

CONTINENTAL AIRLINES INC /DE/

Form 10-Q

October 27, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from                      to

Commission

Exact Name of Registrant as Specified in its Charter,

File Number

Principal Office Address and Telephone Number

State of  
Incorporation

I.R.S. Employer  
Identification  
No

001-06033

**United Continental Holdings, Inc.**

77 W. Wacker Drive, Chicago, Illinois 60601  
(312) 997-8000

Delaware

36-2675207

001-11355

**United Air Lines, Inc.**

77 W. Wacker Drive, Chicago, Illinois 60601  
(312) 997-8000

Delaware

36-2675206

001-10323

**Continental Airlines, Inc.**

1600 Smith Street, Dept HQSEO, Houston, Texas 77002  
(713) 324-2950

Delaware

74-2099724

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 Air Lines, Inc.

Yes ☒ No ☐

Continental 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).

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|                                   |   |                        |   |
|-----------------------------------|---|------------------------|---|
| United Continental Holdings, Inc. | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> | United Air Lines, Inc. | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| Continental Airlines, Inc.        | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |                        |   |

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

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

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

|                                   |   |
|-----------------------------------|---|
| United Continental Holdings, Inc. | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| United Air Lines, Inc.            | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| Continental Airlines, Inc.        | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |

The number of shares outstanding of each of the issuer's classes of common stock as of October 21, 2011 is shown below:

|                                   |   |
|-----------------------------------|---|
| United Continental Holdings, Inc. | 330,852,949 shares of common stock (\$0.01 par value) |
|-----------------------------------|---|

|                        |  |
|------------------------|--|
| United Air Lines, Inc. | 205 (100% owned by United Continental Holdings, Inc.)<br>There is no market for United Air Lines, Inc. common stock. |
|------------------------|--|

|                            |  |
|----------------------------|--|
| Continental Airlines, Inc. | 1,000 (100% owned by United Continental Holdings, Inc.)<br>There is no market for Continental Airlines, Inc. common stock. |
|----------------------------|--|

### OMISSION OF CERTAIN INFORMATION

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

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**United Continental Holdings, Inc.**

**United Air Lines, Inc.**

**Continental Airlines, Inc.**

**Report on Form 10-Q**

**For the Quarter Ended September 30, 2011**

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

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2011</b>                                 | <b>2010</b> | <b>2011</b>                                | <b>2010</b> |
| Operating revenue:                                 |   |             |  |             |
| Passenger:   |   |             |  |             |
| Mainline   | \$ 7,265                                    | \$ 3,744    | 19,892                                     | \$ 10,173   |
| Regional   | 1,779                                       | 1,011       | 4,945                                      | 2,766       |
| Total passenger revenue                            | 9,044                                       | 4,755       | 24,837                                     | 12,939      |
| Cargo  | 283   | 175         | 882  | 522         |
| Special revenue item (Note 1)                      |   |             | 107  |             |
| Other operating revenue                            | 844   | 487         | 2,356                                      | 1,400       |
|  | 10,171                                      | 5,417       | 28,182                                     | 14,861      |
| Operating expenses:                                |   |             |  |             |
| Aircraft fuel                                      | 3,371                                       | 1,534       | 9,270                                      | 4,227       |
| Salaries and related costs                         | 2,020                                       | 1,129       | 5,742                                      | 3,180       |
| Regional capacity purchase                         | 619   | 417         | 1,807                                      | 1,210       |
| Landing fees and other rent                        | 476   | 268         | 1,451                                      | 796         |
| Aircraft maintenance materials and outside repairs | 447   | 262         | 1,330                                      | 729         |
| Depreciation and amortization                      | 384   | 232         | 1,157                                      | 676         |
| Distribution expenses                              | 377   | 204         | 1,102                                      | 574         |
| Aircraft rent                                      | 255   | 82          | 760  | 244         |
| Special charges (Note 10)                          | 120   | 63          | 343  | 187         |
| Other operating expenses                           | 1,167                                       | 685         | 3,443                                      | 1,980       |
|  | 9,236                                       | 4,876       | 26,405                                     | 13,803      |
| Operating income                                   | 935   | 541         | 1,777                                      | 1,058       |
| Nonoperating income (expense):                     |   |             |  |             |
| Interest expense                                   | (227)                                       | (177)       | (731)                                      | (540)       |
| Interest income                                    | 6   | 5           | 15   | 8           |
| Interest capitalized                               | 10  | 2           | 24   | 7           |
| Miscellaneous, net                                 | (64)  | 16          | (94)                                       | 44          |
|  | (275)                                       | (154)       | (786)                                      | (481)       |
| Income before income taxes                         | 660   | 387         | 991  | 577         |
| Income tax expense (benefit)                       | 7   |             | 13   | (1)         |
| Net income   | \$ 653                                      | \$ 387      | \$ 978                                     | \$ 578      |

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|                             |         |         |         |         |
|-----------------------------|---------|---------|---------|---------|
| Earnings per share, basic   | \$ 1.97 | \$ 2.30 | \$ 2.96 | \$ 3.44 |
| Earnings per share, diluted | \$ 1.69 | \$ 1.75 | \$ 2.59 | \$ 2.78 |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

(In millions, except shares)

|   | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$ 6,984                             | \$ 8,069             |
| Short-term investments  | 1,373                                | 611                  |
| Total unrestricted cash, cash equivalents and short-term investments                        | 8,357                                | 8,680                |
| Restricted cash   | 50                                   | 37                   |
| Receivables, less allowance for doubtful accounts (2011 \$7; 2010 \$6)                      | 1,713                                | 1,613                |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2011 \$81; 2010 \$64) | 628                                  | 466                  |
| Deferred income taxes   | 643                                  | 591                  |
| Prepaid expenses and other  | 595                                  | 658                  |
|   | 11,986                               | 12,045               |
| Operating property and equipment:   |                                      |                      |
| Owned   |                                      |                      |
| Flight equipment  | 15,692                               | 15,181               |
| Other property and equipment  | 3,059                                | 2,890                |
|   | 18,751                               | 18,071               |
| Less accumulated depreciation and amortization  | (3,717)                              | (2,858)              |
|   | 15,034                               | 15,213               |
| Purchase deposits for flight equipment  | 359                                  | 230                  |
| Capital leases  |                                      |                      |
| Flight equipment  | 1,468                                | 1,741                |
| Other property and equipment  | 220                                  | 217                  |
|   | 1,688                                | 1,958                |
| Less accumulated amortization   | (532)                                | (456)                |
|   | 1,156                                | 1,502                |
|   | 16,549                               | 16,945               |
| Other assets:   |                                      |                      |
| Goodwill  | 4,523                                | 4,523                |
| Intangibles, less accumulated amortization (2011 \$630; 2010 \$504)                         | 4,772                                | 4,917                |
| Restricted cash, cash equivalents and investments   | 337                                  | 350                  |
| Investments   | 92                                   | 103                  |
| Other, net  | 795                                  | 715                  |

|    |        |           |
|----|--------|-----------|
|    | 10,519 | 10,608    |
| \$ | 39,054 | \$ 39,598 |

(continued on next page)



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

(In millions, except shares)

|  | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|--|--------------------------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                      |
| Current liabilities:   |                                      |                      |
| Advance ticket sales   | \$ 3,761                             | \$ 2,998             |
| Frequent flyer deferred revenue  | 2,507                                | 2,582                |
| Accounts payable   | 1,808                                | 1,805                |
| Accrued salaries and benefits  | 1,404                                | 1,470                |
| Current maturities of long-term debt   | 1,201                                | 2,411                |
| Current maturities of capital leases   | 138                                  | 252                  |
| Other  | 1,079                                | 1,127                |
|  | 11,898                               | 12,645               |
| Long-term debt   | 10,873                               | 11,434               |
| Long-term obligations under capital leases   | 945                                  | 1,036                |
| Other liabilities and deferred credits:  |                                      |                      |
| Frequent flyer deferred revenue  | 3,343                                | 3,491                |
| Advanced purchase of miles   | 1,711                                | 1,159                |
| Postretirement benefit liability   | 2,393                                | 2,344                |
| Pension liability  | 1,428                                | 1,473                |
| Deferred income taxes  | 1,641                                | 1,585                |
| Lease fair value adjustment, net   | 1,188                                | 1,371                |
| Other  | 1,322                                | 1,333                |
|  | 13,026                               | 12,756               |
| Commitments and contingencies  |                                      |                      |
| Stockholders' equity:  |                                      |                      |
| Preferred stock  |                                      |                      |
| Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 330,849,396 and 327,922,565 shares at September 30, 2011 and December 31, 2010, respectively | 3                                    | 3                    |
| Additional capital invested  | 7,110                                | 7,071                |
| Accumulated deficit  | (4,725)                              | (5,703)              |
| Stock held in treasury, at cost  | (31)                                 | (31)                 |
| Accumulated other comprehensive income (loss)  | (45)                                 | 387                  |
|  | 2,312                                | 1,727                |
|  | \$ 39,054                            | \$ 39,598            |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.



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

|   | <b>Nine Months Ended<br/>September 30,</b> |                 |
|---|--|-----------------|
|   | <b>2011</b>                                | <b>2010</b>     |
| <b>Cash Flows from Operating Activities:</b>  |  |                 |
| Net income  | \$ 978                                     | \$ 578          |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |  |                 |
| Depreciation and amortization   | 1,157                                      | 676             |
| Amortization of debt and lease fair value adjustment                                    | (171)                                      | 12              |
| Special items, non-cash portion (Notes 1 and 10)  | (15)                                       | 112             |
| Increase in advance ticket sales  | 762  | 499             |
| Increase (decrease) in frequent flyer deferred revenue and advanced purchase of miles   | 82   | (118)           |
| Increase in receivables   | (517)                                      | (295)           |
| Increase in accounts payable  | 1  | 87              |
| Increase in other current assets  | (209)                                      | (59)            |
| Increase in other accrued liabilities   | 24   | 160             |
| Net change in fuel hedge cash collateral  | (61)                                       | 10              |
| Other, net  | 112  | 139             |
| <b>Net cash provided by operating activities</b>  | <b>2,143</b>                               | <b>1,801</b>    |
| <b>Cash Flows from Investing Activities:</b>  |  |                 |
| Capital expenditures  | (510)                                      | (212)           |
| Aircraft purchase deposits paid, net  | (121)                                      | (42)            |
| (Increase) decrease in restricted cash  | (4)  | 71              |
| Proceeds from sale of property and equipment  | 107  | 25              |
| Purchases of short-term investments, net  | (754)                                      |                 |
| Other, net  |  | 6               |
| <b>Net cash used in investing activities</b>  | <b>(1,282)</b>                             | <b>(152)</b>    |
| <b>Cash Flows from Financing Activities:</b>  |  |                 |
| Proceeds from issuance of long-term debt  | 142  | 1,995           |
| Payments of long-term debt  | (1,925)                                    | (1,529)         |
| Principal payments under capital leases   | (199)                                      | (201)           |
| Other, net  | 36   | (18)            |
| <b>Net cash provided by (used in) financing activities</b>                              | <b>(1,946)</b>                             | <b>247</b>      |
| <b>Increase (decrease) in cash and cash equivalents during the period</b>               | <b>(1,085)</b>                             | <b>1,896</b>    |
| <b>Cash and cash equivalents at beginning of the period</b>                             | <b>8,069</b>                               | <b>3,042</b>    |
| <b>Cash and cash equivalents at end of the period</b>                                   | <b>\$ 6,984</b>                            | <b>\$ 4,938</b> |
| <b>Investing and Financing Activities Not Affecting Cash:</b>                           |  |                 |
| Property and equipment acquired through the issuance of debt                            | \$ 130                                     | \$ 467          |

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|   |       |    |
|---|-------|----|
| Reclassification of debt to advanced purchases of miles   | (270) |    |
| Reclassification of debt discount to other assets         | 60    |    |
| UAL 8% Contingent Senior Unsecured Notes, net of discount | 49    |    |
| Interest paid in kind on UAL 6% Senior Notes              | 18    | 17 |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2011</b>                                 | <b>2010</b> | <b>2011</b>                                | <b>2010</b> |
| Operating revenue:                                 |   |             |  |             |
| Passenger:   |   |             |  |             |
| Mainline   | \$ 4,032                                    | \$ 3,744    | \$ 10,916                                  | \$ 10,173   |
| Regional   | 1,084                                       | 1,011       | 3,021                                      | 2,766       |
| Total passenger revenue                            | 5,116                                       | 4,755       | 13,937                                     | 12,939      |
| Cargo  | 177   | 175         | 535  | 522         |
| Special revenue item (Note 1)                      |   |             | 88   |             |
| Other operating revenue                            | 564   | 489         | 1,543                                      | 1,406       |
|  | 5,857                                       | 5,419       | 16,103                                     | 14,867      |
| Operating expenses:                                |   |             |  |             |
| Aircraft fuel                                      | 1,949                                       | 1,534       | 5,294                                      | 4,227       |
| Salaries and related costs                         | 1,092                                       | 1,129       | 3,117                                      | 3,180       |
| Regional capacity purchase                         | 407   | 417         | 1,190                                      | 1,210       |
| Landing fees and other rent                        | 246   | 268         | 773  | 796         |
| Aircraft maintenance materials and outside repairs | 299   | 262         | 881  | 729         |
| Depreciation and amortization                      | 228   | 232         | 684  | 676         |
| Distribution expenses                              | 194   | 204         | 580  | 574         |
| Aircraft rent                                      | 82  | 82          | 243  | 244         |
| Special charges (Note 10)                          | 72  | 63          | 236  | 187         |
| Other operating expenses                           | 709   | 679         | 2,081                                      | 1,973       |
|  | 5,278                                       | 4,870       | 15,079                                     | 13,796      |
| Operating income                                   | 579   | 549         | 1,024                                      | 1,071       |
| Nonoperating income (expense):                     |   |             |  |             |
| Interest expense                                   | (135)                                       | (172)       | (462)                                      | (525)       |
| Interest income                                    | 2   | 5           | 7  | 8           |
| Interest capitalized                               | 6   | 2           | 12   | 7           |
| Miscellaneous, net                                 | (35)  | 15          | (43)                                       | 44          |
|  | (162)                                       | (150)       | (486)                                      | (466)       |
| Income before income taxes                         | 417   | 399         | 538  | 605         |
| Income tax expense (benefit)                       | 2   |             | 2  | (1)         |
| Net income   | \$ 415                                      | \$ 399      | \$ 536                                     | \$ 606      |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.



**Table of Contents****UNITED AIR LINES, INC.****CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

|  | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 4,070                             | \$ 4,665             |
| Short-term investments   | 186                                  |                      |
| Total unrestricted cash, cash equivalents and short-term investments                           | 4,256                                | 4,665                |
| Restricted cash  | 50                                   | 37                   |
| Receivables, net of allowance for doubtful accounts (2011 \$6; 2010 \$5)                       | 865                                  | 1,004                |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2011 \$69;<br>2010 \$61) | 347                                  | 321                  |
| Receivables from related parties   | 228                                  | 135                  |
| Deferred income taxes  | 387                                  | 373                  |
| Prepaid expenses and other   | 413                                  | 366                  |
|  | 6,546                                | 6,901                |
| Operating property and equipment:  |                                      |                      |
| Owned  |                                      |                      |
| Flight equipment   | 9,061                                | 8,718                |
| Other property and equipment   | 2,213                                | 2,086                |
|  | 11,274                               | 10,804               |
| Less accumulated depreciation and amortization   | (3,200)                              | (2,717)              |
|  | 8,074                                | 8,087                |
| Purchase deposits for flight equipment   | 57                                   | 51                   |
| Capital leases   |                                      |                      |
| Flight equipment   | 1,468                                | 1,741                |
| Other property and equipment   | 52                                   | 49                   |
|  | 1,520                                | 1,790                |
| Less accumulated amortization  | (519)                                | (453)                |
|  | 1,001                                | 1,337                |
|  | 9,132                                | 9,475                |
| Other assets:  |                                      |                      |
| Intangibles, less accumulated amortization (2011 \$518; 2010 \$473)                            | 2,298                                | 2,343                |
| Restricted cash  | 201                                  | 190                  |
| Investments  | 91                                   | 97                   |
| Other, net   | 570                                  | 622                  |

|                          |        |           |
|--------------------------|--------|-----------|
|                          | 3,160  | 3,252     |
| \$                       | 18,838 | \$ 19,628 |
| (continued on next page) |        |           |



