Net income | \$ 1,193 | \$ 789 | \$ 404 | 51.2 |

NM - Not meaningful

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

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

| | 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) |
|---|---------|---------|------------------------|--------------------------|
| Passengers (thousands) (a) | 36,231 | 35,837 | 394 | 1.1 |
| Revenue passenger miles (RPMs) (millions) (b) | 54,289 | 53,900 | 389 | 0.7 |
| Available seat miles (ASMs) (millions) (c) | 64,685 | 63,214 | 1,471 | 2.3 |
| Passenger load factor (d) | 83.9 % | 85.3 % | (1.4) pts. | N/A |
| Passenger revenue per available seat mile (PRASM) (cents) | 13.41 | 14.21 | (0.80) | (5.6) |
| Average yield per revenue passenger mile (cents) (e) | 15.98 | 16.66 | (0.68) | (4.1) |
| CASM (cents) | 13.09 | 14.91 | (1.82) | (12.2) |
| Average price per gallon of fuel, including fuel taxes | \$ 2.10 | \$ 3.09 | \$ (0.99) | (32.0) |
| Fuel gallons consumed (millions) | 1,004 | 1,004 | | |
| Average full-time equivalent employees | 82,300 | 82,000 | 300 | 0.4 |

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

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

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

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

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

Operating Revenue

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

| | 2015 | 2014 | Increase (Decrease) | % Change |
|-------------------------|----------|-----------|------------------------|----------|
| Passenger Mainline | \$ 6,961 | \$ 7,148 | \$ (187) | (2.6) |
| Passenger Regional | 1,715 | 1,833 | (118) | (6.4) |
| Total passenger revenue | 8,676 | 8,981 | (305) | (3.4) |
| Cargo | 229 | 232 | (3) | (1.3) |
| Other operating revenue | 1,009 | 1,116 | (107) | (9.6) |
| | \$ 9,914 | \$ 10,329 | \$ (415) | (4.0) |

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

| | Domestic | Pacific | Atlantic | Latin | Total Mainline | Regional | Consolidated |
|------------------------------------|----------|---------|----------|---------|-------------------|----------|--------------|
| Increase (decrease) from 2014 (a): | | | | | | | |
| Passenger revenue (in millions) | \$ 6 | \$ (82) | \$ (75) | \$ (36) | \$ (187) | \$ (118) | \$ (305) |
| Passenger revenue | 0.2 % | (6.9)% | (4.4)% | (4.9)% | (2.6)% | (6.4)% | (3.4)% |

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

| | | | | | | | |
|--------------------------------|--------|--------|--------|---------|--------|--------|--------|
| Average fare per passenger | (5.0)% | (8.7)% | (1.6)% | (8.6)% | (6.6)% | (1.4)% | (4.4)% |
| Yield | (2.3)% | (9.6)% | (1.7)% | (8.8)% | (4.2)% | (1.1)% | (4.1)% |
| PRASM | (3.4)% | (8.8)% | (6.4)% | (10.9)% | (5.8)% | (1.7)% | (5.6)% |
| Average stage length | (2.6)% | 3.1 % | 1.2 % | 1.8 % | (1.6)% | (0.2)% | 0.5 % |
| Passengers | 5.4 % | 2.0 % | (2.8)% | 4.0 % | 4.2 % | (5.1)% | 1.1 % |
| RPMs (traffic) | 2.5 % | 3.0 % | (2.7)% | 4.2 % | 1.6 % | (5.4)% | 0.7 % |
| ASMs (capacity) | 3.7 % | 2.2 % | 2.1 % | 6.7 % | 3.4 % | (4.8)% | 2.3 % |
| Passenger load factor (points) | (1.0) | 0.7 | (4.0) | (1.9) | (1.4) | (0.6) | (1.4) |

(a) See Item 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for the definition of these statistics.

Consolidated passenger revenue in the second quarter of 2015 decreased 3.4% as compared to the year-ago period due to a decrease in consolidated yield of 4.1% year-over-year. Yields were impacted by a competitive domestic fare environment, unfavorable foreign currency results due to the strengthening of the U.S. dollar and international surcharge declines. The decline in yields was partially offset by a 0.7% and 2.3% year-over-year increase in traffic and capacity, respectively.

Other operating revenue in the second quarter of 2015 decreased \$107 million, or 9.6%, as compared to the year-ago period due to a reduction in sales of aircraft fuel to a third party, partially offset by year-over-year increases in MileagePlus activity and ancillary revenue.

Operating Expenses

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

| | 2015 | 2014 | Increase (Decrease) | % Change |
|--|----------|----------|------------------------|-------------|
| Salaries and related costs | \$ 2,454 | \$ 2,187 | \$ 267 | 12.2 |
| Aircraft fuel | 2,106 | 3,101 | (995) | (32.1) |
| Regional capacity purchase | 583 | 591 | (8) | (1.4) |
| Landing fees and other rent | 553 | 567 | (14) | (2.5) |
| Depreciation and amortization | 445 | 417 | 28 | 6.7 |
| Aircraft maintenance materials and outside repairs | 431 | 471 | (40) | (8.5) |
| Distribution expenses | 348 | 346 | 2 | 0.6 |
| Aircraft rent | 194 | 222 | (28) | (12.6) |
| Special charges | 55 | 169 | (114) | NM |
| Other operating expenses | 1,300 | 1,352 | (52) | (3.8) |
| | \$ 8,469 | \$ 9,423 | \$ (954) | (10.1) |

Salaries and related costs increased \$267 million, or 12.2%, in the second quarter of 2015 as compared to the year-ago period primarily due to profit sharing expense as a result of improved profitability, higher pay rates driven by new collective bargaining agreements, an increase in medical and dental costs and an increase in pension expense resulting from changes in actuarial assumptions.

Aircraft fuel expense decreased \$1.0 billion, or 32%, year-over-year primarily due to a 32% decrease in the average price per gallon of aircraft fuel in the second quarter of 2015 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the three month period ended June 30, 2015 as compared to the year-ago period:

| | (In millions) | | | Average price per gallon | | |
|--|---------------|----------|-------------|--------------------------|---------|-------------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Total aircraft fuel purchase cost excluding fuel hedge impacts | \$ 1,988 | \$ 3,100 | (35.9) | \$ 1.98 | \$ 3.09 | (35.9) |
| Hedge losses reported in fuel expense | (118) | (1) | NM | (0.12) | | NM |
| Fuel expense as reported | 2,106 | 3,101 | (32.1) | 2.10 | 3.09 | (32.0) |
| Cash received (paid) on settled hedges that did not qualify for hedge accounting (a) | (75) | 5 | NM | (0.07) | 0.01 | NM |
| Fuel expense including all gains (losses) from settled hedges | \$ 2,181 | \$ 3,096 | (29.6) | \$ 2.17 | \$ 3.08 | (29.5) |
| Total fuel consumption (gallons) | 1,004 | 1,004 | | | | |

(a) Includes ineffectiveness gains (losses) on settled hedges and gains (losses) on settled hedges that were not designated for hedge accounting. Ineffectiveness gains (losses) and gains (losses) on hedges that do not qualify for hedge accounting are recorded in Nonoperating income (expense): Miscellaneous, net.

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

Depreciation and amortization increased \$28 million, or 6.7%, in the second quarter of 2015 as compared to the year-ago period primarily due to additions in owned property and equipment, specifically related to new aircraft, as well as depreciation related to information technology services and assets.

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

Aircraft maintenance materials and outside repairs decreased \$40 million, or 8.5%, in the second quarter of 2015 as compared to the year-ago period primarily due to a year-over-year decrease in significant aircraft engine and airframe maintenance visits as a result of the cyclical timing of these visits.

Aircraft rent decreased \$28 million, or 12.6%, in the second quarter of 2015 as compared to the year-ago period primarily due to lease expirations, the purchase of aircraft that were subject to leases, and lower lease renewal rates for certain aircraft.

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

| | 2015 | 2014 |
|--|--------------|---------------|
| Severance and benefits | \$ 25 | \$ 38 |
| Integration-related costs | 14 | 17 |
| Costs associated with permanently grounding Embraer ERJ 135 aircraft | | 66 |
| (Gains) losses on sale of assets and other special charges | 16 | 48 |
| Special charges | \$ 55 | \$ 169 |

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

Other operating expenses decreased \$52 million, or 3.8%, in the second quarter of 2015 as compared to the year-ago period primarily due to a reduction in sales of aircraft fuel to a third party and the discontinuance of a Transportation Security Administration (TSA) fee, partially offset by increases in purchased services, advertising expense, personnel-related expenses and food and beverage costs.

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

| | 2015 | 2014 | Increase (Decrease) | % Change |
|----------------------|-----------------|-----------------|------------------------|-------------|
| Interest expense | \$ (167) | \$ (186) | \$ (19) | (10.2) |
| Interest capitalized | 13 | 13 | | |
| Interest income | 6 | 4 | 2 | 50.0 |
| Miscellaneous, net | (100) | 54 | 154 | NM |
| Total | \$ (248) | \$ (115) | \$ 133 | NM |

Miscellaneous, net included gains of \$41 million from derivatives not qualifying for hedge accounting as compared to gains of \$39 million in the year-ago period. Foreign currency impacts were losses of approximately \$12 million versus gains of approximately \$3 million in the second quarters of 2015 and 2014, respectively. Second quarter 2015 Miscellaneous, net includes a \$128 million special charge related to the write off of unamortized non-cash debt discounts for the early redemption of the 6% Notes due 2026 and the 6% Notes due 2028.