**Table of Contents****UNITED AIR LINES, INC.****CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

|  | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|--|--------------------------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDER S DEFICIT</b>   |                                      |                      |
| Current liabilities:   |                                      |                      |
| Advance ticket sales   | \$ 2,116                             | \$ 1,536             |
| Frequent flyer deferred revenue  | 1,529                                | 1,703                |
| Accounts payable   | 1,022                                | 907                  |
| Accrued salaries and benefits  | 907                                  | 938                  |
| Current maturities of long-term debt   | 476                                  | 1,546                |
| Current maturities of capital leases   | 135                                  | 249                  |
| Payables to related parties  | 61                                   | 63                   |
| Other  | 765                                  | 950                  |
|  | 7,011                                | 7,892                |
| Long-term debt   | 5,350                                | 5,480                |
| Long-term obligations under capital leases   | 765                                  | 858                  |
| Other liabilities and deferred credits:  |                                      |                      |
| Frequent flyer deferred revenue  | 2,059                                | 2,321                |
| Advanced purchase of miles   | 1,442                                | 1,159                |
| Postretirement benefit liability   | 2,127                                | 2,091                |
| Pension liability  | 105                                  | 101                  |
| Deferred income taxes  | 746                                  | 731                  |
| Other  | 952                                  | 972                  |
|  | 7,431                                | 7,375                |
| Commitments and contingencies  |                                      |                      |
| Stockholder s deficit:   |                                      |                      |
| Common stock at par, \$5 par value; authorized 1,000 shares; outstanding 205 shares at both September 30, 2011 and December 31, 2010 |                                      |                      |
| Additional capital invested  | 3,430                                | 3,421                |
| Accumulated deficit  | (4,953)                              | (5,489)              |
| Accumulated other comprehensive income (loss)  | (196)                                | 91                   |
|  | (1,719)                              | (1,977)              |
|  | \$ 18,838                            | \$ 19,628            |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

|   | <b>Nine Months Ended<br/>September 30,</b> |                 |
|---|--|-----------------|
|   | <b>2011</b>                                | <b>2010</b>     |
| <b>Cash Flows from Operating Activities:</b>  |  |                 |
| Net income  | \$ 536                                     | \$ 606          |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |  |                 |
| Depreciation and amortization   | 684  | 676             |
| Amortization of debt and lease fair value adjustment                                    | 11   | 12              |
| Special items, non-cash portion (Notes 1 and 10)  | (19)                                       | 112             |
| Increase in advance ticket sales  | 579  | 499             |
| Decrease in frequent flyer deferred revenue and advanced purchase of miles              | (150)                                      | (118)           |
| Increase in receivables   | (237)                                      | (294)           |
| Increase in accounts payable  | 112  | 88              |
| Increase in other current assets  | (88)                                       | (92)            |
| Increase (decrease) in other accrued liabilities  | (38)                                       | 161             |
| Net change in fuel hedge cash collateral  | (61)                                       | 10              |
| Other, net  | 109  | 137             |
| <b>Net cash provided by operating activities</b>  | <b>1,438</b>                               | <b>1,797</b>    |
| <b>Cash Flows from Investing Activities:</b>  |  |                 |
| Capital expenditures  | (332)                                      | (212)           |
| Aircraft purchase deposits paid, net  | (6)  | (42)            |
| (Increase) decrease in restricted cash  | (28)                                       | 71              |
| Proceeds from sale of property and equipment  | 15   | 25              |
| Purchases of short-term investments, net  | (180)                                      |                 |
| Other, net  |  | 6               |
| <b>Net cash used in investing activities</b>  | <b>(531)</b>                               | <b>(152)</b>    |
| <b>Cash Flows from Financing Activities:</b>  |  |                 |
| Proceeds from issuance of long-term debt  |  | 1,995           |
| Payments of long-term debt  | (1,316)                                    | (1,528)         |
| Principal payments under capital leases   | (198)                                      | (201)           |
| Other, net  | 12   | (15)            |
| <b>Net cash provided by (used in) financing activities</b>                              | <b>(1,502)</b>                             | <b>251</b>      |
| <b>Increase (decrease) in cash and cash equivalents during the period</b>               | <b>(595)</b>                               | <b>1,896</b>    |
| <b>Cash and cash equivalents at beginning of the period</b>                             | <b>4,665</b>                               | <b>3,036</b>    |
| <b>Cash and cash equivalents at end of the period</b>                                   | <b>\$ 4,070</b>                            | <b>\$ 4,932</b> |
| <b>Investing and Financing Activities Not Affecting Cash:</b>                           |  |                 |
| UAL 8% Contingent Senior Unsecured Notes, net of discount                               | \$ 49                                      | \$              |

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Interest paid in kind on UAL 6% Senior Notes

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See accompanying Combined Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CONTINENTAL AIRLINES, INC.****STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)**

(In millions, except per share amounts)

|  | Successor<br>Three Months<br>Ended<br>September 30,<br>2011 | Predecessor<br>Three Months<br>Ended<br>September 30,<br>2010 | Successor<br>Nine Months<br>Ended<br>September 30,<br>2011 | Predecessor<br>Nine Months<br>Ended<br>September 30,<br>2010 |
|--|---|---|--|--|
| Operating revenue:                                 |   |   |  |  |
| Passenger:   |   |   |  |  |
| Mainline   | \$ 3,229  | \$ 2,884  | \$ 8,970   | \$ 7,777   |
| Regional   | 695   | 610   | 1,924  | 1,726  |
| Total passenger revenue                            | 3,924   | 3,494   | 10,894   | 9,503  |
| Cargo  | 105   | 115   | 346  | 328  |
| Special revenue item (Note 1)                      |   |   | 19   |  |
| Other operating revenue                            | 343   | 326   | 955  | 957  |
|  | 4,372   | 3,935   | 12,214   | 10,788   |
| Operating expenses:                                |   |   |  |  |
| Aircraft fuel                                      | 1,422   | 1,006   | 3,976  | 2,872  |
| Salaries and related costs                         | 906   | 909   | 2,575  | 2,527  |
| Regional capacity purchase                         | 211   | 207   | 617  | 608  |
| Landing fees and other rent                        | 230   | 228   | 678  | 656  |
| Aircraft maintenance materials and outside repairs | 152   | 126   | 455  | 399  |
| Depreciation and amortization                      | 156   | 124   | 473  | 380  |
| Distribution expenses                              | 183   | 169   | 523  | 474  |
| Aircraft rent                                      | 171   | 230   | 516  | 689  |
| Special charges (Note 10)                          | 48  | 13  | 107  | 47   |
| Other operating expenses                           | 533   | 481   | 1,531  | 1,416  |
|  | 4,012   | 3,493   | 11,451   | 10,068   |
| Operating income                                   | 360   | 442   | 763  | 720  |
| Nonoperating income (expense):                     |   |   |  |  |
| Interest expense                                   | (88)  | (102)   | (259)  | (288)  |
| Interest income                                    | 3   | 2   | 7  | 6  |
| Interest capitalized                               | 4   | 5   | 12   | 17   |
| Miscellaneous, net                                 | (41)  | 7   | (76)   | (13)   |
|  | (122)   | (88)  | (316)  | (278)  |
| Income before income taxes                         | 238   | 354   | 447  | 442  |
| Income tax expense                                 | 2   |   | 6  | 1  |
| Net income   | \$ 236  | \$ 354  | \$ 441   | \$ 441   |

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|                             |    |      |    |      |
|-----------------------------|----|------|----|------|
| Earnings per share, basic   | \$ | 2.52 | \$ | 3.16 |
| Earnings per share, diluted | \$ | 2.16 | \$ | 2.81 |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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**CONTINENTAL AIRLINES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

|  | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 2,908                             | \$ 3,398             |
| Short-term investments   | 1,187                                | 611                  |
| Total unrestricted cash, cash equivalents and short-term investments                       | 4,095                                | 4,009                |
| Receivables, net of allowance for doubtful accounts (2011 \$1; 2010 \$1)                   | 848                                  | 609                  |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2011 \$12; 2010 \$3) | 281                                  | 246                  |
| Deferred income taxes  | 254                                  | 225                  |
| Receivables from related parties   |                                      | 3                    |
| Prepaid expenses and other   | 184                                  | 185                  |
|  | 5,662                                | 5,277                |
| Operating property and equipment:  |                                      |                      |
| Owned  |                                      |                      |
| Flight equipment   | 6,631                                | 6,463                |
| Other property and equipment   | 846                                  | 804                  |
|  | 7,477                                | 7,267                |
| Less accumulated depreciation and amortization   | (517)                                | (141)                |
|  | 6,960                                | 7,126                |
| Purchase deposits for flight equipment   | 302                                  | 178                  |
| Capital leases other property and equipment  | 168                                  | 168                  |
| Less accumulated amortization  | (13)                                 | (3)                  |
|  | 155                                  | 165                  |
|  | 7,417                                | 7,469                |
| Other assets:  |                                      |                      |
| Goodwill   | 4,523                                | 4,523                |
| Intangibles, less accumulated amortization (2011 \$112; 2010 \$31)                         | 2,476                                | 2,575                |
| Restricted cash, cash equivalents and investments  | 135                                  | 160                  |
| Other, net   | 368                                  | 375                  |
|  | 7,502                                | 7,633                |
|  | \$ 20,581                            | \$ 20,379            |

(continued on next page)



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**CONTINENTAL AIRLINES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

|   | (Unaudited)<br>September 30,<br>2011 | December 31,<br>2010 |
|---|--------------------------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDER S EQUITY</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Advance ticket sales  | \$ 1,645                             | \$ 1,463             |
| Frequent flyer deferred revenue   | 978                                  | 879                  |
| Accounts payable  | 790                                  | 902                  |
| Accrued salaries and benefits   | 496                                  | 532                  |
| Current maturities of long-term debt  | 724                                  | 865                  |
| Payables to related parties   | 66                                   |                      |
| Current maturities of capital leases  | 3                                    | 3                    |
| Other   | 333                                  | 236                  |
|   | 5,035                                | 4,880                |
| Long-term debt  | 5,111                                | 5,536                |
| Long-term obligations under capital leases  | 180                                  | 178                  |
| Other liabilities and deferred credits:   |                                      |                      |
| Frequent flyer deferred revenue   | 1,284                                | 1,170                |
| Advanced purchase of miles  | 270                                  |                      |
| Postretirement benefit liability  | 265                                  | 253                  |
| Pension liability   | 1,323                                | 1,372                |
| Lease fair value adjustment, net  | 1,192                                | 1,374                |
| Deferred income taxes   | 817                                  | 784                  |
| Other   | 469                                  | 522                  |
|   | 5,620                                | 5,475                |
| Commitments and contingencies   |                                      |                      |
| Stockholder s equity:   |                                      |                      |
| Common stock at par, \$0.01 par value; authorized and outstanding 1,000 shares at both September 30, 2011 and December 31, 2010 |                                      |                      |
| Additional capital invested   | 4,146                                | 4,115                |
| Retained earnings (accumulated deficit)   | 346                                  | (95)                 |
| Accumulated other comprehensive income  | 143                                  | 290                  |
|   | 4,635                                | 4,310                |
|   | \$ 20,581                            | \$ 20,379            |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.



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

|   | <b>Successor<br/>Nine Months<br/>Ended<br/>September 30,<br/>2011</b> | <b>Predecessor<br/>Nine Months<br/>Ended<br/>September 30,<br/>2010</b> |
|---|---|---|
| <b>Cash Flows from Operating Activities:</b>  |   |   |
| Net income  | \$ 441  | \$ 441  |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |   |   |
| Depreciation and amortization   | 473   | 380   |
| Amortization of debt and lease fair value adjustment                                    | (182)   |   |
| Special items, non-cash portion (Notes 1 and 10)  | 4   | 18  |
| Increase in advance ticket sales  | 183   | 400   |
| Increase in frequent flyer deferred revenue and advanced purchase of miles              | 233   | 141   |
| Increase in receivables   | (370)   | (199)   |
| Increase (decrease) in accounts payable   | (47)  | 44  |
| Increase in other current assets  | (83)  | (176)   |
| Increase in other accrued liabilities   | 23  | 230   |
| Other, net  | 30  | 28  |
| <b>Net cash provided by operating activities</b>  | <b>705</b>  | <b>1,307</b>  |
| <b>Cash Flows from Investing Activities:</b>  |   |   |
| Capital expenditures  | (178)   | (246)   |
| Aircraft purchase deposits paid, net  | (116)   | 10  |
| Decrease in restricted cash   | 25  | 3   |
| Proceeds from sale of property and equipment  | 92  | 32  |
| Purchases of short-term investments, net  | (574)   | (171)   |
| <b>Net cash used in investing activities</b>  | <b>(751)</b>  | <b>(372)</b>  |
| <b>Cash Flows from Financing Activities:</b>  |   |   |
| Proceeds from issuance of long-term debt  | 142   | 1,025   |
| Payments of long-term debt  | (609)   | (836)   |
| Other, net  | 23  | 28  |
| <b>Net cash used in financing activities</b>  | <b>(444)</b>  | <b>217</b>  |
| <b>Increase in cash and cash equivalents during the period</b>                          | <b>(490)</b>  | <b>1,152</b>  |
| <b>Cash and cash equivalents at beginning of the period</b>                             | <b>3,398</b>  | <b>2,546</b>  |
| <b>Cash and cash equivalents at end of the period</b>                                   | <b>\$ 2,908</b>   | <b>\$ 3,698</b>   |
| <b>Investing and Financing Activities Not Affecting Cash:</b>                           |   |   |
| Property and equipment acquired through the issuance of debt                            | \$ 130  | \$ 467  |
| Reclassification of debt to advanced purchases of miles                                 | (270)   |   |
| Reclassification of debt discount to other assets                                       | 60  |   |

See accompanying Combined Notes to Condensed Consolidated Financial Statements.



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### **UNITED CONTINENTAL HOLDINGS, INC.,**

### **UNITED AIR LINES, INC. AND CONTINENTAL AIRLINES, INC.**

### **COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

United Continental Holdings, Inc. (together with its consolidated subsidiaries, UAL) is a holding company and its principal, wholly-owned subsidiaries are United Air Lines, Inc. (together with its consolidated subsidiaries, United) and, effective October 1, 2010, Continental Airlines, Inc. (together with its consolidated subsidiaries, Continental). All significant intercompany transactions are eliminated.

This Quarterly Report on Form 10-Q is a combined report of UAL, United and Continental. We sometimes use the words we, our, us, and the Company for disclosures that relate to all of UAL, United and Continental Successor (defined below). As UAL consolidates United for financial statement purposes, disclosures that relate to United activities also apply to UAL; and, effective October 1, 2010, disclosures that relate to Continental Successor activities also apply to UAL. When appropriate, UAL, United and Continental are named specifically for their related activities and disclosures.

*Continental Acquisition Accounting.* As a result of the application of the acquisition method of accounting, Continental's financial statements prior to October 1, 2010 are not comparable with Continental's financial statements for periods on or after October 1, 2010. References to Successor refer to Continental on or after October 1, 2010, after giving effect to the application of acquisition accounting. References to Predecessor refer to Continental as reported prior to October 1, 2010.

*Interim Financial Statements.* The UAL, United and Continental 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. Certain prior year amounts have been reclassified to conform to the current year's presentation. The significant reclassifications are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Annual Report). Effective January 1, 2011, the Company reclassified costs associated with the redemption of frequent flyer miles for awards other than travel on United or Continental from operating revenue to operating expenses. This reclassification increased revenue and other operating expenses in the three and nine months ended September 30, 2010 by \$23 million and \$65 million, respectively, but had no effect on earnings for those periods. These reclassifications were made to conform the financial statement presentation of UAL, United and Continental. The UAL, United and Continental financial statements should be read together with the information included in the 2010 Annual Report.

## **NOTE 1 NEW ACCOUNTING PRONOUNCEMENTS**

### **Multiple-Deliverable Revenue Arrangements**

*Frequent Flyer Awards.* United and Continental have frequent flyer programs that are designed to increase customer loyalty. Program participants earn mileage credits (miles) by flying on United, Continental and certain other participating airlines. Program participants can also earn miles through purchases from non-airline partners that participate in the Company's loyalty programs. We sell miles to these partners, which include retail merchants, credit card issuers, hotels and car rental companies, among others. Miles can be redeemed for free, discounted or upgraded air travel and non-travel awards. The Company records its obligation for future award redemptions using a deferred revenue model.

In the case of the sale of air transportation services, the Company recognizes a portion of the ticket sales as revenue when the air transportation occurs and defers a portion of the ticket sale that represents the fair value of the miles, as described further below. In the case of miles sold to third parties, historically, we have had two primary revenue elements: marketing and air transportation.

The adoption of Accounting Standards Update 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13), as described below, resulted in the revision of the accounting for certain aspects of the Company's frequent flyer accounting.

### **Passenger Tickets**

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Effective January 1, 2011, the Company began applying the provisions of ASU 2009-13, which resulted in a change to the Company's accounting for passenger ticket sales that include the issuance of miles that may be redeemed for free travel or other products or services at a future date. Under the Company's accounting policy prior to January 1, 2011, the Company estimated the weighted average equivalent ticket value by assigning a fair value to the miles that were issued in connection with the sale of air transportation. The fair value of the miles was deferred and the residual amount of ticket proceeds was recognized as passenger revenue at the time the air transportation was provided.

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Effective January 1, 2011, the Company began applying the new guidance to determine the estimated selling price of the air transportation and miles as if each element were sold on a separate basis and to allocate the total consideration to each of these elements on a pro rata basis. The estimated selling price of miles is computed using an estimated weighted average equivalent ticket value that is adjusted by a sales discount that considers a number of factors, including ultimate fulfillment expectations associated with miles sold in flight transactions to various customer groups.

As a result of the prospective adoption, the new accounting policy was only applied to new sales of air transportation beginning in 2011. Generally, as compared to the historical accounting policy, for passenger tickets sold with miles earned, the new accounting policy decreases the value of miles that the Company records as deferred revenue and increases the passenger revenue recorded at the time air transportation is provided. Due to the average period from the purchase of air transportation to the provision of air transportation, the new accounting policy was only applicable to a portion of the Company's multiple element ticket transactions recorded during 2011. The application of the new accounting method resulted in the following increases to revenue (in millions, except per share amounts):

|                   | Three Months Ended<br>September 30, 2011 |        |             | Nine Months Ended<br>September 30, 2011 |        |             |
|-------------------|--|--------|-------------|---|--------|-------------|
|                   | UAL                                      | United | Continental | UAL                                     | United | Continental |
| Operating revenue | \$ 93                                    | \$ 56  | \$ 37       | \$ 254                                  | \$ 159 | \$ 95       |
| Per basic share   | \$ 0.28                                  |        |             | \$ 0.77                                 |        |             |
| Per diluted share | \$ 0.24                                  |        |             | \$ 0.64                                 |        |             |

We estimate that application of the new accounting method for the last three months of 2011 will increase UAL's revenue as compared to revenue that would have been recorded under the historical method of accounting, at levels that are expected to be substantially consistent with those recorded during the third quarter.