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

RESULTS OF OPERATIONS***First Six Months 2015 Compared to First Six Months 2014***

The Company recorded net income of \$1.7 billion in the first six months of 2015 as compared to net income of \$180 million in the first six months of 2014. Excluding operating and nonoperating special charges and with Hedge Program Adjustments, the Company had net income of \$1.8 billion in the first six months of 2015 as compared to net income of \$430 million in the first six months of 2014. See *Reconciliation of GAAP to Non-GAAP Financial Measures* at the end of this item for additional information related to GAAP to Non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was \$2.2 billion for the first six months of 2015, as compared to \$0.6 billion for the first six months of 2014, an approximate \$1.6 billion improvement year-over-year. Significant components of our operating results for the first six months of 2015 are as follows (in millions, except percentage changes):

| | 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) |
|----------------------|-------------|-------------|--------------------------------|----------------------------------|
| Operating revenue | \$ 18,522 | \$ 19,025 | \$ (503) | (2.6) |
| Operating expense | 16,336 | 18,468 | (2,132) | (11.5) |
| Operating income | 2,186 | 557 | 1,629 | NM |
| Nonoperating expense | (478) | (372) | 106 | 28.5 |
| Income tax expense | 7 | 5 | 2 | 40.0 |
| Net income | \$ 1,701 | \$ 180 | \$ 1,521 | NM |

NM - Not meaningful

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

| | 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) |
|--|-------------|-------------|--------------------------------|--------------------------------------|
| Passengers (thousands) (a) | 67,753 | 67,737 | 16 | |
| RPMs (millions) (b) | 100,733 | 100,283 | 450 | 0.4 |
| ASMs (millions) (c) | 121,954 | 120,430 | 1,524 | 1.3 |
| Passenger load factor (d) | 82.6 % | 83.3 % | (0.7) pts. | N/A |
| PRASM (cents) | 13.20 | 13.59 | (0.39) | (2.9) |
| Average yield per revenue passenger mile (cents) (e) | 15.98 | 16.32 | (0.34) | (2.1) |
| CASM (cents) | 13.40 | 15.34 | (1.94) | (12.6) |
| Average price per gallon of fuel, including fuel taxes | \$ 2.09 | \$ 3.13 | \$ (1.04) | (33.2) |
| Fuel gallons consumed (millions) | 1,900 | 1,920 | (20) | (1.0) |
| Average full-time equivalent employees | 82,000 | 82,600 | (600) | (0.7) |

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

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

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

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

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

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

Operating Revenue

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

| | 2015 | 2014 | Increase (Decrease) | % Change |
|-------------------------|-------------|-------------|--------------------------------|-----------------|
| Passenger Mainline | \$ 12,899 | \$ 12,996 | \$ (97) | (0.7) |
| Passenger Regional | 3,197 | 3,369 | (172) | (5.1) |
| Total passenger revenue | 16,096 | 16,365 | (269) | (1.6) |
| Cargo | 471 | 441 | 30 | 6.8 |
| Other operating revenue | 1,955 | 2,219 | (264) | (11.9) |
| | \$ 18,522 | \$ 19,025 | \$ (503) | (2.6) |

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

The table below presents selected passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes for the six months ended June 30, 2015 compared to the six months ended June 30, 2014:

| | Domestic | Pacific | Atlantic | Latin | Total Mainline | Regional | Consolidated |
|------------------------------------|----------|----------|----------|--------|----------------|----------|--------------|
| Increase (decrease) from 2014 (a): | | | | | | | |
| Passenger revenue (in millions) | \$ 41 | \$ (109) | \$ (57) | \$ 28 | \$ (97) | \$ (172) | \$ (269) |
| Passenger revenue | 0.6 % | (4.8)% | (2.0)% | 2.0 % | (0.7)% | (5.1)% | (1.6)% |
| Average fare per passenger | (2.2)% | (5.8)% | 1.2 % | (3.7)% | (3.2)% | (0.1)% | (1.7)% |
| Yield | 0.1 % | (8.8)% | 0.8 % | (4.9)% | (2.0)% | (0.2)% | (2.1)% |
| PRASM | (0.7)% | (8.2)% | (1.0)% | (6.4)% | (2.7)% | (0.9)% | (2.9)% |
| Average stage length | (2.4)% | 5.6 % | 1.7 % | 2.6 % | (0.9)% | 0.7 % | 0.9 % |
| Passengers | 2.9 % | 1.0 % | (3.2)% | 5.9 % | 2.6 % | (5.0)% | % |
| RPMs (traffic) | 0.5 % | 4.4 % | (2.8)% | 7.2 % | 1.2 % | (4.9)% | 0.4 % |
| ASMs (capacity) | 1.4 % | 3.7 % | (1.1)% | 8.9 % | 2.1 % | (4.3)% | 1.3 % |
| Passenger load factor (points) | (0.8) | 0.6 | (1.4) | (1.3) | (0.7) | (0.6) | (0.7) |

(a) See Item 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for the definition of these statistics.

Consolidated passenger revenue in the first six months of 2015 decreased 1.6% as compared to the year-ago period due to a decrease in consolidated yield of 2.1% year-over-year. Yields were impacted by a competitive domestic fare environment, unfavorable foreign currency results due to the strengthening of the U.S. dollar and international surcharge declines. The decline in yields was partially offset by a 0.4% and 1.3% year-over-year increase in traffic and capacity, respectively.

Other operating revenue in the first six months of 2015 decreased \$264 million, or 11.9%, as compared to the year-ago period due to a reduction in sales of aircraft fuel to a third party, partially offset by year-over-year increases in MileagePlus and ancillary revenue.

Operating Expenses

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

| | 2015 | 2014 | Increase (Decrease) | % Change |
|--|-----------|-----------|---------------------|----------|
| Salaries and related costs | \$ 4,755 | \$ 4,340 | \$ 415 | 9.6 |
| Aircraft fuel | 3,970 | 6,018 | (2,048) | (34.0) |
| Regional capacity purchase | 1,153 | 1,150 | 3 | 0.3 |
| Landing fees and other rent | 1,096 | 1,139 | (43) | (3.8) |
| Depreciation and amortization | 874 | 826 | 48 | 5.8 |
| Aircraft maintenance materials and outside repairs | 828 | 929 | (101) | (10.9) |
| Distribution expenses | 660 | 664 | (4) | (0.6) |
| Aircraft rent | 395 | 446 | (51) | (11.4) |
| Special charges | 119 | 221 | (102) | NM |
| Other operating expenses | 2,486 | 2,735 | (249) | (9.1) |
| | \$ 16,336 | \$ 18,468 | \$ (2,132) | (11.5) |

Salaries and related costs increased \$415 million, or 9.6%, in the first six months of 2015 as compared to the year-ago period primarily due to profit sharing accruals as a result of improved profitability, higher pay rates driven by new collective bargaining agreements, an increase in medical and dental costs and an increase in pension expense resulting from changes in actuarial assumptions, partially offset by a 0.7% reduction in the number of employees.

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

Aircraft fuel expense decreased \$2.0 billion, or 34%, year-over-year primarily due to a 33% decrease in the average price per gallon of aircraft fuel, combined with a 1.0% decrease in fuel consumption in the first six months of 2015 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the six months ended June 30, 2015 as compared to the year-ago period:

| | (In millions) | | | Average price per gallon | | |
|--|---------------|----------|----------|--------------------------|---------|----------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Total aircraft fuel purchase cost excluding fuel hedge impacts | \$ 3,691 | \$ 6,014 | (38.6) | \$ 1.94 | \$ 3.13 | (38.0) |
| Hedge losses reported in fuel expense | (279) | (4) | NM | (0.15) | | NM |
| Fuel expense as reported | 3,970 | 6,018 | (34.0) | 2.09 | 3.13 | (33.2) |
| Cash received (paid) on settled hedges that did not qualify for hedge accounting (a) | (114) | 12 | NM | (0.06) | | NM |
| Fuel expense including all gains (losses) from settled hedges | \$ 4,084 | \$ 6,006 | (32.0) | \$ 2.15 | \$ 3.13 | (31.3) |
| Total fuel consumption (gallons) | 1,900 | 1,920 | (1.0) | | | |

(a) Includes ineffectiveness gains (losses) on settled hedges and gains (losses) on settled hedges that were not designated for hedge accounting. Ineffectiveness gains (losses) and gains (losses) on hedges that do not qualify for hedge accounting are recorded in Nonoperating income (expense): Miscellaneous, net.

Aircraft maintenance materials and outside repairs decreased \$101 million, or 10.9%, in the first six months of 2015 as compared to the year-ago period primarily due to a year-over-year decrease in significant aircraft engine and airframe maintenance visits as a result of the cyclical timing of these visits.

Aircraft rent decreased \$51 million or 11.4% in the second quarter of 2015 as compared to the year-ago period primarily due to lease expirations, the purchase of aircraft that were subject to leases, and lower lease renewal rates for certain aircraft.

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

| | 2015 | 2014 |
|--|--------|--------|
| Severance and benefits | \$ 75 | \$ 52 |
| Integration-related costs | 32 | 51 |
| Costs associated with permanently grounding Embraer ERJ 135 aircraft | | 66 |
| (Gains) losses on sale of assets and other special charges | 12 | 52 |
| Special charges | \$ 119 | \$ 221 |

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

Other operating expenses decreased \$249 million, or 9.1%, in the first six months of 2015 as compared to the year-ago period primarily due to a reduction in sales of aircraft fuel to a third party and the discontinuance of a TSA fee, partially offset by increases in purchased services and personnel-related expenses.

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

| | 2015 | 2014 | Increase (Decrease) | % Change |
|--|------|------|---------------------|----------|
|--|------|------|---------------------|----------|

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

| | | | | |
|----------------------|-----------------|-----------------|---------------|-------------|
| Interest expense | \$ (340) | \$ (373) | \$ (33) | (8.8) |
| Interest capitalized | 25 | 27 | (2) | (7.4) |
| Interest income | 11 | 9 | 2 | 22.2 |
| Miscellaneous, net | (174) | (35) | 139 | NM |
| Total | \$ (478) | \$ (372) | \$ 106 | 28.5 |

Miscellaneous, net included losses of \$2 million from derivatives not qualifying for hedge accounting as compared to losses of \$1 million in the year-ago period. Foreign currency losses were approximately \$36 million and \$23 million in the first six months of 2015 and 2014, respectively. Miscellaneous, net for the first six months of 2015 includes a \$134 million special charge related to the write off of unamortized non-cash debt discounts for the early redemption of the 6% Notes due 2026 and the 6% Notes due 2028.