**Co-branded Credit Card Partner Mileage Sales**

United and Continental each had significant contracts to sell frequent flyer miles to their co-branded credit card partner, Chase Bank USA, N.A. (Chase). Miles can be redeemed for free, discounted or upgraded air travel and non-travel awards. On June 9, 2011, these contracts were modified and the Company entered into one agreement with Chase (the Co-Brand Agreement). The Company applied the provisions of ASU 2009-13 to the Co-Brand Agreement as a materially modified contract.

Under the Co-Brand Agreement and ASU 2009-13, we have identified five revenue elements in the agreement: air transportation; use of the United brand and access to frequent flyer member lists; advertising; baggage services; and airport lounge usage (together, excluding air transportation, the marketing-related deliverables). The fair value of the elements is determined using management's estimated selling price of each element. The objective of using the estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine our best estimate of selling price by considering multiple inputs and methods including, but not limited to, discounted cash flows, brand value, volume discounts, published selling prices, number of miles awarded and number of miles redeemed. The Company estimated the selling prices and volumes over the term of the Co-Brand Agreement in order to determine the allocation of proceeds to each of the multiple elements to be delivered.

The new guidance changed the allocation of arrangement consideration to the number of units of accounting; however, the pattern and timing of revenue recognition for those units did not change. The Company records passenger revenue related to the air transportation element when the transportation is delivered. The other elements are generally recognized as other operating revenue when earned.

The application of the new accounting standard decreases the value of the air transportation deliverable related to the Co-Brand Agreement that the Company records as deferred revenue (and ultimately passenger revenue when redeemed awards are flown) and increases the value primarily of the marketing-related deliverables recorded in other revenue at the time these marketing-related deliverables are provided. Excluding the effects disclosed in the Special Revenue Item section below, the impact of adoption of ASU 2009-13 resulted in the following estimated increases to revenue (in millions, except per share amounts):

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|                   | Three Months Ended<br>September 30, 2011 |        |             | Nine Months Ended<br>September 30, 2011 |        |             |
|-------------------|--|--------|-------------|---|--------|-------------|
|                   | UAL                                      | United | Continental | UAL                                     | United | Continental |
| Operating revenue | \$ 42                                    | \$ 37  | \$ 5        | \$ 58                                   | \$ 46  | \$ 12       |
| Per basic share   | \$ 0.13                                  |        |             | \$ 0.18                                 |        |             |
| Per diluted share | \$ 0.11                                  |        |             | \$ 0.15                                 |        |             |

While revenue recognition is subject to fluctuation based on credit card sales volumes and frequent flyer redemption patterns, the Company expects, as a result of the Co-Brand Agreement, that revenue will increase by approximately \$50 million in the fourth quarter of 2011. These estimates are subject to variability primarily depending on the volume of future transactions.

Pending new or materially modified contracts after January 1, 2011, certain other non-airline partners who participate in the loyalty programs and to which we sell miles remain subject to our historical residual accounting method.

**Special Revenue Item**

The transition provisions of ASU 2009-13 require that the Company's existing deferred revenue balance be adjusted retroactively to reflect the value of any undelivered element remaining at the date of contract modification as if we had been applying ASU 2009-13 since the initiation of the Co-Brand Agreement. We applied this transition provision by revaluing the undelivered air transportation element using its new estimated selling price as determined in connection with the contract modification. This estimated selling price was lower than the rate at which the undelivered element had been deferred under the previous contracts and thus we recorded the following one-time non-cash adjustment to decrease frequent flyer deferred revenue and increase special revenue (in millions):

|                      | Nine Months Ended<br>September 30, 2011 |        |             |
|----------------------|---|--------|-------------|
|                      | UAL                                     | United | Continental |
| Special revenue item | \$ 107                                  | \$ 88  | \$ 19       |
| Per basic share      | \$ 0.33                                 |        |             |
| Per diluted share    | \$ 0.27                                 |        |             |

**NOTE 2 EARNINGS PER SHARE**

The table below represents the computation of UAL 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):

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|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2011                                | 2010    | 2011                               | 2010    |
| <b>UAL basic earnings per share:</b>  |                                     |         |                                    |         |
| Net income  | \$ 653                              | \$ 387  | \$ 978                             | \$ 578  |
| Less: Income allocable to participating securities                                    | (2)                                 |         | (3)                                | (1)     |
| Earnings available to common stockholders   | \$ 651                              | \$ 387  | \$ 975                             | \$ 577  |
| Basic weighted average shares outstanding   | 330                                 | 168     | 329                                | 168     |
| Earnings per share, basic   | \$ 1.97                             | \$ 2.30 | \$ 2.96                            | \$ 3.44 |
| <b>UAL diluted earnings per share:</b>  |                                     |         |                                    |         |
| Earnings available to common stockholders   | \$ 651                              | \$ 387  | 975                                | \$ 577  |
| Effect of UAL 4.5% Senior Limited-Subordination Convertible Notes                     | 2                                   | 18      | 31                                 | 53      |
| Effect of Continental 4.5% Convertible Notes  | 2                                   |         | 7                                  |         |
| Effect of UAL 5% Senior Convertible Notes   |                                     | 4       |                                    |         |
| Effect of Continental 6% Convertible Junior Subordinated Debentures                   | 4                                   |         |                                    |         |
| Effect of UAL 6% Senior Convertible Notes   | 4                                   | 4       | 13                                 | 13      |
| Earnings available to common stockholders including the effect of dilutive securities | \$ 663                              | \$ 413  | \$ 1,026                           | \$ 643  |
| <b>UAL diluted shares outstanding:</b>  |                                     |         |                                    |         |
| Basic weighted average shares outstanding   | 330                                 | 168     | 329                                | 168     |
| Effect of restricted stock units and employee stock options                           | 1                                   | 2       | 2                                  | 1       |
| Effect of UAL 4.5% Senior Limited-Subordination Convertible Notes                     | 5                                   | 22      | 13                                 | 22      |
| Effect of Continental 4.5% Convertible Notes  | 12                                  |         | 12                                 |         |
| Effect of UAL 5% Senior Convertible Notes   |                                     | 3       |                                    |         |
| Effect of Continental 6% Convertible Junior Subordinated Debentures                   | 4                                   |         |                                    |         |
| Effect of UAL 6% Senior Convertible Notes   | 40                                  | 40      | 40                                 | 40      |
| Diluted weighted average shares outstanding   | 392                                 | 235     | 396                                | 231     |
| Earnings per share, diluted   | \$ 1.69                             | \$ 1.75 | \$ 2.59                            | \$ 2.78 |
| <b>UAL potentially dilutive shares excluded from diluted per share amounts:</b>       |                                     |         |                                    |         |
| Restricted stock and units and stock options  | 7                                   | 5       | 6                                  | 5       |
| Continental 6% Convertible Junior Subordinated Debentures                             |                                     |         | 4                                  |         |
| UAL 5% Senior Convertible Notes (Note 9)  |                                     |         |                                    | 3       |

UAL's 6% Senior Notes due 2031, with a principal amount of \$633 million as of September 30, 2011, can be redeemed, and the \$62.5 million of UAL's 8% Contingent Senior Notes (the "8% Notes"), which UAL is obligated to issue no later than February 14, 2012, will be redeemable when issued with either cash or shares of UAL common stock, or in the case of mandatory redemption, a combination thereof, at UAL's option. These notes are not included in the diluted earnings per share calculation because, if UAL were to redeem the notes, it is UAL's intent to redeem these notes with cash. See Note 8 of this report for additional information on the 8% Notes.

During the second quarter of 2011, UAL repurchased at par value approximately \$570 million of the \$726 million outstanding principal amount of its 4.5% Senior Limited-Subordination Convertible Notes due 2021 with cash after the notes were put to UAL by the noteholders. For the nine months ended September 30, 2011, the dilutive effect of the 4.5% Senior Limited-Subordination Convertible Notes due 2021 was excluded from the diluted earnings per share calculations from the date that notice was given of the Company's intent to pay the notes put to it in cash up to the June 30, 2011 repurchase date.





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The table below represents the computation of Continental Predecessor's basic and diluted earnings per share amounts (in millions, except per share amounts):

|   | Three Months Ended<br>September 30,<br>2010 | Nine Months Ended<br>September 30,<br>2010 |
|---|---|--|
| <b>Continental Predecessor basic earnings per share:</b>  |   |  |
| Earnings available to common stockholders   | \$ 354                                      | \$ 441                                     |
| Basic weighted average shares outstanding   | 140   | 140  |
| Earnings per share, basic   | \$ 2.52                                     | \$ 3.16                                    |
| <b>Continental Predecessor diluted earnings per share:</b>  |   |  |
| Earnings available to common stockholders   | \$ 354                                      | \$ 441                                     |
| Effect of 5% Convertible Notes  | 2   | 10   |
| Effect of 6% Convertible Junior Subordinated Debentures   | 3   | 10   |
| Effect of 4.5% Convertible Notes  | 3   | 7  |
| Earnings available to common stockholders including the effect of dilutive securities               | \$ 362                                      | \$ 468                                     |
| <b>Continental Predecessor diluted shares outstanding:</b>  |   |  |
| Basic weighted average shares outstanding   | 140   | 140  |
| 5% Convertible Notes  | 9   | 9  |
| 6% Convertible Junior Subordinated Debentures   | 4   | 4  |
| 4.5% Convertible Notes  | 12  | 12   |
| Employee stock options  | 2   | 2  |
| Diluted weighted average shares outstanding   | 167   | 167  |
| Earnings per share, diluted   | \$ 2.16                                     | \$ 2.81                                    |
| <b>Continental Predecessor potentially dilutive shares excluded from diluted per share amounts:</b> |   |  |
| Employee stock options  | 2   | 2  |

**NOTE 3 INCOME TAXES**

Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of the reduction 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.

**NOTE 4 EMPLOYEE BENEFIT PLANS**

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

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|   | <b>Pension Benefits</b>   |              | <b>Other Postretirement Benefits</b> |              |
|---|---------------------------|--------------|--------------------------------------|--------------|
|   | <b>Three Months Ended</b> |              | <b>Three Months Ended</b>            |              |
|   | <b>September 30,</b>      |              | <b>September 30,</b>                 |              |
|   | <b>2011</b>               | <b>2010</b>  | <b>2011</b>                          | <b>2010</b>  |
| <b>UAL</b>  |                           |              |                                      |              |
| Service cost  | \$ 22                     | \$ 1         | \$ 11                                | \$ 8         |
| Interest cost   | 44                        | 2            | 32                                   | 29           |
| Expected return on plan assets                                  | (36)                      | (2)          | (1)                                  | (1)          |
| Amortization of unrecognized gain and prior service cost        | (5)                       |              |                                      | (3)          |
| <b>Net periodic benefit costs</b>                               | <b>\$ 25</b>              | <b>\$ 1</b>  | <b>\$ 42</b>                         | <b>\$ 33</b> |
| <b>United</b>   |                           |              |                                      |              |
| Service cost  | \$ 2                      | \$ 1         | \$ 8                                 | \$ 8         |
| Interest cost   | 2                         | 2            | 29                                   | 29           |
| Expected return on plan assets                                  | (3)                       | (2)          | (1)                                  | (1)          |
| Amortization of unrecognized gain and prior service cost        |                           |              |                                      | (3)          |
| <b>Net periodic benefit costs</b>                               | <b>\$ 1</b>               | <b>\$ 1</b>  | <b>\$ 36</b>                         | <b>\$ 33</b> |
| <b>Continental (a)</b>  |                           |              |                                      |              |
| Service cost  | \$ 20                     | \$ 17        | \$ 3                                 | \$ 3         |
| Interest cost   | 42                        | 40           | 3                                    | 3            |
| Expected return on plan assets                                  | (33)                      | (29)         |                                      |              |
| Amortization of unrecognized (gain) loss and prior service cost | (5)                       | 25           |                                      | 4            |
| <b>Net periodic benefit costs</b>                               | <b>\$ 24</b>              | <b>\$ 53</b> | <b>\$ 6</b>                          | <b>\$ 10</b> |

(a) For Continental, the 2011 period represents Successor and the 2010 period represents Predecessor.

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|   | <b>Pension Benefits</b>  |               | <b>Other Postretirement Benefits</b> |              |
|---|--------------------------|---------------|--------------------------------------|--------------|
|   | <b>Nine Months Ended</b> |               | <b>Nine Months Ended</b>             |              |
|   | <b>September 30,</b>     |               | <b>September 30,</b>                 |              |
|   | <b>2011</b>              | <b>2010</b>   | <b>2011</b>                          | <b>2010</b>  |
| <b>UAL</b>  |                          |               |                                      |              |
| Service cost  | \$ 66                    | \$ 4          | \$ 35                                | \$ 23        |
| Interest cost   | 133                      | 7             | 95                                   | 87           |
| Expected return on plan assets                                  | (105)                    | (7)           | (2)                                  | (2)          |
| Amortization of unrecognized gain and prior service cost        | (17)                     | (1)           | (1)                                  | (9)          |
| <b>Net periodic benefit costs</b>                               | <b>\$ 77</b>             | <b>\$ 3</b>   | <b>\$ 127</b>                        | <b>\$ 99</b> |
| <b>United</b>   |                          |               |                                      |              |
| Service cost  | \$ 5                     | \$ 4          | \$ 25                                | \$ 23        |
| Interest cost   | 7                        | 7             | 85                                   | 87           |
| Expected return on plan assets                                  | (8)                      | (7)           | (2)                                  | (2)          |
| Amortization of unrecognized gain and prior service cost        | (1)                      | (1)           |                                      | (9)          |
| <b>Net periodic benefit costs</b>                               | <b>\$ 3</b>              | <b>\$ 3</b>   | <b>\$ 108</b>                        | <b>\$ 99</b> |
| <b>Continental (a)</b>  |                          |               |                                      |              |
| Service cost  | \$ 61                    | \$ 50         | \$ 10                                | \$ 7         |
| Interest cost   | 126                      | 119           | 10                                   | 10           |
| Expected return on plan assets                                  | (97)                     | (82)          |                                      |              |
| Amortization of unrecognized (gain) loss and prior service cost | (16)                     | 72            | (1)                                  | 13           |
| <b>Net periodic benefit costs</b>                               | <b>\$ 74</b>             | <b>\$ 159</b> | <b>\$ 19</b>                         | <b>\$ 30</b> |

(a) For Continental, the 2011 period represents Successor and the 2010 period represents Predecessor.

During the nine months ended September 30, 2011, Continental contributed \$135 million to its tax-qualified defined benefit pension plans. Continental contributed an additional \$31 million to its tax-qualified defined benefit pension plans in October 2011.

**Share-Based Compensation.** In February 2011, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 0.5 million shares of restricted stock that vest pro-rata over three years on the anniversary of the grant date. These awards also include approximately 3.0 million performance-based restricted stock units ( RSUs ) (equivalent to approximately 1.9 million RSUs at the target performance level), consisting of approximately 1.2 million RSUs that vest based on UAL's return on invested capital for the period beginning January 1, 2011 and ending December 31, 2013, and 1.8 million RSUs that vest based on the achievement of merger-related goals. Vesting of a portion of the merger incentive RSUs is based on the achievement of certain merger-related milestones and vesting of the remainder of the merger incentive RSUs is based on the achievement of revenue and cost synergies over a three-year performance period ending December 31, 2013. If the specified performance conditions are achieved, cash payments will be made shortly after the end of the performance period or achievement of the specified merger milestone, as applicable, based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company accounts for the performance-based RSUs as liability awards. The table below presents information related to share-based compensation expense (in millions):

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|   | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |       |
|---|-------------------------------------|------|------------------------------------|-------|
|   | 2011                                | 2010 | 2011                               | 2010  |
| <b>Share-based compensation expense</b>       |                                     |      |                                    |       |
| UAL (a)                                       | \$ 13                               | \$ 9 | \$ 40                              | \$ 30 |
| Continental Predecessor                       |                                     | 49   |                                    | 57    |
|   | <b>September 30, 2011</b>           |      | <b>December 31, 2010</b>           |       |
| Unrecognized share-based compensation expense | \$ 57                               |      | \$ 43                              |       |

(a) Includes expense recognized in integration-related costs for the three and nine months ended September 30, 2011.

**Profit Sharing Plans.** In 2011, substantially all employees participate in profit sharing plans, which pay 15% of total pre-tax earnings, excluding special items and stock compensation expense, to eligible employees when pre-tax profit, excluding special items, profit sharing expense and stock-based compensation program expense, exceeds \$10 million. Eligible U.S. co-workers in each participating work group will 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 workgroups. The international profit sharing plan pays eligible non-U.S. co-workers the same percentage of annual pay that is calculated under the U.S. profit sharing plan. Assuming all work groups are eligible to participate in profit sharing, UAL recorded profit sharing and related payroll tax expense of \$152 million and \$242 million in the three and nine months ended September 30, 2011, respectively. The actual amount of profit sharing that the Company will distribute to eligible employees in 2012 depends on the Company's full year financial results and the pool of employees eligible to participate. Profit sharing expense is recorded as a component of salaries and related costs in the consolidated statements of operations.

During 2010, United and Continental maintained separate employee profit sharing plans for the employees of each respective subsidiary. During the three months ended September 30, 2010, United and Continental Predecessor recorded profit sharing and related payroll tax expense of \$90 million and \$58 million, respectively. During the nine months ended September 30, 2010, United and Continental Predecessor recorded profit sharing and related payroll tax expense of \$153 million and \$77 million, respectively.