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

LIQUIDITY AND CAPITAL RESOURCES

Current Liquidity

As of June 30, 2015, the Company had \$5.0 billion in unrestricted cash, cash equivalents and short-term investments, as compared to \$4.4 billion at December 31, 2014. At June 30, 2015, the Company also had \$283 million of restricted cash and cash equivalents, which is primarily collateral for performance bonds, letters of credit, estimated future workers' compensation claims and credit card processing agreements. As of June 30, 2015, the Company had its entire commitment capacity of \$1.35 billion under the revolving credit facility of the Company's Credit Agreement available for letters of credit or borrowings.

Approximately \$80 million of the Company's unrestricted cash balance was held as Venezuelan bolivars as of June 30, 2015, the repatriation of which is limited by local law. The Company is evaluating the impact of recent increases in charges for services in Venezuela and the availability of access to historical exchange rates. Continued increases in charges and lack of available U.S. currency to permit repatriations may have an adverse impact on our business.

As is the case with many of our principal competitors, we have a high proportion of debt compared to capital and a deficit in working capital. We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities, and pension funding obligations. At June 30, 2015, the Company had approximately \$11.7 billion of debt and capital lease obligations, including \$1.2 billion that will become due in the next 12 months. In addition, we have substantial non-cancelable commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of June 30, 2015, our current liabilities exceeded our current assets by approximately \$5.0 billion. However, approximately \$7.3 billion of our current liabilities are related to our Advanced ticket sales and Frequent flyer deferred revenue, both of which largely represent revenue to be recognized for travel in the near future and not actual cash outlays. The deficit in working capital does not have an adverse impact to our cash flows, liquidity or operations.

The Company will continue to evaluate opportunities to prepay its debt, including open market repurchases, to reduce its indebtedness and the amount of interest paid on its indebtedness.

As of June 30, 2015, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing), Embraer S.A. (Embraer) and Airbus S.A.S. (Airbus) presented in the table below:

| Aircraft Type | Number of Firm Commitments (a) |
|------------------------|--------------------------------|
| Airbus A350-1000 | 35 |
| Boeing 737NG/737 MAX 9 | 123 |
| Boeing 777-300ER | 10 |
| Boeing 787-8/-9/-10 | 37 |
| Embraer E175 | 10 |

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

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2015, United expects to take delivery of eight Boeing 737NG aircraft and seven Boeing 787-9 aircraft. The 10 Embraer E175 aircraft are all scheduled for delivery through 2016.

As of June 30, 2015, United had financing commitments from banks to fund two Boeing 737-900ER aircraft and four Embraer E175 aircraft. These aircraft were delivered to United during the second quarter of 2015 and the financings were completed in July 2015. In addition, United has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing will be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on aircraft financing.

As of June 30, 2015, UAL and United have total capital commitments primarily related to the acquisition of aircraft and related spare engines, aircraft improvements and acquisition of information technology services and assets of approximately \$21.9 billion, of which approximately \$1.6 billion, \$2.5 billion, \$2.0 billion, \$2.2 billion, \$3.0 billion and \$10.6 billion are due in the last six months of 2015 and for the full year for 2016, 2017, 2018, 2019 and thereafter, respectively. Any incremental firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

In July 2015, the Company exercised its options for five additional Embraer E175 aircraft and all are scheduled for delivery in 2016. The Company is currently negotiating with certain regional carriers to own and/or sublease and operate all the outstanding firm Embraer E175 firm aircraft on order.

As of June 30, 2015, a substantial portion of the Company's assets, principally aircraft, route authorities and certain other intangible assets, were pledged under various loan and other agreements. We must sustain our profitability and/or access the capital markets to meet our significant long-term debt and capital lease obligations and future commitments for capital expenditures, including the acquisition of aircraft and related spare engines.

During the second quarter of 2015, the Company reached an agreement with AerCap Holdings N.V., a major aircraft leasing company, to lease used Airbus A319s. Eleven aircraft will be delivered over the next two years beginning in early 2016. In addition, up to 14 more aircraft may be delivered over the next five years subject to certain conditions.

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

| | S&P | Moody's | Fitch |
|--------|-----|---------|-------|
| UAL | BB- | Ba3 | B+ |
| United | BB- | * | B+ |

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

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

Sources and Uses of Cash

Operating Activities. Cash flow provided by operations for the six months ended June 30, 2015 was \$3.6 billion compared to \$2.2 billion in the same period in 2014. The \$1.4 billion increase is primarily attributable to an increase of \$1.5 billion in net income for the six months ended June 30, 2015 as compared to the same period in 2014. Other notable changes in operating cash flows for that period also include a net increase of \$682 million in the funding of the Company's defined benefit plans, partially offset by other working capital changes. Additionally, the Company experienced a \$396 million reduction in fuel hedge collateral since December 31, 2014, partially offset by a \$293 million reduction in the fuel derivative liability over the same period.

Investing Activities. Capital expenditures were \$1.3 billion and \$953 million in the six months ended June 30, 2015 and 2014, respectively. Capital expenditures for the six months ended June 30, 2015 were primarily attributable to the purchase of aircraft, facility and fleet-related costs. In June 2015, through a wholly-owned subsidiary, we invested \$100 million for an ownership stake of approximately five percent in Azul, Brazil's third-largest airline, which provides a range of customer benefits including codesharing of flights (subject to government approval), joint loyalty-program participation and expanded connection opportunities on routes between the U.S. and Brazil, a key market for United, in addition to other points in North and South America.

In addition to capital expenditures during the six months ended June 30, 2015, we acquired 21 aircraft through the issuance of debt. See Financing Activities below for additional information.

Financing Activities. During the six months ended June 30, 2015, the Company made debt and capital lease payments of \$1.4 billion.

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

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

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

In August 2014 United completed an enhanced equipment trust certificate (EETC) offering for a total principal amount of \$1.1 billion. United has received and recorded all of the proceeds as debt as of June 30, 2015. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on EETC pass-through trusts.

As of June 30, 2015, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's Credit Agreement. See Note 11 in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Annual Report) for additional information on the terms of the Credit Agreement.

The obligations of United under the Credit Agreement are secured by liens on certain international route authorities between certain specified cities, certain take-off and landing rights and related assets of United. Certain covenants in the Credit Agreement and in the Company's indentures are summarized in Note 11 of the 2014 Annual Report.

Share Repurchase Program. In 2014, UAL's Board of Directors authorized a share repurchase program to acquire up to \$1 billion of UAL's common stock. UAL spent \$250 million and \$450 million to repurchase approximately 4.4 million and 7.3 million shares of UAL common stock in open market transactions in the three and six months ended June 30, 2015, respectively. As of June 30, 2015, the Company has \$230 million remaining to spend under the share repurchase program. On July 21, 2015, UAL's Board of Directors authorized a new \$3 billion share repurchase program, which the Company expects to complete by December 31, 2017. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2., Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

Commitments, Contingencies and Liquidity Matters

As described in the 2014 Annual Report, the Company's liquidity may be adversely impacted by a variety of factors, including, but not limited to, obligations associated with fuel hedge settlements and related collateral requirements, pension funding obligations, reserve requirements associated with credit card processing agreements, guarantees, commitments and contingencies. See the 2014 Annual Report and Notes 5, 7, 8 and 9 to the financial statements contained in Part I, Item 1 of this report for additional information.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

The Company evaluates its financial performance utilizing various GAAP and Non-GAAP financial measures, including net income/loss and net earnings/loss per share. The Non-GAAP financial measures in this report are presented because they provide management and investors the ability to measure and monitor the Company's performance on a consistent basis. The Company believes that adjusting for operating and nonoperating special charges is useful to investors because they are nonrecurring charges not indicative of UAL's ongoing performance. In addition, the Company believes that reflecting Hedge Program Adjustments is useful because the adjustments allow investors to better understand the cash impact of settled fuel derivative contracts in a given period. Reconciliations of net income and diluted earnings per share to the Non-GAAP financial measures of net income and diluted earnings per share, excluding operating and nonoperating special charges and reflecting Hedge Program Adjustments, for the three and six months ended June 30 are as follows in the tables below (in millions, except per share amounts):

| | Three Months Ended June 30, | | | |
|--|-----------------------------|---------------------------------------|--------------------|---------------------------------------|
| | Net Income 2015 | Diluted Earnings per Share 2015 | Net Income 2014 | Diluted Earnings per Share 2014 |
| Net income GAAP | \$ 1,193 | \$ 3.14 | \$ 789 | \$ 2.01 |
| Operating and nonoperating special charges, net (a) | 183 | 0.48 | 169 | 0.43 |
| Mark-to-market gains from fuel derivative contracts settling in future periods | (26) | (0.07) | (46) | (0.12) |
| Prior period gains (losses) on fuel derivative contracts settled in the current period | (90) | (0.24) | 7 | 0.02 |
| Net income excluding operating and nonoperating special charges, net and reflecting Hedge Program Adjustments Non-GAAP | \$ 1,260 | \$ 3.31 | \$ 919 | \$ 2.34 |

| | Six Months Ended June 30, | | | |
|--|---------------------------|---------------------------------------|--------------------|---------------------------------------|
| | Net Income 2015 | Diluted Earnings per Share 2015 | Net Income 2014 | Diluted Earnings per Share 2014 |
| Net income GAAP | \$ 1,701 | \$ 4.45 | \$ 180 | \$ 0.47 |
| Operating and nonoperating special charges, net (a) | 253 | 0.66 | 241 | 0.61 |
| Mark-to-market gains from fuel derivative contracts settling in future periods | (7) | (0.01) | (33) | (0.08) |
| Prior period gains (losses) on fuel derivative contracts settled in the current period | (105) | (0.28) | 42 | 0.11 |
| Net income excluding operating and nonoperating special charges, net and reflecting Hedge Program Adjustments Non-GAAP | \$ 1,842 | \$ 4.82 | \$ 430 | \$ 1.11 |

(a) See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information related to operating and nonoperating special charges, net.