**NOTE 5 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 as of September 30, 2011 and December 31, 2010 (in millions):

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|                                  | 00000000 | 00000000                      | 00000000 | 00000000 | 00000000 | 00000000                     | 00000000 | 00000000 |
|----------------------------------|----------|-------------------------------|----------|----------|----------|------------------------------|----------|----------|
|                                  | Total    | September 30, 2011<br>Level 1 | Level 2  | Level 3  | Total    | December 31, 2010<br>Level 1 | Level 2  | Level 3  |
| <b>UAL</b>                       |          |                               |          |          |          |                              |          |          |
| Cash and cash equivalents        | \$ 6,984 | \$ 6,984                      | \$       | \$       | \$ 8,069 | \$ 8,069                     | \$       | \$       |
| Short-term investments:          |          |                               |          |          |          |                              |          |          |
| Auction rate securities          | 121      |                               |          | 121      | 119      |                              |          | 119      |
| CDARS                            | 276      | 276                           |          |          | 45       | 45                           |          |          |
| Asset-backed securities          | 411      | 411                           |          |          | 258      | 258                          |          |          |
| Corporate debt                   | 474      | 474                           |          |          | 135      | 135                          |          |          |
| U.S. government and agency notes | 25       | 25                            |          |          | 39       | 39                           |          |          |
| Other fixed income securities    | 66       | 66                            |          |          | 15       | 15                           |          |          |
| EETC                             | 60       |                               |          | 60       | 66       |                              |          | 66       |
| Fuel derivatives, net            | (75)     |                               | (75)     |          | 375      |                              | 375      |          |
| Foreign currency derivatives     | (3)      |                               | (3)      |          | (7)      |                              | (7)      |          |
| Restricted cash (a)              | 135      | 135                           |          |          | 160      | 160                          |          |          |

|                                  | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 |
|----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>United (a)</b>                |          |          |          |          |          |          |          |          |
| Cash and cash equivalents        | \$ 4,070 | \$ 4,070 | \$       | \$       | \$ 4,665 | \$ 4,665 | \$       | \$       |
| Short-term investments:          |          |          |          |          |          |          |          |          |
| Asset-backed securities          | 31       | 31       |          |          |          |          |          |          |
| Corporate debt                   | 137      | 137      |          |          |          |          |          |          |
| U.S. government and agency notes | 2        | 2        |          |          |          |          |          |          |
| Other fixed income securities    | 16       | 16       |          |          |          |          |          |          |
| EETC                             | 60       |          |          | 60       | 66       |          |          | 66       |
| Fuel derivatives, net            | (48)     |          | (48)     |          | 277      |          | 277      |          |

|                                   | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 | 00000000 |
|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Continental</b>                |          |          |          |          |          |          |          |          |
| Cash and cash equivalents         | \$ 2,908 | \$ 2,908 | \$       | \$       | \$ 3,398 | \$ 3,398 | \$       | \$       |
| Short-term investments:           |          |          |          |          |          |          |          |          |
| Auction rate securities           | 121      |          |          | 121      | 119      |          |          | 119      |
| CDARS                             | 276      | 276      |          |          | 45       | 45       |          |          |
| Asset-backed securities           | 380      | 380      |          |          | 258      | 258      |          |          |
| Corporate debt                    | 337      | 337      |          |          | 135      | 135      |          |          |
| U.S. government and agency notes  | 23       | 23       |          |          | 39       | 39       |          |          |
| Other fixed income securities     | 50       | 50       |          |          | 15       | 15       |          |          |
| Fuel derivatives, net             | (27)     |          | (27)     |          | 98       |          | 98       |          |
| Foreign currency derivatives      | (3)      |          | (3)      |          | (7)      |          | (7)      |          |
| Restricted cash                   | 135      | 135      |          |          | 160      | 160      |          |          |
| Convertible debt derivative asset | 199      |          |          | 199      | 286      |          |          | 286      |
| Convertible debt option liability | (103)    |          |          | (103)    | (164)    |          |          | (164)    |

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(a) United's restricted cash is recorded at cost.

The tables below present disclosures about the activity for Level Three financial assets and financial liabilities for the three and nine months ended September 30 (in millions):

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|  | Three Months Ended September 30, |       |       |
|--|----------------------------------|-------|-------|
|  | 2011                             | 2010  |       |
| UAL (a)                                | Auction Rate Securities          | EETC  | EETC  |
| Balance at June 30                     | \$ 121                           | \$ 65 | \$ 61 |
| Settlements                            |                                  | (2)   | (2)   |
| Reported in earnings - unrealized      | 1                                |       |       |
| Reported in other comprehensive income | (1)                              | (3)   | 4     |
| Balance at September 30                | \$ 121                           | \$ 60 | \$ 63 |

(a) For 2010, amounts also represent United. For 2011, United's only Level Three recurring measurements are the above EETCs.

|  | Nine Months Ended September 30, |       |       |
|--|---------------------------------|-------|-------|
|  | 2011                            | 2010  |       |
| UAL (a)                                | Auction Rate Securities         | EETC  | EETC  |
| Balance at January 1                   | \$ 119                          | \$ 66 | \$ 51 |
| Settlements                            |                                 | (4)   | (4)   |
| Reported in earnings - unrealized      | 2                               |       |       |
| Reported in other comprehensive income |                                 | (2)   | 16    |
| Balance at September 30                | \$ 121                          | \$ 60 | \$ 63 |

(a) For 2010, amounts also represent United. For 2011, United's only Level Three recurring measurements are the above EETCs.

|  | Successor - 2011        |  |  | Predecessor - 2010      |                                   |
|--|-------------------------|--|--|-------------------------|-----------------------------------|
|  | Auction Rate Securities | Convertible Debt Supplemental Derivative Asset (a) | Convertible Debt Conversion Option Liability (a) | Auction Rate Securities | Auction Rate Securities Put Right |
| <b>Continental</b>                     |                         |  |  |                         |                                   |
| Balance at June 30                     | \$ 121                  | \$ 251   | \$ (143)   | \$ 117                  | \$                                |
| Sales                                  |                         |  |  |                         |                                   |
| Gains (losses):                        |                         |  |  |                         |                                   |
| Reported in earnings:                  |                         |  |  |                         |                                   |
| Realized                               |                         |  |  |                         |                                   |
| Unrealized                             | 1                       | (52)   | 40   |                         |                                   |
| Reported in other comprehensive income | (1)                     |  |  |                         |                                   |
| Balance at September 30                | \$ 121                  | \$ 199   | \$ (103)   | \$ 117                  | \$                                |

(a) These derivatives are not designated as hedges. The Convertible Debt Supplemental Derivative Asset is classified in Other Asset - Other, net, and the Convertible Debt Conversion Option Liability is classified in Other liabilities and deferred credits - Other in Continental's consolidated balance sheets. The earnings impact is classified in Nonoperating income (expense) - Miscellaneous, net in Continental's statements of consolidated operations.

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|   |                               | Successor - 2011   |  | Predecessor - 2010         |   |
|---|-------------------------------|--|--|----------------------------|---|
|   |                               | Convertible<br>Debt<br>Supplemental<br>Derivative Asset<br>(a) | Convertible<br>Debt<br>Conversion<br>Option<br>Liability (a) |                            |   |
| Continental                                   | Auction<br>Rate<br>Securities |  |  | Auction Rate<br>Securities | Auction Rate<br>Securities Put<br>Right |
| Balance at January 1                          | \$ 119                        | \$ 286   | \$ (164)   | \$ 201                     | \$ 20                                   |
| Sales   |                               |  |  | (106)                      |   |
| Gains (losses):                               |                               |  |  |                            |   |
| Reported in earnings:                         |                               |  |  |                            |   |
| Realized                                      |                               |  |  | 23                         | (21)                                    |
| Unrealized                                    | 2                             | (87)   | 61   |                            | 1                                       |
| Reported in other comprehensive income (loss) |                               |  |  | (1)                        |   |
| Balance at September 30                       | \$ 121                        | \$ 199   | \$ (103)   | \$ 117                     | \$                                      |

(a) These derivatives are not designated as hedges. The Convertible Debt Supplemental Derivative Asset is classified in Other Asset - Other, net, and the Convertible Debt Conversion Option Liability is classified in Other liabilities and deferred credits - Other in Continental's consolidated balance sheets. The earnings impact is classified in Nonoperating income (expense) - Miscellaneous, net in Continental's statements of consolidated operations.

As of September 30, 2011, Continental's auction rate securities, which had a par value of \$145 million, an amortized cost basis of \$119 million and unrealized gains of \$2 million, were variable-rate debt instruments with contractual maturities generally greater than ten years and with interest rates that reset every 7, 28 or 35 days, depending on the terms of the particular instrument. These securities are backed by pools of student loans guaranteed by state-designated guaranty agencies and reinsured by the U.S. government. All of the auction rate securities that Continental holds are senior obligations under the applicable indentures authorizing the issuance of the securities.

During the first nine months of 2010, Continental Predecessor sold, at par, auction rate securities having a par value of \$106 million. Certain of these auction rate securities were subject to a put right granted to Continental by an institution permitting Continental to sell to the institution certain auction rate securities at their full par value. Continental classified the auction rate securities underlying the put right as trading securities and elected the fair value option under applicable accounting standards for the put right, with changes in the fair value of the put right and the underlying auction rate securities recognized in earnings currently. Continental recognized gains on the sales using the specific identification method. The gains were substantially offset by the cancellation of the related put rights. The net gains are included in miscellaneous nonoperating income (expense) in Continental Predecessor's statements of consolidated operations and were not material.

As of September 30, 2011, United's enhanced equipment trust certificate (EETC) securities, which were repurchased in open market transactions in 2007, have an amortized cost basis of \$66 million and unrealized losses of \$6 million. All changes in the fair value of these investments have been classified within accumulated other comprehensive income.

The Continental Successor debt-related derivatives presented in the table above relate to (a) supplemental indenture agreements that provide that Continental's convertible debt, which was previously convertible into shares of Continental common stock, is convertible into shares of UAL common stock upon the terms and conditions specified in the indentures, and (b) the embedded conversion options in Continental's convertible debt that are required to be separated and accounted for as though they are free-standing derivatives as a result of the Continental debt becoming convertible into the common stock of a different reporting entity. These derivatives are reported in Continental's separate financial statements and eliminated in consolidation for UAL. See the Company's 2010 Annual Report for additional information.

The table below presents the carrying values and estimated fair values of financial instruments not presented in the tables above as of September 30, 2011 and December 31, 2010 (in millions):

|             | September 30, 2011 |               | December 31, 2010  |               |
|-------------|--------------------|---------------|--------------------|---------------|
|             | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| UAL debt    | \$ 12,074          | \$ 12,151     | \$ 13,845          | \$ 14,995     |
| United debt | 5,826              | 5,565         | 7,026              | 7,350         |



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|                            |       |       |       |       |
|----------------------------|-------|-------|-------|-------|
| Continental Successor debt | 5,835 | 5,717 | 6,401 | 6,663 |
|----------------------------|-------|-------|-------|-------|

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

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| <b>Description</b>   | <b>Fair Value Methodology</b>  |
|--|--|
| <i>Cash, Cash Equivalents, Short-term Investments, Investments and Restricted Cash</i> | The carrying amounts approximate fair value because of the short-term maturity of these assets and liabilities. These assets have maturities of less than one year except for the EETCs, auction rate securities and corporate debt.<br><br>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, or (c) internally-developed models of the expected future cash flows related to the securities. |
| <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.  |
| <i>Convertible Debt Derivative Asset and Option Liability</i>                          | The Company used a binomial lattice model to value the conversion options and the supplemental derivative assets. Significant binomial model inputs that are not objectively determinable include volatility and discount rate.  |

**NOTE 6 HEDGING ACTIVITIES**

**Aircraft Fuel Hedges.** The Company has a risk management strategy to hedge a portion of its price risk related to projected aircraft fuel requirements. The Company periodically enters into derivative contracts to mitigate the adverse financial impact of potential increases in the price of fuel. The Company does not enter into derivative instruments for non-risk management purposes. Prior to April 1, 2010, United's fuel hedges were not accounted for as fair value or cash flow hedges under accounting principles related to hedge accounting. Effective April 1, 2010, United designated substantially all of its outstanding fuel derivative contracts, which settle in periods subsequent to June 30, 2010, as cash flow hedges under applicable accounting standards. In addition, substantially all new fuel derivative contracts entered into subsequent to April 1, 2010 were designated as cash flow hedges.

For fuel derivative instruments designated as cash flow hedges, the Company records the effective portion of periodic changes in the fair value of the derivatives in accumulated other comprehensive income (loss) ( AOCI ) until the underlying fuel is consumed and recorded in fuel expense. Hedge ineffectiveness results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company's expected future cash outlay to purchase and consume fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is recorded to miscellaneous nonoperating income (expense) in the statements of consolidated operations. Nonoperating income (expense) for the three and nine months ended September 30, 2011 includes \$56 million and \$87 million, respectively, of expense resulting from ineffectiveness caused by a decrease in fuel hedge values in excess of the decrease in aircraft fuel prices during the quarter. The impact has been concentrated in hedges utilizing crude oil derivative contracts.

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.

As of September 30, 2011, our projected fuel requirements for the remainder of 2011 were hedged as follows:

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|  | Maximum Price                                   | Minimum Price                                   |
|--|---|---|
|  | Weighted<br>Average<br>Price<br>(per<br>gallon) | Weighted<br>Average<br>Price<br>(per<br>gallon) |
| %<br>of<br>Expected<br>Consumption                     | % of<br>Expected<br>Consumption                 |   |
| <b>UAL (a)</b>   |   |   |
| Heating oil collars                                    | 19%   | \$ 2.63   |
| Heating oil call options                               | 5   | N/A   |
| Heating oil swaps                                      | 4   | 2.93  |
| West Texas Intermediate ( WTI ) crude oil call options | 12  | N/A   |
| WTI crude oil swaps                                    | 10  | 2.19  |
| Aircraft fuel call options                             | 2   | N/A   |
| Aircraft fuel swaps                                    | 4   | 3.03  |
| Total  | 56%   | 37%   |

(a) As of September 30, 2011, UAL had also hedged 34% of projected first half 2012 fuel consumption. The following tables present information about the financial statement classification of the Company's derivatives (in millions):

|                                    |                           | September 30, 2011 |        |             | December 31, 2010 |        |             |
|------------------------------------|---------------------------|--------------------|--------|-------------|-------------------|--------|-------------|
| Derivatives designated as hedges   | Balance Sheet Location    | UAL                | United | Continental | UAL               | United | Continental |
| <b>Assets:</b>                     |                           |                    |        |             |                   |        |             |
| Fuel contracts due within one year | Receivables               | \$ 25              | \$ 14  | \$ 11       | \$ 375            | \$ 277 | \$ 98       |
| <b>Liabilities:</b>                |                           |                    |        |             |                   |        |             |
| Fuel contracts due within one year | Other Current Liabilities | \$ 100             | \$ 62  | \$ 38       | \$                | \$     | \$          |

|                 | Amount of Gain (Loss)<br>Recognized<br>in AOCI on Derivatives<br>(Effective portion) | Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Fuel Expense)<br>(Effective Portion) | Amount of Gain (Loss)<br>Recognized in<br>Income (Nonoperating<br>Expense)<br>(Ineffective Portion)<br>Three Months<br>Ended<br>September 30, |
|-----------------|--|---|---|
|                 | Three Months Ended<br>September 30,<br>2011  | Three Months Ended<br>September 30,<br>2010   | 2011  |
| Fuel contracts  |  |   |   |
| UAL             | \$ (181)   | \$ 79   | \$ (56)   |
| United          | (91)   | 79  | (33)  |
| Continental (a) | (90)   | 33  | (23)  |

(a) For Continental, the 2011 period represents Successor and the 2010 period represents Predecessor.

| Amount of Gain (Loss)<br>Recognized | Gain (Loss)<br>Reclassified from | Amount of Gain (Loss)<br>Recognized in |
|-------------------------------------|----------------------------------|--|
|-------------------------------------|----------------------------------|--|

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|                 | in AOCI on<br>Derivatives<br>(Effective portion)<br>Nine Months Ended<br>September 30, |         | AOCI into Income<br>(Fuel Expense)<br>(Effective Portion)<br>Nine Months Ended<br>September 30, |         | Income (Nonoperating<br>Expense)<br>(Ineffective Portion)<br>Nine Months Ended<br>September 30, |      |
|-----------------|--|---------|---|---------|---|------|
| Fuel contracts  | 2011   | 2010    | 2011  | 2010    | 2011  | 2010 |
| UAL             | \$ 112   | \$ (66) | \$ 526  | \$ (72) | \$ (87)   | \$ 9 |
| United          | 145  | (66)    | 427   | (72)    | (38)  | 9    |
| Continental (a) | (33)   | (4)     | 99  | (23)    | (49)  | (2)  |

(a) For Continental, the 2011 period represents Successor and the 2010 period represents Predecessor.

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### 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 following table presents information related to the Company's derivative credit risk as of September 30, 2011 (in millions):

|  | UAL   | United | Continental |
|--|-------|--------|-------------|
| Net derivative liability with counterparties                                     | \$ 75 | \$ 48  | \$ 27       |
| Collateral held by the Company   |       |        |             |
| Collateral posted by the Company (a)   | 2     | 2      |             |
| Potential loss related to the failure of the Company's counterparties to perform | 1     |        | 1           |

(a) Classified as a current receivable.

### NOTE 7 COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) for the three and nine months ended September 30 included the following (in millions):

| Three Months Ended September 30,                           | UAL    |        | United |        | Continental<br>Successor (a) | Continental<br>Predecessor (a) |
|--|--------|--------|--------|--------|------------------------------|--------------------------------|
|  | 2011   | 2010   | 2011   | 2010   | 2011                         | 2010                           |
| Net income   | \$ 653 | \$ 387 | \$ 415 | \$ 399 | \$ 236                       | \$ 354                         |
| Other comprehensive income (loss) adjustments, before tax: |        |        |        |        |                              |                                |
| Investments  | (4)    | 4      | (3)    | 4      | (1)                          |                                |
| Fuel derivative financial instruments:                     |        |        |        |        |                              |                                |
| Reclassification into earnings                             | (94)   | 72     | (90)   | 72     | (4)                          | 16                             |
| Change in fair value                                       | (181)  | 79     | (91)   | 79     | (90)                         | 33                             |
| Employee benefit plans:                                    |        |        |        |        |                              |                                |
| Amortization of net actuarial (gains) losses               | (5)    | (3)    |        | (3)    | (5)                          | 21                             |
| Amortization of prior service cost                         |        |        |        |        |                              | 8                              |
| Other  | (1)    | 4      |        | 4      | (1)                          | (8)                            |
| Comprehensive income (loss) adjustments, before tax        | (285)  | 156    | (184)  | 156    | (101)                        | 70                             |
| Total comprehensive income (a)                             | \$ 368 | \$ 543 | \$ 231 | \$ 555 | \$ 135                       | \$ 424                         |

(a) There were no income tax effects for either period due to the recording of valuation allowance.