CRITICAL ACCOUNTING POLICIES

See Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2014 Annual Report for a discussion of the Company's critical accounting policies.

FORWARD-LOOKING INFORMATION

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

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

The Company's actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: its ability to comply with the terms of its various financing arrangements; the costs and availability of financing; its ability to maintain adequate liquidity; its ability to execute its operational plans and revenue-generating initiatives, including optimizing its revenue; its ability to control its costs, including realizing benefits from its resource optimization efforts, cost reduction initiatives and fleet replacement programs; its ability to utilize its net operating losses; its ability to attract and retain customers; demand for transportation in the markets in which it operates; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact that global economic conditions have on customer travel patterns; excessive taxation and the inability to offset future taxable income; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally; its ability to cost-effectively hedge against increases in the price of aircraft fuel; any potential realized or unrealized gains or losses related to fuel or currency hedging programs; the effects of any hostilities, act of war or terrorist attack; the ability of other air carriers with whom the Company has alliances or partnerships to provide the services contemplated by the respective arrangements with such carriers; disruptions to its regional network; the costs and availability of aviation and other insurance; industry consolidation or changes in airline alliances; competitive pressures on pricing and on demand; its capacity decisions and the capacity decisions of its competitors; U.S. or foreign governmental legislation, regulation and other actions (including open skies agreements and environmental regulations); the impact of regulatory, investigative and legal proceedings and legal compliance risks; labor costs; its ability to maintain satisfactory labor relations and the results of the collective bargaining agreement process with its union groups; any disruptions to operations due to any potential actions by its labor groups; weather conditions; and other risks and uncertainties set forth under Part I, Item 1A., "Risk Factors" of the 2014 Annual Report, as well as other risks and uncertainties set forth from time to time in the reports the Company files with the U.S. Securities and Exchange Commission (the "SEC").

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in market risk from the information provided in Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2014 Annual Report except as follows:

Aircraft Fuel. As of June 30, 2015, the Company had hedged approximately 22% and 5% of its projected fuel requirements (442 million gallons and 180 million gallons, respectively) for the remainder of 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of June 30, 2015, the Company had fuel hedges expiring through March 2016.

At June 30, 2015, fuel derivatives were in a net liability position of \$361 million. See Note 7 to the financial statements included in Part I, Item 1 of this report for additional information related to fuel hedges.

The fuel derivative portfolio is comprised of many individual derivative contracts (primarily option contracts) on multiple underlying commodities and entered into at various points in time, resulting in a wide range of strike prices with several hedge counterparties. The table below provides a view of the economic impact of the fuel derivative portfolio on the Company's fuel costs given significant moves (up to +/-30%) in market fuel prices from June 30, 2015 (in millions).

Period from July 1, 2015 to December 31, 2016

| Change in market fuel prices (a) | (In millions, except for change in market fuel prices) | | | |
|----------------------------------|--|---------------------------------|--------------------------------------|--|
| | (Increase) decrease to unhedged fuel cost (b) | Fuel derivative gain (loss) (c) | Net (increase) decrease to fuel cost | Fuel derivative collateral (posted)/received (d) |
| 30% | \$ (3,324) | \$ 314 | \$ (3,010) | \$ |
| 20% | (2,216) | 207 | (2,009) | (4) |
| 10% | (1,108) | 100 | (1,008) | (44) |
| (10)% | 1,108 | (82) | 1,026 | (198) |
| (20)% | 2,216 | (164) | 2,052 | (272) |
| (30)% | 3,324 | (256) | 3,068 | (344) |

(a) Projected using equal shifts in spot and forward prices for aircraft fuel and crude oil underlying hedge contracts at June 30, 2015 levels.

(b) Projections are based on estimated consumption of 5.9 billion gallons and the June 30, 2015 average forward price of \$1.87 per gallon, excluding taxes and other delivery costs.

(c) Change in projected cash gain/(loss) on existing fuel derivatives as of June 30, 2015. Includes all fuel derivatives whether or not the fuel derivatives are designated for hedge accounting.

(d) Projections are based on margin estimates for the entire fuel derivative portfolio as of June 30, 2015, including fuel derivatives settling in 2016.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Control and Procedures

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted to the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL's and United's disclosure controls and procedures were designed and operating effectively to report the information each company is required to disclose in the reports they file with the SEC on a timely basis. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of UAL and United have concluded that as of June 30, 2015, disclosure controls and procedures of each of UAL and United were effective.

Changes in Internal Control over Financial Reporting during the Quarter Ended June 30, 2015

During the three months ended June 30, 2015, there were no changes in UAL's or United's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, their internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS.

See Part I, Item 3., Legal Proceedings of the 2014 Annual Report for a description of legal proceedings. The disclosure below includes an update to the legal proceedings disclosures included in the 2014 Annual Report, which is in addition to, and not in lieu of, those disclosures contained in the 2014 Annual Report.