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| Nine Months Ended September 30,                            | UAL    |        | United |        | Continental<br>Successor (a) | Continental<br>Predecessor (a) |
|--|--------|--------|--------|--------|------------------------------|--------------------------------|
|  | 2011   | 2010   | 2011   | 2010   | 2011                         | 2010                           |
| Net income   | \$ 978 | \$ 578 | \$ 536 | \$ 606 | \$ 441                       | \$ 441                         |
| Other comprehensive income (loss) adjustments, before tax: |        |        |        |        |                              |                                |
| Investments  | (2)    | 16     | (3)    | 16     | 1                            |                                |
| Fuel derivative financial instruments:                     |        |        |        |        |                              |                                |
| Reclassification into earnings                             | (526)  | 72     | (427)  | 72     | (99)                         | 23                             |
| Change in fair value                                       | 112    | (66)   | 145    | (66)   | (33)                         | (4)                            |
| Employee benefit plans:                                    |        |        |        |        |                              |                                |
| Amortization of net actuarial (gains) losses               | (18)   | (10)   | (1)    | (10)   | (17)                         | 62                             |
| Amortization of prior service cost                         |        |        |        |        |                              | 23                             |
| Other  | 2      | 1      | (1)    | 1      | 1                            | (11)                           |
| Comprehensive income (loss) adjustments, before tax        | (432)  | 13     | (287)  | 13     | (147)                        | 93                             |
| Total comprehensive income (a)                             | \$ 546 | \$ 591 | \$ 249 | \$ 619 | \$ 294                       | \$ 534                         |

(a) There were no income tax effects for either period due to the recording of valuation allowance.

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

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

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

The Company records liabilities for legal and environmental claims when a loss is probable and reasonably estimable. These amounts are recorded based on the Company's assessments of the likelihood of their eventual disposition. The amounts of these liabilities could increase or decrease in the near term, based on revisions to estimates relating to the various claims.

The Company believes that it will have no financial exposure for claims arising out of the events of September 11, 2001 in light of the provisions of the Air Transportation Safety and System Stabilization Act of 2001 limiting claimants' recoveries to insurance proceeds, the resolution of the wrongful death and personal injury cases by settlement, the resolution of the majority of the property damage claims and the withdrawal of all related proofs of claim from UAL Corporation's Chapter 11 bankruptcy proceeding.

**Contingent Senior Unsecured Notes.** UAL is obligated under an indenture to issue to the Pension Benefit Guarantee Corporation (PBGC) up to \$500 million aggregate principal amount of 8% Notes in up to eight equal tranches of \$62.5 million if certain financial triggering events occur (with each tranche issued no later than 45 days following the end of any applicable fiscal year). A triggering event occurs when UAL's EBITDAR, as defined in the 8% Notes indenture, exceeds \$3.5 billion over the prior 12 months ending June 30 or December 31 of any applicable fiscal year. The 12 month measurement periods began with the fiscal year ended December 31, 2009 and will end with the fiscal year ending December 31, 2017. It is the Company's policy to record an obligation for a tranche at the end of the 12 month measurement period when it is known that a financial triggering event has been met. If any 8% Notes are issued, the Company will not receive any cash. Any 8% Notes



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issued will result in a charge to earnings equal to the fair value of the 8% Notes required to be issued. The payment of liabilities arising in connection with the 8% Notes will be included as cash flows from operating activities in the Company's statements of consolidated cash flows. Two tranches of 8% Notes could be issued on the same date if financial triggering events occur on both EBITDAR measurement periods ended June 30 and December 31 of the same year. UAL common stock can be issued in lieu of the 8% Notes only if the issuance of such 8% Notes would cause a default under other outstanding securities.

A financial triggering event under the 8% Notes indenture occurred at June 30, 2011 and, as a result, UAL is obligated to issue one tranche of \$62.5 million of the 8% Notes no later than February 14, 2012. This tranche will mature June 30, 2026, with interest accruing from the triggering event measurement date at a rate of 8% per annum that is payable in cash in semi-annual installments starting June 30, 2012. The tranche of 8% Notes will be callable, at UAL's option, at any time at par, plus accrued and unpaid interest. UAL recorded a liability for the fair value of the \$62.5 million tranche in the second quarter of 2011, which totaled \$49 million. This \$49 million charge is an integration-related cost classified as a special charge because the financial results of UAL, excluding Continental's results, would not have resulted in a triggering event under the indenture. See Note 10 for additional information on the 8% Notes. The amount recorded is net of a discount applied to the future principal and interest payments using market interest rates for similar structured notes. This is the first such occurrence of UAL's obligation to issue a tranche of 8% Notes.

**Commitments.** The table below summarizes the Company's commitments as of September 30, 2011, 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 (in millions):

|                           | UAL       | United   | Continental |
|---------------------------|-----------|----------|-------------|
| Last Three Months of 2011 | \$ 259    | \$ 115   | \$ 144      |
| 2012                      | 1,509     | 109      | 1,400       |
| 2013                      | 1,081     | 56       | 1,025       |
| 2014                      | 1,074     | 96       | 978         |
| 2015                      | 1,545     | 376      | 1,169       |
| After 2015                | 7,407     | 6,838    | 569         |
|                           | \$ 12,875 | \$ 7,590 | \$ 5,285    |

**United Aircraft Commitments.** As of September 30, 2011, United had firm commitments to purchase 50 new aircraft (25 Boeing 787 aircraft and 25 Airbus A350XWB aircraft) scheduled for delivery from 2016 through 2019. United also has options to purchase 42 Airbus A319 and A320 aircraft and purchase rights for 50 Boeing 787 aircraft and 50 Airbus A350XWB aircraft.

United has secured considerable backstop financing commitments from its aircraft and engine manufacturers, subject to certain customary conditions. However, United can provide no assurance that backstop financing, or any other financing not already in place, for aircraft and engine deliveries will be available to United on acceptable terms when necessary or at all.

**Continental Aircraft Commitments.** As of September 30, 2011, Continental had firm commitments to purchase 82 new aircraft (57 Boeing 737 aircraft and 25 Boeing 787 aircraft) scheduled for delivery from January 2012 through 2016. Continental took delivery of four Boeing 737 aircraft in the first nine months of 2011. No further deliveries are planned for the remainder of 2011. Continental also has options to purchase 89 additional Boeing aircraft.

Continental does not have backstop financing or any other financing currently in place for the Boeing aircraft on order. Financing will be necessary to satisfy Continental's capital commitments for its firm order aircraft and other related capital expenditures. Continental can provide no assurance that backstop financing, or any other financing not already in place, for aircraft and engine deliveries will be available to Continental on acceptable terms when necessary or at all.

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





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Under United's and Continental's new combined credit card processing agreement with JPMorgan Chase Bank, N.A. (JPMorgan Chase) and Paymentech, LLC, United and Continental are required to provide a cash reserve, determined based on the amount of unrestricted cash, cash equivalents and short-term investments (unrestricted cash balance) held by United and Continental. If United's and Continental's unrestricted cash balance is at or more than \$3.5 billion as of any calendar month-end measurement date, the required cash reserve will be \$25 million. However, if United's and Continental's unrestricted cash balance is less than \$3.5 billion, their required reserve will increase to a percentage of relevant advance ticket sales as summarized in the following table:

| Total Unrestricted Cash Balance of United and Continental | Required % of<br>Relevant Advance<br>Ticket Sales (a) |
|---|---|
| Less than \$3.5 billion                                   | 25%   |
| Less than \$3.0 billion                                   | 50%   |

(a) Represents percentage of advance ticket sales generated by bankcard transactions. As of September 30, 2011, approximately 50% of the combined company's advance ticket sales is generated from bankcard transactions.

Based on United's and Continental's September 30, 2011 unrestricted cash balance, United and Continental were not required to provide cash collateral above the \$25 million reserve balance. If the Company is required to post additional cash collateral under the new combined JPMorgan Chase credit card processing agreement as a result of an increase in the required reserve amount, Continental will be required to post additional collateral under its credit card processing agreement with American Express that could be significant.

An increase in the future reserve requirements and the posting of a significant amount of cash collateral as provided by the terms of any of the Company's material credit card processing agreements could materially reduce the Company's liquidity. See Note 17 of the 2010 Annual Report for additional information on the Company's other credit card processing agreements.

**Guarantees and Off-Balance Sheet Financing.** In the Company's financing transactions that include loans, the Company typically agrees to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate (LIBOR), for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. The following table contains information related to the Company's outstanding debt at September 30, 2011 (in millions):

|   | UAL      | United   | Continental |
|---|----------|----------|-------------|
| Floating rate debt (a)                                    | \$ 3,065 | \$ 2,169 | \$ 896      |
| Fixed rate debt (a)                                       | 413      | 209      | 204         |
| Carrying value of loans/leases from non-U.S. entities (b) | 3,359    | 2,378    | 981         |

(a) Remaining terms of up to nine years, subject to these increased cost provisions.

(b) Remaining terms of up to nine years; 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.

United has guaranteed interest and principal payments on \$270 million of the Denver International Airport bonds, which are due in 2032 unless United elects not to extend its equipment and ground lease, in which case the bonds are due in 2023. The bonds were issued in two tranches approximately \$170 million aggregate principal amount of 5.25% discount bonds and \$100 million aggregate principal amount of 5.75% premium bonds. The related lease obligation is accounted for as an operating lease with the associated expense recorded on a straight-line basis resulting in ratable accrual of the final \$270 million lease obligation over the expected lease term through 2032.

Continental is contingently liable for US Airways' obligations under a lease agreement between US Airways and the Port Authority of New York and New Jersey related to the East End Terminal at LaGuardia Airport. These obligations include the payment of ground rentals to the Port Authority and the payment of other rentals in respect of the full amounts owed on special facilities revenue bonds issued by the Port Authority having an outstanding par amount of \$95 million at September 30, 2011, and a final scheduled maturity in 2015. If US Airways defaults on these

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obligations, Continental would be obligated to cure the default and would have the right to occupy the terminal after US Airways' interest in the lease had been terminated.

Continental is the lessee of real property under long-term leases at a number of airports where it is also the guarantor of approximately \$1.6 billion of underlying debt and interest thereon. These leases are typically with municipalities or other governmental entities, which are excluded from the consolidation requirements concerning variable interest entities. To the extent Continental's lease and related guarantee are with a separate legal entity other than a governmental entity, Continental is not the primary beneficiary because the lease terms are consistent with market terms at the inception of the lease and the lease

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does not include a residual value guarantee, fixed-price purchase option or similar feature. The leasing arrangements associated with approximately \$1.4 billion of these obligations are accounted for as operating leases, and the leasing arrangements associated with approximately \$190 million of these obligations are accounted for as capital leases.

**IAH Terminal B Redevelopment Project.** In May 2011, UAL, in partnership with the Houston Airport System, announced that it is expected to begin construction of the first phase of a three-phase \$1 billion terminal improvement project for Terminal B at Bush Intercontinental Airport ( IAH ) by the end of 2011. UAL's initial commitment is to construct the first phase of the currently anticipated three-phase project that will create a new Terminal B south concourse dedicated to domestic regional jet operations. UAL's cost of construction of phase one of the project is currently estimated to be approximately \$100 million and is expected to be funded by special facilities bonds issued by the City of Houston, which bonds would be guaranteed by UAL and/or one of its subsidiaries and would be payable from the rentals paid by UAL or one of its subsidiaries under a special facilities lease agreement with the City of Houston, or cash. Construction of the remaining phases of the project will be based on demand over the next 7 to 10 years, with phase one currently expected to be completed in late 2013.

Based on a qualitative assessment of the IAH Terminal B Redevelopment Project, given the expectation that UAL and/or one of its subsidiaries would guarantee the special facilities bonds, and the requirement that UAL or one of its subsidiaries fund cost overruns with no stated limits would result in the Company being considered the owner of the property during the construction period for accounting purposes. As a result, the construction project will be treated as a financing transaction such that the property and related financing will be included on UAL's consolidated balance sheet as a capital lease asset and obligation.

**Credit Facilities.** United has a \$255 million revolving loan commitment, which matures on February 1, 2012, available under its Amended and Restated Revolving Credit, Term Loan and Guaranty Agreement, dated as of February 2, 2007 (the Amended Credit Facility ). United used \$227 million and \$253 million of the commitment capacity for letters of credit at September 30, 2011 and December 31, 2010, respectively. Unless this revolving loan commitment is amended or replaced, United will be required to cash collateralize these letters of credit by October 31, 2011. Through a separate arrangement, United has an additional \$150 million available under an unused credit facility that expires in the fourth quarter of 2011.

**Labor Negotiations.** As of September 30, 2011, UAL and its subsidiaries had more than 80,000 active employees, of whom approximately 71% are represented by various U.S. labor organizations. United and Continental had approximately 82% and 58%, respectively, of their active employees represented by various U.S. labor organizations. United has been in negotiations for amended collective bargaining agreements with all of its unions since 2009. At the time of the merger, Continental had executed a new agreement with the Transport Workers Union ( TWU ) covering flight simulator technicians and dispatchers and was in negotiations with the International Association of Machinists ( IAM ) for its flight attendants, the International Brotherhood of Teamsters (the Teamsters ) for its maintenance technicians and related employees, the Teamsters for its fleet service/ramp employees and the Air Line Pilots Association ( ALPA ) for its pilots. The flight attendants, maintenance technicians and related employees and fleet service/ramp employees subsequently reached agreements with Continental, leaving the Continental pilots as the only Continental work group remaining in negotiations for an amended collective bargaining agreement.

After the Company's May 2010 merger announcement, ALPA opted to suspend negotiations at both United and Continental to focus on joint negotiations for a new collective bargaining agreement that would apply to the combined company. United and Continental reached agreement with ALPA on a Transition and Process Agreement that provides a framework for conducting separate flight operations for the two employee groups until the parties reach agreement on a joint collective bargaining agreement, there is an integrated pilot seniority list, and the carriers obtain a single operating certificate. In August 2010, United and Continental began joint negotiations with ALPA and those negotiations are currently ongoing. In December 2010, ALPA and the Company jointly applied to the National Mediation Board (the NMB ) for mediation assistance for these joint negotiations.

In June 2011, United's maintenance technicians and related employees represented by the Teamsters voted against a tentative agreement on a proposed collective bargaining agreement. In October 2011, the parties resumed negotiations for a revised agreement. The Company also has filed for mediation assistance with the NMB for negotiations toward a joint collective bargaining agreement for all Teamsters-represented mechanic and related employees at United, Continental and Continental Micronesia, Inc. ( CMI ).

Numerous unions have filed applications seeking single carrier findings by the NMB. Some unions have filed these applications to begin the process of resolving union representation differences among United, Continental, and CMI work groups. If the NMB determines that United, Continental, and CMI are considered a single carrier for a particular work group, the NMB may order an election if there is a difference in union representation among the employee groups. Until the union representation issues are resolved, the incumbent unions will continue to represent those employee groups they currently represent. In January



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2011, the IAM filed two separate applications seeking single carrier findings by the NMB for fleet service/ramp and stores/stock clerk employees. On April 28, 2011, the NMB issued its determination that a single carrier existed for fleet service/ramp employees at United, Continental and CMI. On June 13, 2011, the NMB authorized an election for fleet service/ramp employees to elect a common representative and, on August 12, 2011, the NMB issued a certification finding the fleet service/ramp employees had selected the IAM as the representative for the combined work group. UAL and the IAM intend to begin negotiations for a joint collective bargaining agreement for those employees in the fourth quarter of 2011. On July 2, 2011, the NMB extended the certification of the IAM as representative of the stores/stock clerk employees for the combined company due to the larger number of IAM-represented employees at United as compared to the unrepresented employees at Continental. UAL and the IAM also intend to begin negotiations for a joint collective bargaining agreement for the stores/stock clerk employees in the near future.

In January 2011, the Association of Flight Attendants (the AFA) filed a single carrier request with the NMB for United and Continental flight attendants. In April 2011, the NMB ruled that United, Continental and CMI were operating as a single carrier for union representation of flight attendants and ordered an election for this work group. On June 30, 2011, the NMB certified the AFA as the representative of flight attendants at the combined company. United and the AFA have entered into a protocol for expedited negotiations to conclude negotiations for an amended agreement covering United's flight attendants and, if successful, the Company anticipates that joint negotiations for a combined collective bargaining agreement will begin shortly thereafter.

On September 29, 2011, the NMB found a single carrier existed for purposes of union representation among the engineers and related employees and the election for union representation of this work group is expected shortly. Engineers and related employees at United currently are represented by the International Federation of Professional and Technical Engineers whereas engineers and related employees at Continental are not represented by a union. UAL recently entered into an agreement to begin negotiations for a collective bargaining agreement for the combined dispatcher work group with the TWU, which represents Continental's dispatchers, and the Professional Airline Flight Control Association, which represents United's dispatchers.

The outcome of labor negotiations may materially impact the Company's future financial results. However, it is too early in the process to assess the timing or magnitude of the impact, if any.

### **NOTE 9 DEBT AND ADVANCED PURCHASE OF MILES**

As of September 30, 2011, a substantial portion of our assets are pledged as collateral for our debt. These assets principally consist of aircraft and the related spare parts and engines, route authorities and, in the case of United, loyalty program intangible assets. As of September 30, 2011, UAL, United and Continental were in compliance with their respective debt covenants.

**5% Convertible Notes.** In the first quarter of 2011, UAL repurchased all of its \$150 million face value 5% Senior Convertible Notes due in 2021 with cash after substantially all of the notes were put to UAL by the noteholders.

**4.5% Senior Limited-Subordinated Convertible Notes.** In the second quarter of 2011, UAL repurchased at par value approximately \$570 million of the \$726 million outstanding principal amount of its 4.5% Senior Limited-Subordination Convertible Notes due 2021 with cash after the notes were put to UAL by the noteholders. The remaining \$156 million outstanding principal amount of the notes was reclassified from current maturities of long-term debt to long-term debt at June 30, 2011.

**Contingent Senior Unsecured Notes PBGC.** At June 30, 2011, UAL became obligated under the 8% Notes indenture to issue to the PBGC \$62.5 million aggregate principal amount of 8% Notes no later than February 14, 2012. See Notes 8 and 10 of this report for additional information on the 8% Notes.

**Chase Co-Brand Agreement.** United and Continental each had significant contracts to sell frequent flyer miles to Chase through their separate co-branded agreements. As a result of the contract modification of these co-brand agreements, Continental's pre-purchased credit and debit card miles liabilities that had been accounted for as long-term debt were reclassified to advanced purchase of miles as the terms related to the miles have been changed such that the pre-purchased miles no longer meet the definition of debt. As a result, Continental's long-term debt decreased \$210 million, advanced purchase of miles increased \$270 million and other assets increased \$60 million.

In July 2011, UAL sold an additional \$165 million of pre-purchased miles to Chase. Continental rolled the remaining balance of the pre-paid miles under its previously existing co-branded agreement into the Co-Brand Agreement when it terminated its debit card co-brand agreement with Chase. UAL has the right, but is not required, to repurchase the pre-purchased miles from Chase during the term of the agreement. The Co-Brand Agreement contains termination penalties that may require United and



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Continental to make certain payments and repurchase outstanding pre-purchased miles in cases such as the Company's insolvency, bankruptcy or other material breaches. The Company has recorded these amounts as advanced purchase of miles in the non-current liabilities section of the Company's condensed consolidated balance sheets.

The obligations of UAL, United, Continental and Mileage Plus Holdings, LLC to Chase under the Co-Brand Agreement are joint and several. Certain of United's obligations under the Co-Brand Agreement in an amount not more than \$850 million are secured by a junior lien in all collateral pledged by United under its Amended Credit Facility. All of Continental's obligations under the Co-Brand Agreement are secured by a junior lien in all collateral pledged by Continental to secure its 6.75% Senior Secured Notes due 2015. United also provides a first priority lien to Chase on its MileagePlus assets to secure certain of its obligations under the Co-Brand Agreement and its obligations under the new combined credit card processing agreement among Continental, United, Paymentech, LLC and JPMorgan Chase. After Continental's OnePass Program is terminated on December 31, 2011, certain of the OnePass Program assets will be added as collateral to such MileagePlus assets.

**NOTE 10 SPECIAL ITEMS**

**Special Revenue Item.** As discussed in Note 1, during the second quarter of 2011, the Company modified the previously existing United and Continental co-branded credit card agreements with Chase as a result of the merger. This modification resulted in the following one-time adjustment to decrease frequent flyer deferred revenue and increase special revenue in accordance with ASU 2009-13 for the nine months ended September 30, 2011 as follows (in millions):

|                      | UAL    | United | Continental |
|----------------------|--------|--------|-------------|
| Special revenue item | \$ 107 | \$ 88  | \$ 19       |

**Special Charges.** For the three and nine months ended September 30, special charges consisted of the following (in millions):

|                                       | Three Months Ended<br>September 30, |        |                          | Nine Months Ended<br>September 30, |        |                          |
|---------------------------------------|-------------------------------------|--------|--------------------------|------------------------------------|--------|--------------------------|
| 2011                                  | UAL                                 | United | Continental<br>Successor | UAL                                | United | Continental<br>Successor |
| Integration-related costs             | \$ 123                              | \$ 72  | \$ 51                    | \$ 347                             | \$ 236 | \$ 111                   |
| Aircraft-related charges (gains), net | (3)                                 |        | (3)                      | (4)                                |        | (4)                      |
| Total                                 | \$ 120                              | \$ 72  | \$ 48                    | \$ 343                             | \$ 236 | \$ 107                   |

|                               | UAL   | United | Continental<br>Predecessor | UAL    | United | Continental<br>Predecessor |
|-------------------------------|-------|--------|----------------------------|--------|--------|----------------------------|
| 2010                          |       |        |                            |        |        |                            |
| Aircraft-related charges, net | \$ 22 | \$ 22  | \$                         | \$ 112 | \$ 112 | \$ 6                       |
| Merger-related costs          | 44    | 44     | 11                         | 72     | 72     | 29                         |
| Other                         | (3)   | (3)    | 2                          | 3      | 3      | 12                         |
| Total                         | \$ 63 | \$ 63  | \$ 13                      | \$ 187 | \$ 187 | \$ 47                      |

Integration-related costs include costs to terminate certain service contracts that will not be used by the Company, costs to write-off system assets that are no longer used or planned to be used by the Company, payments to third-party consultants to assist with integration planning and organization design, severance related costs primarily associated with administrative headcount reductions, relocation and training, and compensation costs related to the systems integration. In addition, at June 30, 2011, UAL became obligated under the 8% Notes indenture to issue to the PBGC \$62.5 million aggregate principal amount of 8% Notes no later than February 14, 2012. UAL recorded a liability for the fair value of the obligation of approximately \$49 million, as described above in Notes 8 and 9. This is being classified as an integration-related cost since the financial results of UAL, excluding Continental's results, would not have resulted in a triggering event under the 8% Notes indenture. Other special charges include gains and losses on the disposal of aircraft and related spare parts.



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During the three and nine months ended September 30, 2010, the charges related to UAL and United in the table above primarily related to asset impairment charges incurred as a result of a decrease in the value of certain aircraft-related assets. During the three and nine months ended September 30, 2010, Continental Predecessor's charges presented in the table above primarily consisted of aircraft-related charges related to grounded Boeing 737-300 aircraft, which is net of gains on the sale of two Boeing 737-500 aircraft. Merger-related costs include third-party costs incurred for legal, finance, advisory, accounting and consultant fees and communication costs.

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Activity related to the accruals for severance and medical costs and future lease payments on permanently grounded aircraft is as follows (in millions):

|                                | 2011 Activity | Severance/Medical<br>Costs | Permanently<br>Grounded<br>Aircraft |
|--------------------------------|---------------|----------------------------|-------------------------------------|
| <b>UAL</b>                     |               |                            |                                     |
| Balance at December 31, 2010   |               | \$ 102                     | \$ 41                               |
| Increase (decrease) in accrual |               | 17                         | 2                                   |
| Payments                       |               | (46)                       | (12)                                |
| Balance at September 30, 2011  |               | \$ 73                      | \$ 31                               |
| <b>United</b>                  |               |                            |                                     |
| Balance at December 31, 2010   |               | \$ 42                      | \$ 41                               |
| Increase in accrual            |               | 28                         | 2                                   |
| Payments                       |               | (28)                       | (12)                                |
| Balance at September 30, 2011  |               | \$ 42                      | \$ 31                               |
| <b>Continental Successor</b>   |               |                            |                                     |
| Balance at December 31, 2010   |               | \$ 60                      |                                     |
| Decrease in accrual            |               | (11)                       |                                     |
| Payments                       |               | (18)                       |                                     |
| Balance at September 30, 2011  |               | \$ 31                      |                                     |

The severance-related accrual as of September 30, 2011, which primarily relates to the integration of United and Continental, is expected to be paid through 2012. Lease payments for grounded aircraft are expected to be paid through 2013.

|                                | 2010 Activity | Severance/Medical<br>Costs | Permanently<br>Grounded<br>Aircraft |
|--------------------------------|---------------|----------------------------|-------------------------------------|
| <b>UAL</b>                     |               |                            |                                     |
| Balance at December 31, 2009   |               | \$ 45                      | \$ 83                               |
| Increase (decrease) in accrual |               | 2                          | (2)                                 |
| Payments                       |               | (27)                       | (33)                                |
| Balance at September 30, 2010  |               | \$ 20                      | \$ 48                               |
| <b>United</b>                  |               |                            |                                     |
| Balance at December 31, 2009   |               | \$ 45                      | \$ 83                               |
| Increase (decrease) in accrual |               | 2                          | (2)                                 |
| Payments                       |               | (27)                       | (33)                                |
| Balance at September 30, 2010  |               | \$ 20                      | \$ 48                               |

**Continental Predecessor**

|                               |    |      |
|-------------------------------|----|------|
| Balance at December 31, 2009  | \$ | 14   |
| Increase in accrual           |    | 3    |
| Payments                      |    | (14) |
| Balance at September 30, 2010 | \$ | 3    |

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

#### **Overview**

United Continental Holdings, Inc. (together with its consolidated subsidiaries, "UAL") is a holding company and its principal, wholly-owned subsidiaries are United Air Lines, Inc. (together with its consolidated subsidiaries, "United") and, effective October 1, 2010, Continental Airlines, Inc. (together with its consolidated subsidiaries, "Continental"). We sometimes use the words "we," "our," "us," and the "Company" in this Quarterly Report on Form 10-Q (the "Form 10-Q") for disclosures that relate to all of UAL, United and Continental.

This Form 10-Q is a combined report of UAL, United, and Continental including their respective consolidated financial statements. As UAL consolidates United and Continental for financial statement purposes, disclosures that relate to United activities also apply to UAL and, effective October 1, 2010, disclosures that relate to Continental Successor activities also apply to UAL, unless otherwise noted. When appropriate, UAL, United and Continental are named specifically for their related activities and disclosures.

United and Continental transport people and cargo through their mainline operations, which utilize jet aircraft with at least 100 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express, Continental Express and Continental Connection carriers. United and Continental together serve virtually every major market around the world, either directly or through participation in Star Alliance®, the world's largest airline alliance. Based on annual flight schedules as of October 1, 2011, the Company offers approximately 5,700 daily departures to 375 destinations through its United and Continental subsidiaries and their regional operators.

#### **Third Quarter Financial Highlights**

UAL's third quarter 2011 net income was \$773 million, or \$2.00 diluted earnings per share, excluding \$120 million of net special items. On a GAAP basis, UAL's third quarter 2011 net income was \$653 million, or \$1.69 diluted earnings per share.

UAL's passenger revenue increased 7.7% during the third quarter of 2011 as compared to the third quarter of 2010, excluding the impact of Continental's operations following the close of the merger.

Offsetting the improvement in revenue was a 27.1% year-over-year increase in UAL's third quarter 2011 fuel cost, excluding the impact of the merger. This increase was primarily due to a 31% increase in the price of fuel.

UAL's operating income was \$935 million during the third quarter of 2011, resulting in an operating margin of 9.2%.

UAL's unrestricted cash, cash equivalents and short-term investments totaled \$8.4 billion at September 30, 2011.

#### **Third Quarter Operational Highlights**

UAL's traffic and capacity both decreased 2.0% during the third quarter of 2011 as compared to the third quarter of 2010, excluding the impact of the merger.

For the quarter ended September 30, 2011, United and Continental recorded a U.S. Department of Transportation on-time arrival rate of 77.1% and 76.5%, respectively, and a completion factor of 98.2% and 98.5%, respectively.

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During the quarter, the Company announced it will invest \$550 million in its onboard product. These product improvements include adding flat-bed seating on 62 additional long-haul aircraft, adding Economy Plus seating to more than 300 aircraft, nearly doubling the overhead storage space on more than 150 aircraft, installing advanced broadband Wi-Fi on more than 200 aircraft, introducing streaming wireless video onboard its Boeing 747-400 aircraft, and completely retrofitting its p.s. fleet with flat-bed seats, Economy Plus, on-demand audio and video and Wi-Fi.

The Company took delivery of a new Boeing 737-800 aircraft with the new Boeing Sky Interior during the third quarter.

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### **Outlook**

Due to significant increases in fuel prices, the Company plans to reduce consolidated capacity from previous 2011 projections by reducing flight frequencies, indefinitely postponing the start of flights to certain markets and exiting less profitable routes. As compared to 2010 capacity, the Company expects United and Continental's fourth quarter of 2011 combined consolidated capacity will be down 2.6% to 3.6% year-over-year, with fourth quarter 2011 combined domestic capacity to be down 4.6% to 5.6% and fourth quarter 2011 combined international capacity to be essentially flat year-over-year. The Company is also analyzing the removal of certain less fuel-efficient aircraft from its fleet and will be taking other cost-saving measures.

### **Integration**

While United and Continental continued to operate as two separate airlines, the Company made progress toward integrating products, services and policies.

During 2011, the Company announced that MileagePlus will be the loyalty program for the combined company beginning in 2012. Moving to a single loyalty program will be a significant milestone in the integration of the two airlines. Continental's loyalty program will formally end on December 31, 2011. In the first quarter of 2012, United will automatically enroll OnePass members in MileagePlus and deposit into those MileagePlus accounts award miles equal to their OnePass award miles balance.

The Company anticipates receiving a single operating certificate from the Federal Aviation Administration in the fourth quarter of 2011.

We currently expect to migrate to a single passenger service system allowing the Company to operate using a single carrier code, flight schedule, inventory, website and departure control system by the end of the first quarter of 2012.

United's and Continental's check-in and ticket counter facilities are currently co-located at 53 airports, and more than half of the total fleet, or 692 aircraft, including the first Boeing 747-400, are now repainted in the new United livery.

## **RESULTS OF OPERATIONS**

The following discussion provides an analysis of UAL's results of operations and reasons for material changes therein for the three and nine months ended September 30, 2011 as compared to the corresponding period in 2010.

To provide a more meaningful comparison of UAL's 2011 financial performance to 2010, we have quantified the increases relating to our operating results that are due to the inclusion of Continental's operations after the merger date. The increases due to the merger, presented in the tables below, represent actual Continental results for the three and nine months ended September 30, 2011, net of eliminations. Intercompany transactions were immaterial.

### ***Third Quarter 2011 Compared to Third Quarter 2010***

UAL recorded net income of \$653 million in the third quarter of 2011 as compared to net income of \$387 million in the third quarter of 2010. Excluding special items, UAL had net income of \$773 million in the third quarter of 2011 as compared to net income of \$473 million in the third quarter of 2010. See Reconciliation of GAAP to non-GAAP Financial Measures at the end of this item for additional information related to non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was \$935 million for the third quarter of 2011, as compared to \$541 million for the third quarter of 2010. Significant components of our operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

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|                      | 2011      | 2010     | \$<br>Change | \$ Increase Due<br>to Merger | Increase<br>(Decrease)<br>Excluding<br>Merger Impact | %<br>Change<br>Excluding<br>Merger<br>Impact |
|----------------------|-----------|----------|--------------|------------------------------|--|--|
| Operating Revenue    | \$ 10,171 | \$ 5,417 | \$ 4,754     | \$ 4,372                     | \$ 382   | 7.1  |
| Operating Expenses   | 9,236     | 4,876    | 4,360        | 4,012                        | 348  | 7.1  |
| Operating Income     | 935       | 541      | 394          | 360                          | 34   | 6.3  |
| Nonoperating Expense | (275)     | (154)    | (121)        | (122)                        | 1  | (0.6)  |
| Income Tax Expense   | 7         |          | 7            | 2                            | 5  | NM   |
| Net Income           | \$ 653    | \$ 387   | \$ 266       | \$ 236                       | \$ 30  | 7.8  |

NM Not meaningful

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

|  | 2011    | 2010    | Change  | Increase due to<br>Merger | Change Excluding<br>Merger<br>Impact | % Change |
|--|---------|---------|---------|---------------------------|--------------------------------------|----------|
| Passengers (thousands) (b)   | 38,019  | 22,253  | 15,766  | 17,134                    | (1,368)                              | (6.1)    |
| Revenue passenger miles ( RPMs )<br>(millions) (c)                 | 56,853  | 32,644  | 24,209  | 24,861                    | (652)                                | (2.0)    |
| Available seat miles ( ASMs ) (millions) (d)                       | 66,635  | 37,988  | 28,647  | 29,409                    | (762)                                | (2.0)    |
| Passenger load<br>factor (a) (e)                                   | 85.9%   | 85.9%   | 0 pts.  | (a)                       | (a)                                  | N/A      |
| Passenger revenue per available seat mile<br>( PRASM ) (cents) (a) | 13.75   | 12.52   | 1.23    | (a)                       | (a)                                  | 9.8      |
| Average yield per revenue passenger mile<br>(cents) (a) (f)        | 16.00   | 14.57   | 1.43    | (a)                       | (a)                                  | 9.8      |
| Cost per available seat mile ( CASM )<br>(cents) (a)               | 14.18   | 12.82   | 1.36    | (a)                       | (a)                                  | 10.6     |
| Average price per gallon of fuel, including<br>fuel taxes (a)      | \$ 3.13 | \$ 2.39 | \$ 0.74 | (a)                       | (a)                                  | 31.0     |
| Fuel gallons consumed (millions)                                   | 1,066   | 642     | 424     | 444                       | (20)                                 | (3.1)    |
| Average full-time equivalent employees                             | 80,500  | 42,700  | 37,800  | 36,900                    | 900                                  | 2.1      |