Environmental Proceedings

On January 13, 2014, United received an offer of settlement from the Bay Area Air Quality Management District (District) for three Notices of Violation (NOVs) issued in 2012 and 2013 to United's San Francisco maintenance center (the Maintenance Center). The NOVs relate to the frequency of filter replacement for painting booths and associated recordkeeping at the Maintenance Center. On May 11, 2015, United entered into a settlement agreement with the District to resolve the NOVs. United has paid the civil penalty required by the settlement agreement from a previously accrued reserve for this matter.

Other Proceedings

On June 30, 2015, UAL received a Civil Investigative Demand (CID) from the Antitrust Division of the United States Department of Justice (DOJ) seeking documents and information from the Company in connection with a DOJ investigation related to statements and decisions about airline capacity. We are working with the DOJ to provide the requested documents and information. We are not able to predict what action, if any, might be taken in the future by the DOJ or other governmental authorities as a result of the investigation.

Beginning on July 1, 2015, subsequent to the announcement of the CID, UAL and United were named as defendants in multiple class action lawsuits that asserted claims under the Sherman Antitrust Act, which lawsuits the Company anticipates will be consolidated into multi-district litigation. The complaints generally allege collusion among U.S. airlines on capacity impacting airfares and seek treble damages. The Company intends to vigorously defend against the class action lawsuits.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) None

(b) None

(c) The following table presents repurchases of UAL common stock made in the second quarter of fiscal year 2015:

| Period | Total number of shares purchased (a) | Average price paid per share (b) | Total number of shares purchased as part of publicly announced plans or programs (a) | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (a) |
|--------------------------------------|--------------------------------------|----------------------------------|--|--|
| April 1, 2015 through April 30, 2015 | 1,129,735 | \$ 61.94 | 1,129,735 | \$ 410 |
| May 1, 2015 through May 31, 2015 | 1,458,667 | 58.58 | 1,458,667 | 325 |
| June 1, 2015 through June 30, 2015 | 1,764,625 | 53.54 | 1,764,625 | 230 |
| Total | 4,353,027 | | 4,353,027 | |

(a) In 2014, UAL's Board of Directors authorized a share repurchase program to acquire up to \$1 billion of UAL's common stock. On July 21, 2015, UAL's Board of Directors authorized a new \$3 billion share repurchase program, which the Company expects to complete by December 31, 2017. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

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

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

ITEM 6. EXHIBITS.

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

SIGNATURES

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

United Continental Holdings, Inc.
(Registrant)

Date: July 23, 2015

By: /s/ John D. Rainey

John D. Rainey
Executive Vice President and Chief Financial
Officer
(principal financial officer)

Date: July 23, 2015

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller
(principal accounting officer)

United Airlines, Inc.
(Registrant)

Date: July 23, 2015

By: /s/ John D. Rainey

John D. Rainey
Executive Vice President and Chief Financial
Officer
(principal financial officer)

Date: July 23, 2015

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller
(principal accounting officer)

EXHIBIT INDEX

| Exhibit No. | Registrant | Exhibit |
|--------------------|-------------------|--|
| ^10.1 | UAL United | Supplemental Agreement No. 63 to Purchase Agreement No. 1951, dated May 26, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.2 | UAL United | Supplemental Agreement No. 64 to Purchase Agreement No. 1951, dated June 12, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.3 | UAL United | Supplemental Agreement No. 11 to Purchase Agreement No. 2484, dated April 30, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.4 | UAL United | Supplemental Agreement No. 03 to Purchase Agreement No. 03776, dated May 26, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.5 | UAL United | Supplemental Agreement No. 04 to Purchase Agreement No. 03776, dated June 12, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.6 | UAL United | Supplemental Agreement No. 07 to Purchase Agreement Number PA-03784, dated May 26, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.7 | UAL United | Supplemental Agreement No. 08 to Purchase Agreement Number PA-03784, dated June 12, 2015, between The Boeing Company and United Airlines, Inc. |
| ^10.8 | UAL United | Supplemental Agreement No. 5 to Purchase Agreement No. 3860, dated April 30, 2015, between The Boeing Company and United Airlines, Inc. |
| 12.1 | UAL | United Continental Holdings, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges |
| 12.2 | United | United Airlines, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges |
| 31.1 | UAL | Certification of the Principal Executive Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31.2 | UAL | Certification of the Principal Financial Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31.3 | United | Certification of the Principal Executive Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31.4 | United | Certification of the Principal Financial Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 32.1 | UAL | Certification of the Chief Executive Officer and Chief Financial Officer of United Continental Holdings, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) |
| 32.2 | United | Certification of the Chief Executive Officer and Chief Financial Officer of United Airlines, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) |
| 101.1 | UAL United | XBRL Instance Document |
| 101.2 | UAL | XBRL Taxonomy Extension Schema Document |

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

| | | |
|-------|--------|--|
| | United | |
| 101.3 | UAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| | United | |
| 101.4 | UAL | XBRL Taxonomy Extension Definition Linkbase Document |
| | United | |
| 101.5 | UAL | XBRL Taxonomy Extension Labels Linkbase Document |
| | United | |
| 101.6 | UAL | XBRL Taxonomy Extension Presentation Linkbase Document |
| | United | |

^ Confidential portion of this exhibit has been omitted and filed separately with the SEC pursuant to a request for confidential treatment.