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- (a) The per unit measures in the 2011 period represent United-only measures to provide a better comparison to 2010 due to the impact of the merger.
- (b) The number of revenue passengers measured by each flight segment flown.
- (c) The number of scheduled miles flown by revenue passengers.
- (d) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
- (e) Revenue passenger miles divided by available seat miles.
- (f) 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 revenues for the three months ended September 30 (in millions, except for percentage changes):

|                         | 2011      | 2010     | \$ Change | \$ Increase due to Merger | \$ Change Excluding Merger Impact | % Change Excluding Merger Impact |
|-------------------------|-----------|----------|-----------|---------------------------|-----------------------------------|----------------------------------|
| Passenger Mainline      | \$ 7,265  | \$ 3,744 | \$ 3,521  | \$ 3,229                  | \$ 292                            | 7.8                              |
| Passenger Regional      | 1,779     | 1,011    | 768       | 695                       | 73                                | 7.2                              |
| Total passenger revenue | 9,044     | 4,755    | 4,289     | 3,924                     | 365                               | 7.7                              |
| Cargo                   | 283       | 175      | 108       | 105                       | 3                                 | 1.7                              |
| Other operating revenue | 844       | 487      | 357       | 343                       | 14                                | 2.9                              |
|                         | \$ 10,171 | \$ 5,417 | \$ 4,754  | \$ 4,372                  | \$ 382                            | 7.1                              |

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

|   | Domestic | Pacific | Atlantic | Latin  | Total Mainline | Regional | Consolidated |
|---|----------|---------|----------|--------|----------------|----------|--------------|
| Increase (decrease) from 2010:            |          |         |          |        |                |          |              |
| Passenger revenue (in millions)           | \$ 134   | \$ 56   | \$ 48    | \$ 53  | \$ 291         | \$ 74    | \$ 365       |
| Passenger revenue                         | 6.9%     | 6.5%    | 5.8%     | 46.6%  | 7.8%           | 7.4%     | 7.7%         |
| Average fare per passenger                | 15.2%    | 9.6%    | 6.9%     | 3.4%   | 13.9%          | 16.2%    | 14.7%        |
| Yield                                     | 12.2%    | 6.4%    | 8.2%     | 13.4%  | 10.2%          | 8.0%     | 9.8%         |
| PRASM                                     | 14.3%    | 2.9%    | 7.4%     | 12.9%  | 10.1%          | 8.7%     | 9.8%         |
| Average length of aircraft flight (miles) | 2.7%     | 1.6%    | (2.6)%   | (6.1)% | 4.2%           | 6.2%     | 4.7%         |
| Passengers                                | (7.2)%   | (2.8)%  | (1.0)%   | 41.7%  | (5.4)%         | (7.6)%   | (6.1)%       |
| RPMs                                      | (4.7)%   | %       | (2.2)%   | 29.3%  | (2.2)%         | (0.8)%   | (2.0)%       |
| ASMs                                      | (6.5)%   | 3.5%    | (1.5)%   | 29.8%  | (2.1)%         | (1.2)%   | (2.0)%       |
| Passenger load factor (points)            | 1.6      | (2.9)   | (0.7)    | (0.3)  |                | 0.3      |              |

Excluding the impact of the merger, consolidated passenger revenue in the third quarter of 2011 increased approximately \$365 million as compared to the year-ago period primarily due to increased pricing as consolidated average fare per passenger and yield increased by 14.7% and 9.8%, respectively. The reduced demand from business travelers in the third quarter of 2011 was offset by higher fares and capacity discipline, which drove improvements in both average fare per passenger and yield. The average fare per passenger also increased in the 2011 period, as compared to the 2010 period, due to a number of fare increases implemented in response to higher fuel prices.

Effective January 1, 2011, UAL adopted the provisions of ASU 2009-13, which increased UAL passenger revenue associated with passenger ticket sales that include the issuance of frequent flyer mileage credits by approximately \$93 million in the third quarter of 2011 as compared to the year-ago period, consisting of \$56 million and \$37 million for United and Continental, respectively, as compared to passenger revenue that would have been recorded under the historical method of accounting.





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Excluding the impact of the merger, other operating revenue in the third quarter of 2011 increased approximately \$14 million, or 3%, due to contractual changes with third parties related to the Company's frequent flyer program.

**Operating Expenses**

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

|  | 2011     | 2010     | \$<br>Change | \$ Increase due to<br>Merger | \$ Change Excluding<br>Merger Impact | % Change<br>Excluding<br>Merger<br>Impact |
|--|----------|----------|--------------|------------------------------|--------------------------------------|---|
| Aircraft fuel                                      | \$ 3,371 | \$ 1,534 | \$ 1,837     | \$ 1,422                     | \$ 415                               | 27.1                                      |
| Salaries and related costs                         | 2,020    | 1,129    | 891          | 906                          | (15)                                 | (1.3)                                     |
| Regional capacity purchase                         | 619      | 417      | 202          | 211                          | (9)                                  | (2.2)                                     |
| Landing fees and other rent                        | 476      | 268      | 208          | 230                          | (22)                                 | (8.2)                                     |
| Aircraft maintenance materials and outside repairs | 447      | 262      | 185          | 152                          | 33                                   | 12.6                                      |
| Depreciation and amortization                      | 384      | 232      | 152          | 156                          | (4)                                  | (1.7)                                     |
| Distribution expenses                              | 377      | 204      | 173          | 183                          | (10)                                 | (4.9)                                     |
| Aircraft rent                                      | 255      | 82       | 173          | 171                          | 2                                    | 2.4                                       |
| Special charges                                    | 120      | 63       | 57           | 48                           | 9                                    | NM  |
| Other operating expenses                           | 1,167    | 685      | 482          | 533                          | (51)                                 | (7.4)                                     |
|  | \$ 9,236 | \$ 4,876 | \$ 4,360     | \$ 4,012                     | \$ 348                               | 7.1                                       |

Excluding the impact of the merger, aircraft fuel expense increased \$415 million, or 27%, year-over-year due to a 44% increase in fuel prices, which was partially offset by a year-over-year increase in fuel hedge gains. As of September 30, 2011, UAL, including United and Continental, had \$175 million in unrealized fuel hedge losses recorded as a component of AOCI. Such losses will be recognized in earnings within the next 12 months if the losses are not reversed through changes in market prices prior to expiration of the contracts. The table below presents the significant changes in aircraft fuel cost per gallon in the three month period ended September 30, 2011 as compared to the year-ago period, excluding merger impacts. See Note 6 to the financial statements in Part I, Item 1 of this report for additional details regarding fuel hedge gains.

|                             | (In millions) |          |             | Average price per gallon |         |             |
|-----------------------------|---------------|----------|-------------|--------------------------|---------|-------------|
|                             | 2011          | 2010     | %<br>Change | 2011                     | 2010    | %<br>Change |
| Fuel purchase cost          | \$ 2,039      | \$ 1,462 | 39.5        | \$ 3.28                  | \$ 2.28 | 43.9        |
| Fuel hedge (gains) losses   | (90)          | 72       | NM          | (0.15)                   | 0.11    | NM          |
| Total aircraft fuel expense | \$ 1,949      | \$ 1,534 | 27.1        | \$ 3.13                  | \$ 2.39 | 31.0        |

Total fuel consumption (gallons) 622 642 (3.1)

Excluding the impact of the merger, aircraft maintenance materials and outside repairs increased \$33 million, or 13%, in the third quarter of 2011 as compared to the year-ago period primarily due to increased rates on aircraft maintenance and the timing of airframe routine maintenance work.

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Excluding the impact of the merger, other operating expenses decreased \$51 million, or 7%, in the third quarter of 2011 as compared to the year-ago period primarily due to a decrease in consulting fees, advertising and promotion expenses, and a tax credit received in 2011.

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

|                               | 2011          | 2010         |
|-------------------------------|---------------|--------------|
| Aircraft-related charges, net | \$ (3)        | \$ 22        |
| Merger-related costs          |               | 44           |
| Integration-related costs     | 123           |              |
| Other                         |               | (3)          |
| <b>Total special charges</b>  | <b>\$ 120</b> | <b>\$ 63</b> |

In the third quarter of 2011, UAL's special charges of \$120 million primarily relate to the integration of United's and Continental's operations, as further described in Note 10 to the financial statements included in Part I, Item 1 of this report. In the third quarter of 2010, UAL recorded asset impairments of \$22 million which primarily relate to the decrease in value of aircraft-related assets and \$44 million of merger-related costs.

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

|                      |                 |                 |                 |                  | Favorable/(Unfavorable)           |                                  |
|----------------------|-----------------|-----------------|-----------------|------------------|-----------------------------------|----------------------------------|
|                      | 2011            | 2010            | \$ Change       | \$ Merger Impact | \$ Change Excluding Merger Impact | % Change Excluding Merger Impact |
| Interest expense     | \$ (227)        | \$ (177)        | \$ (50)         | \$ (88)          | \$ 38                             | 21.5                             |
| Interest income      | 6               | 5               | 1               | 3                | (2)                               | (40.0)                           |
| Interest capitalized | 10              | 2               | 8               | 4                | 4                                 | NM                               |
| Miscellaneous, net   | (64)            | 16              | (80)            | (41)             | (39)                              | NM                               |
| <b>Total</b>         | <b>\$ (275)</b> | <b>\$ (154)</b> | <b>\$ (121)</b> | <b>\$ (122)</b>  | <b>\$ 1</b>                       | <b>(0.6)</b>                     |

Excluding the impact of the merger, interest expense decreased \$38 million in the third quarter of 2011, or 21%, compared to the year-ago period primarily due to a decrease in debt outstanding during the third quarter of 2011 as compared to debt outstanding during the year-ago period.

During the third quarter of 2011, miscellaneous, net included fuel hedge ineffectiveness expense of \$33 million primarily resulting from a decrease in fuel hedge values in excess of the decrease in aircraft fuel prices during the quarter. The ineffectiveness is primarily related to the Company's portfolio of crude oil derivative contracts.

*Income Taxes.* Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of the reduction to existing valuation allowances. We continue to provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because management has concluded that it is more likely than not that such deferred tax assets will ultimately not be realized.

## Nine Months Ended 2011 Compared to Nine Months Ended 2010

UAL recorded net income of \$978 million in the nine months ended September 30, 2011 as compared to net income of \$578 million in the nine months ended September 30, 2010. Excluding special items, UAL had net income of \$1.2 billion in the nine months ended September 30, 2011 as compared to net income of \$811 million in the nine months ended September 30, 2010. See Reconciliation of GAAP to non-GAAP Financial Measures at the end of this item for additional information related to non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was \$1.8 billion for the nine months ended September 30, 2011, as compared to \$1.1 billion for the

nine months ended September 30, 2010.

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Significant components of our operating results for the nine months ended September 30 are as follows (in millions, except percentage changes):

|                              | 2011      | 2010      | \$<br>Change | \$ Increase<br>Due to<br>Merger | Increase<br>(Decrease)<br>Excluding<br>Merger<br>Impact | %<br>Change<br>Excluding<br>Merger<br>Impact |
|------------------------------|-----------|-----------|--------------|---------------------------------|---|--|
| Operating Revenue            | \$ 28,182 | \$ 14,861 | \$ 13,321    | \$ 12,214                       | \$ 1,107  | 7.4  |
| Operating Expenses           | 26,405    | 13,803    | 12,602       | 11,451                          | 1,151   | 8.3  |
| Operating Income             | 1,777     | 1,058     | 719          | 763                             | (44)  | (4.2)  |
| Nonoperating Expense         | (786)     | (481)     | (305)        | (316)                           | 11  | (2.3)  |
| Income Tax Expense (Benefit) | 13        | (1)       | 14           | 6                               | 8   | NM   |
| Net Income                   | \$ 978    | \$ 578    | \$ 400       | \$ 441                          | \$ (41)   | (7.1)  |

NM Not meaningful

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

|   | 2011    | 2010    | Change    | Increase due to<br>Merger | Change Excluding<br>Merger<br>Impact | % Change<br>Excluding<br>Merger<br>Impact |
|---|---------|---------|-----------|---------------------------|--------------------------------------|---|
| Passengers (thousands) (b)                                      | 107,608 | 62,395  | 45,213    | 48,465                    | (3,252)                              | (5.2)                                     |
| Revenue passenger miles ( RPMs ) (millions) (c)                 | 158,062 | 89,770  | 68,292    | 69,424                    | (1,132)                              | (1.3)                                     |
| Available seat miles ( ASMs ) (millions) (d)                    | 191,814 | 107,301 | 84,513    | 85,200                    | (687)                                | (0.6)                                     |
| Passenger load factor (a) (e)                                   | 83.1%   | 83.7%   | (0.6)pts. | (a)                       | (a)                                  | N/A                                       |
| Passenger revenue per available seat mile ( PRASM ) (cents) (a) | 13.08   | 12.06   | 1.02      | (a)                       | (a)                                  | 8.5                                       |
| Average yield per revenue passenger mile (cents) (a) (f)        | 15.73   | 14.41   | 1.32      | (a)                       | (a)                                  | 9.2                                       |
| Cost per available seat mile ( CASM ) (cents) (a)               | 14.14   | 12.86   | 1.28      | (a)                       | (a)                                  | 10.0                                      |
| Average price per gallon of fuel, including fuel taxes (a)      | \$ 2.97 | \$ 2.35 | \$ 0.62   | (a)                       | (a)                                  | 26.4                                      |
| Fuel gallons consumed (millions)                                | 3,069   | 1,800   | 1,269     | 1,287                     | (18)                                 | (1.0)                                     |
| Average full-time equivalent employees                          | 81,200  | 42,700  | 38,500    | 38,300                    | 200                                  | 0.5                                       |

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- (a) The per unit measures in the 2011 period represent United-only measures to provide a better comparison to 2010 due to the impact of the merger.
- (b) The number of revenue passengers measured by each flight segment flown.
- (c) The number of scheduled miles flown by revenue passengers.
- (d) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
- (e) Revenue passenger miles divided by available seat miles.
- (f) 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 nine months ended September 30 (in millions, except for percentage changes):

|                         | 2011      | 2010      | \$<br>Change | \$ Increase<br>due to<br>Merger | \$ Change<br>Excluding<br>Merger<br>Impact | %<br>Change<br>Excluding<br>Merger<br>Impact |
|-------------------------|-----------|-----------|--------------|---------------------------------|--|--|
| Passenger Mainline      | \$ 19,892 | \$ 10,173 | \$ 9,719     | \$ 8,970                        | \$ 749                                     | 7.4  |
| Passenger Regional      | 4,945     | 2,766     | 2,179        | 1,924                           | 255  | 9.2  |
| Total passenger revenue | 24,837    | 12,939    | 11,898       | 10,894                          | 1,004                                      | 7.8  |
| Cargo                   | 882       | 522       | 360          | 346                             | 14   | 2.7  |
| Special revenue item    | 107       |           | 107          | 19                              | 88   | NM   |
| Other operating revenue | 2,356     | 1,400     | 956          | 955                             | 1  | 0.1  |
|                         | \$ 28,182 | \$ 14,861 | \$ 13,321    | \$ 12,214                       | \$ 1,107                                   | 7.4  |

The table below presents selected passenger revenue and operating data, excluding merger impacts, broken out by geographic region, expressed as nine months ended year-over-year changes:

|   | Domestic | Pacific | Atlantic | Latin  | Total<br>Mainline | Regional | Consolidated |
|---|----------|---------|----------|--------|-------------------|----------|--------------|
| Increase (decrease) from 2010:            |          |         |          |        |                   |          |              |
| Passenger revenue (in millions)           | \$ 244   | \$ 178  | \$ 166   | \$ 160 | \$ 748            | \$ 256   | \$ 1,004     |
| Passenger revenue                         | 4.5%     | 7.8%    | 7.9%     | 45.8%  | 7.4%              | 9.3%     | 7.8%         |
| Average fare per passenger                | 13.3%    | 11.3%   | 6.9%     | 3.1%   | 13.7%             | 14.4%    | 13.7%        |
| Yield                                     | 9.8%     | 7.9%    | 7.4%     | 11.1%  | 9.2%              | 8.0%     | 9.2%         |
| PRASM                                     | 11.4%    | 5.3%    | 4.2%     | 6.7%   | 8.4%              | 7.7%     | 8.5%         |
| Average length of aircraft flight (miles) | 3.0%     | 1.2%    | (2.8)%   | (5.3)% | 4.7%              | 5.0%     | 4.3%         |
| Passengers                                | (7.8)%   | (3.2)%  | 0.9%     | 41.5%  | (5.6)%            | (4.4)%   | (5.2)%       |
| RPMs                                      | (4.8)%   | (0.2)%  | 0.5%     | 31.2%  | (1.7)%            | 1.2%     | (1.3)%       |
| ASMs                                      | (6.2)%   | 2.3%    | 3.6%     | 36.7%  | (1.0)%            | 1.5%     | (0.6)%       |
| Passenger load factor (points)            | 1.2      | (2.0)   | (2.5)    | (3.2)  | (0.6)             | (0.2)    | (0.5)        |

Excluding the impact of the merger, consolidated passenger revenue in the nine months ended September 30, 2011 increased approximately \$1 billion as compared to the year-ago period primarily due to improved pricing as consolidated average fare per passenger and yield increased by 13.7% and 9.2%, respectively. The increase in pricing was due to improving economic conditions in the first half of the year and capacity discipline overall. The reduced demand from business travelers in 2011 was offset by higher fares, which drove improvements in both average fare per passenger and yield. The average fare per passenger also increased in the 2011 period, as compared to the 2010 period, due to a number of fare increases implemented in response to higher fuel prices.



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Effective January 1, 2011, UAL adopted the provisions of ASU 2009-13, which increased UAL passenger revenue associated with passenger ticket sales that include the issuance of frequent flyer mileage credits by approximately \$254 million in the nine months ended September 30, 2011 as compared to the year-ago period, consisting of \$159 million and \$95 million for United and Continental, respectively, as compared to passenger revenue that would have been recorded under the historical method of accounting.

During June 2011, the Company modified the previously existing United and Continental co-branded credit card agreements with Chase as a result of the merger. This contract modification resulted in a one-time adjustment of \$107 million, consisting of \$88 million and \$19 million for United and Continental, respectively, to decrease the deferred revenue balance and increase special revenue in accordance with ASU 2009-13. See Note 1 to the financial statements included in Part I, Item 1 of this report for additional information related to this accounting pronouncement.

Excluding the impact of the merger, cargo revenues increased by \$14 million, or 2.7%, in the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 due to the effects of higher fuel surcharge rates, which were partially offset by lower volume.

**Operating Expenses**

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

|  |           |           |              | \$ Increase due<br>to<br>Merger | \$ Change Excluding<br>Merger<br>Impact | % Change<br>Excluding<br>Merger<br>Impact |
|--|-----------|-----------|--------------|---------------------------------|---|---|
|  | 2011      | 2010      | \$<br>Change |                                 |   |   |
| Aircraft fuel                                      | \$ 9,270  | \$ 4,227  | \$ 5,043     | \$ 3,976                        | \$ 1,067                                | 25.2                                      |
| Salaries and related costs                         | 5,742     | 3,180     | 2,562        | 2,575                           | (13)                                    | (0.4)                                     |
| Regional capacity purchase                         | 1,807     | 1,210     | 597          | 617                             | (20)                                    | (1.7)                                     |
| Landing fees and other rent                        | 1,451     | 796       | 655          | 678                             | (23)                                    | (2.9)                                     |
| Aircraft maintenance materials and outside repairs | 1,330     | 729       | 601          | 455                             | 146                                     | 20.0                                      |
| Depreciation and amortization                      | 1,157     | 676       | 481          | 473                             | 8                                       | 1.2                                       |
| Distribution expenses                              | 1,102     | 574       | 528          | 523                             | 5                                       | 0.9                                       |
| Aircraft rent                                      | 760       | 244       | 516          | 516                             |   |   |
| Special charges                                    | 343       | 187       | 156          | 107                             | 49                                      | NM  |
| Other operating expenses                           | 3,443     | 1,980     | 1,463        | 1,531                           | (68)                                    | (3.4)                                     |
|  | \$ 26,405 | \$ 13,803 | \$ 12,602    | \$ 11,451                       | \$ 1,151                                | 8.3                                       |

Excluding the impact of the merger, aircraft fuel expense increased \$1.1 billion, or 25%, year-over-year due to a 40% increase in fuel prices, which was partially offset by a year-over-year increase in fuel hedge gains. The table below presents the significant changes in aircraft fuel cost per gallon in the nine months ended September 30, 2011 as compared to the year-ago period, excluding merger impacts. See Note 6 to the financial statements in Part I, Item 1 of this report for additional details regarding fuel hedge gains.



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|                                    | (In millions)   |                 |             | Average price per gallon |                |             |
|------------------------------------|-----------------|-----------------|-------------|--------------------------|----------------|-------------|
|                                    | 2011            | 2010            | % Change    | 2011                     | 2010           | % Change    |
| Fuel purchase cost                 | \$ 5,721        | \$ 4,120        | 38.9        | \$ 3.21                  | \$ 2.29        | 40.2        |
| Fuel hedge (gains) losses          | (427)           | 107             | NM          | (0.24)                   | 0.06           | NM          |
| <b>Total aircraft fuel expense</b> | <b>\$ 5,294</b> | <b>\$ 4,227</b> | <b>25.2</b> | <b>\$ 2.97</b>           | <b>\$ 2.35</b> | <b>26.4</b> |

Total fuel consumption (gallons) 1,782 1,800 (1.0)

Excluding the impact of the merger, aircraft maintenance materials and outside repairs increased \$146 million, or 20%, in the third quarter of 2011 as compared to the year-ago period primarily due to increased rates on aircraft maintenance and the timing of airframe routine maintenance work.

Excluding the impact of the merger, other operating expenses decreased \$68 million, or 3%, in the nine months ended September 30, 2011 as compared to the year-ago period primarily due to a decrease in consulting fees, advertising and promotion expenses, and interrupted trip expense.

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

|                               | 2011          | 2010          |
|-------------------------------|---------------|---------------|
| Aircraft-related charges, net | \$ (4)        | \$ 112        |
| Merger-related costs          |               | 72            |
| Integration-related costs     | 347           |               |
| Other                         |               | 3             |
| <b>Total special charges</b>  | <b>\$ 343</b> | <b>\$ 187</b> |

In the nine months ended September 30, 2011, UAL's special charges of \$343 million primarily relate to the integration of United's and Continental's operations, as further described in Note 10 to the financial statements included in Part I, Item 1 of this report. In the nine months ended September 30, 2010, UAL recorded asset impairments of \$112 million which primarily relate to the decrease in value of aircraft-related assets and \$72 million of merger-related costs.

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

|                      |                 |                 |                 |                  | Favorable/(Unfavorable)           |                                  |
|----------------------|-----------------|-----------------|-----------------|------------------|-----------------------------------|----------------------------------|
|                      | 2011            | 2010            | \$ Change       | \$ Merger Impact | \$ Change Excluding Merger Impact | % Change Excluding Merger Impact |
| Interest expense     | \$ (731)        | \$ (540)        | \$ (191)        | \$ (259)         | \$ 68                             | 12.6                             |
| Interest income      | 15              | 8               | 7               | 7                |                                   |                                  |
| Interest capitalized | 24              | 7               | 17              | 12               | 5                                 | 71.4                             |
| Miscellaneous, net   | (94)            | 44              | (138)           | (76)             | (62)                              | NM                               |
| <b>Total</b>         | <b>\$ (786)</b> | <b>\$ (481)</b> | <b>\$ (305)</b> | <b>\$ (316)</b>  | <b>\$ 11</b>                      | <b>(2.3)</b>                     |

Excluding the impact of the merger, interest expense decreased \$68 million, or 13%, compared to the year-ago period primarily due to a decrease in debt outstanding during the nine months ended September 30, 2011 as compared to debt outstanding during the year-ago period.

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During the nine months ended September 30, 2011, miscellaneous, net included fuel hedge ineffectiveness of \$38 million primarily resulting from a decrease in fuel hedge values in excess of the decrease in aircraft fuel prices. The ineffectiveness is primarily related to the Company's portfolio of crude oil derivative contracts. The unfavorable variance in miscellaneous, net as compared to the nine months ended September 30, 2010, was primarily due to the \$21 million gain related to the repayment of certain EETC debt instruments from the year-ago period.

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**Income Taxes.** Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of the reduction to existing valuation allowances. We continue to provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because management has concluded that it is more likely than not that such deferred tax assets will ultimately not be realized.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Current Liquidity***

As of September 30, 2011, UAL had \$8.4 billion in unrestricted cash, cash equivalents and short-term investments, as compared to \$8.7 billion at December 31, 2010. At September 30, 2011, UAL also had \$387 million of restricted cash and cash equivalents, which is primarily collateral for performance bonds, letters of credit, credit card processing agreements and estimated future workers' compensation claims.

As is the case with many of our principal competitors, we have a high proportion of debt compared to capital. We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities and pension funding obligations. At September 30, 2011, UAL had approximately \$13.2 billion of debt and capital lease obligations, including \$1.3 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.

The Company will continue to evaluate opportunities to repurchase its debt in open market transactions to reduce its indebtedness and the amount of interest paid on its indebtedness.

United has a \$255 million revolving loan commitment, which matures on February 1, 2012, available under its Amended Credit Facility. As of September 30, 2011, United had used \$227 million of the commitment capacity for letters of credit. Unless this revolving loan commitment is amended or replaced, United will be required to cash collateralize these letters of credit by October 31, 2011. Through a separate arrangement, United has an additional \$150 million available under an unused credit facility that expires in the fourth quarter of 2011.

As of September 30, 2011, United had firm commitments to purchase 50 new aircraft (25 Boeing 787 aircraft and 25 Airbus A350XWB aircraft) scheduled for delivery from 2016 through 2019. United also has options to purchase 42 Airbus A319 and A320 aircraft and purchase rights for 50 Boeing 787 aircraft and 50 Airbus A350XWB aircraft.

United has secured considerable backstop financing commitments from its aircraft and engine manufacturers, subject to certain customary conditions. However, United can provide no assurance that backstop financing, or any other financing not already in place, for aircraft and engine deliveries will be available to United on acceptable terms when necessary or at all.

As of September 30, 2011, Continental had firm commitments to purchase 82 new aircraft (57 Boeing 737 aircraft and 25 Boeing 787 aircraft) scheduled for delivery from January 2012 through 2016. Continental took delivery of four Boeing 737 aircraft in the first nine months of 2011. No further deliveries are planned for the remainder of 2011. Continental also has options to purchase 89 additional Boeing aircraft.

Continental does not have backstop financing or any other financing currently in place for the Boeing aircraft on order. Financing will be necessary to satisfy Continental's capital commitments for its firm order aircraft and other related capital expenditures. Continental can provide no assurance that backstop financing, or any other financing not already in place, for aircraft and engine deliveries will be available to Continental on acceptable terms when necessary or at all.

As of September 30, 2011, a substantial portion of UAL's assets, principally aircraft, spare engines, aircraft spare parts, route authorities and certain other intangible assets, were pledged under various loan and other agreements. The Company has limited undrawn lines of credit and most of our otherwise readily financeable assets are encumbered. The global economic recession in 2008 and 2009 severely disrupted the global capital markets, resulting in a diminished availability of financing and a higher cost for financing that was obtainable. Although access to the capital markets improved in 2010, as evidenced by financing transactions in 2010, we cannot give any assurances that we will be able to obtain additional financing or otherwise access the capital markets in the future on acceptable terms (or at all). 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.

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



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|             | S&P | Moody's | Fitch |
|-------------|-----|---------|-------|
| UAL         | B   | B2      | B     |
| United      | B   | B2      | B     |
| Continental | B   | B2      | B     |

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.** UAL's cash flows provided by operations for the nine months ended September 30, 2011 were \$2.1 billion compared to \$1.8 billion in the same period in 2010. UAL's cash flows from operations increased by \$342 million for the nine months ended September 30, 2011 compared to the same period in 2010. The increase is attributable to an increase in net income and the cash flow impact of certain working capital items. The increase is also due to increased future bookings and higher fares related to advance ticket sales. The increase was partially offset by payments of \$242 million in profit sharing and related payroll taxes during the first quarter of 2011.

**Investing Activities.** UAL's capital expenditures were \$510 million and \$212 million in the nine months ended September 30, 2011 and 2010, respectively. Capital expenditures for the nine months ended September 30, 2011 included \$71 million related to the acquisition of seven aircraft that were being operated under leases, which were immediately sold to third parties upon acquisition for proceeds of \$57 million. UAL's capital expenditures in the nine months ended September 30, 2011 were also higher, as compared to the year-ago period, due to the impact of expenditures for integration-related projects. In addition to capital expenditures during the nine months ended September 30, 2011, UAL acquired four aircraft through the issuance of debt, as discussed under *Financing Activities* below. The purchase of short-term investments increased by \$754 million in the nine months ended September 30, 2011 due to the investment of higher cash balances as compared to the year-ago period.

**Financing Activities.** During the nine months ended September 30, 2011, UAL made debt and capital lease payments of \$2.1 billion. These payments include \$150 million related to UAL's 5% Senior Convertible Notes and \$570 million related to UAL's 4.5% Senior Limited-Subordination Convertible Notes, as discussed in Note 9 to the financial statements in Part I, Item 1 of this report.

UAL received \$239 million during the nine months ended September 30, 2011 from Continental's December 2010 pass-through trust financing. The proceeds in the nine months ended September 30, 2011 related to the financing of three new and seven currently owned aircraft. The proceeds related to the seven currently owned aircraft were used for general corporate purposes. As noted in *Investing Activities* above, the financing proceeds related to the acquisition of three new aircraft are not reflected as a financing activity in the condensed statements of consolidated cash flows as the funds are distributed directly to the aircraft supplier. See the 2010 Annual Report for additional information related to this financing.

In January 2010, United issued the remaining \$612 million of equipment notes related to the Series 2009-1 EETCs. Proceeds of \$568 million from this financing were used to complete the prepayment of the remaining principal of the equipment notes issued in connection with the Series 2001-1 EETCs and the remaining proceeds of \$44 million were primarily used for general corporate purposes. UAL also received cash proceeds of \$21 million from the distribution of United's Series 2001-1 EETC trust assets upon repayment of the note obligations.

In January 2010, United issued the remaining \$696 million of equipment notes related to the Series 2009-2 EETCs. Proceeds of \$493 million from this financing were used to prepay the remaining principal of the equipment notes issued in connection with the Series 2000-2 EETCs and the remaining proceeds of \$203 million were primarily used for general corporate purposes.

**Commitments, Contingencies and Liquidity Matters**

As described in the 2010 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 2010 Annual Report and Notes 4, 6 and 8 to the financial statements contained in Part I, Item 1 of this report for information related to these matters.

**Table of Contents****United and Continental Results of Operations****United**

The following table presents information related to United's results of operations for the three and nine months ended September 30 (in millions, except percentage changes):

|  | Three Months Ended<br>September 30, |          |          | Nine Months Ended<br>September 30, |           |          |
|--|-------------------------------------|----------|----------|------------------------------------|-----------|----------|
|  | 2011                                | 2010     | % Change | 2011                               | 2010      | % Change |
| Operating Revenue:                                 |                                     |          |          |                                    |           |          |
| Passenger revenue                                  | \$ 5,116                            | \$ 4,755 | 7.6      | \$ 13,937                          | \$ 12,939 | 7.7      |
| Special revenue item                               |                                     |          | NM       | 88                                 |           | NM       |
| Cargo and other revenue                            | 741                                 | 664      | 11.6     | 2,078                              | 1,928     | 7.8      |
| Total revenue                                      | \$ 5,857                            | \$ 5,419 | 8.1      | \$ 16,103                          | \$ 14,867 | 8.3      |
| Operating Expenses:                                |                                     |          |          |                                    |           |          |
| Aircraft fuel                                      | \$ 1,949                            | \$ 1,534 | 27.1     | \$ 5,294                           | \$ 4,227  | 25.2     |
| Salaries and related costs                         | 1,092                               | 1,129    | (3.3)    | 3,117                              | 3,180     | (2.0)    |
| Regional capacity purchase                         | 407                                 | 417      | (2.4)    | 1,190                              | 1,210     | (1.7)    |
| Landing fees and other rent                        | 246                                 | 268      | (8.2)    | 773                                | 796       | (2.9)    |
| Aircraft maintenance materials and outside repairs | 299                                 | 262      | 14.1     | 881                                | 729       | 20.9     |
| Depreciation and amortization                      | 228                                 | 232      | (1.7)    | 684                                | 676       | 1.2      |
| Distribution expenses                              | 194                                 | 204      | (4.9)    | 580                                | 574       | 1.0      |
| Aircraft rent                                      | 82                                  | 82       |          | 243                                | 244       | (0.4)    |
| Special charges                                    | 72                                  | 63       | 14.3     | 236                                | 187       | 26.2     |
| Other operating expenses                           | 709                                 | 679      | 4.4      | 2,081                              | 1,973     | 5.5      |
| Total operating expenses                           | \$ 5,278                            | \$ 4,870 | 8.4      | \$ 15,079                          | \$ 13,796 | 9.3      |
| Operating income                                   | \$ 579                              | \$ 549   | 5.5      | \$ 1,024                           | \$ 1,071  | (4.4)    |
| Nonoperating expense                               | (162)                               | (150)    | 8.0      | (486)                              | (466)     | 4.3      |

United had net income of \$415 million and \$536 million in the three and nine months ended September 30, 2011, respectively, as compared to net income of \$399 million and \$606 million in the three and nine months ended September 30, 2010, respectively. Excluding the impact of the merger on UAL's results of operations, United's results of operations were consistent with UAL's results discussed above. Prior to the merger, United was UAL's only significant operating subsidiary. As compared to the third quarter of 2010, United's consolidated revenue increased \$438 million, or 8%, to \$5.9 billion for the three months ended September 30, 2011. Similarly, United's consolidated revenue increased \$1.2 billion, or 8%, to \$16.1 billion for the nine months ended September 30, 2011 as compared to the year-ago period. These increases were primarily due to year-over-year capacity discipline, which in turn resulted in higher average fares, as discussed in UAL's results of operations above. Average fares were also higher due to fare increases implemented in response to higher fuel prices.

During the second quarter of 2011, the Company modified the United and Continental co-branded credit card agreements with Chase as a result of the merger. This contract modification resulted in a one-time adjustment of \$88 million for United to decrease the deferred revenue balance and increase special revenue in accordance with ASU 2009-13. See Note 1 to the financial statements included in Part I, Item 1 of this report for additional information related to this accounting pronouncement.

Aircraft fuel expense increased 27% and 25% in the three and nine months ended September 30, 2011, respectively, as compared to the year-ago period, which was primarily driven by increased market prices for aircraft fuel, as highlighted in the fuel table in *Operating Expenses*, above. Fuel hedge (gains) losses were \$(90) million and \$72 million in the three months ended September 30, 2011 and 2010, respectively, and \$(427) million and \$107 million for the nine months ended September 30, 2011 and 2010, respectively. Hedge gains were higher as a result of increases in the price of fuel above the prices in United's hedge contracts.



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Aircraft maintenance materials and outside repairs increased \$37 million, or 14%, in the third quarter of 2011 as compared to the year-ago period, primarily due to increased rates and volume on aircraft maintenance. Similarly, aircraft maintenance materials and outside repairs increased \$152 million, or 21%, in the nine months ended of 2011 as compared to the year-ago period.

Special charges increased \$9 million, or 14%, in the third quarter of 2011 as compared to the year-ago period, primarily due to costs associated with the integration of United and Continental as well as a decline in asset impairments recorded related to a decrease in the value of aircraft-related assets. Special charges increased \$49 million, or 26%, in the nine months ended September 30, 2011 as compared to the year-ago period, primarily due to costs associated with the integration of United and Continental, as discussed above.

United's nonoperating expense increased \$12 million, or 8%, in the third quarter of 2011 as compared to the year-ago period, and increased \$20 million, or 4%, in the nine months ended September 30, 2011 as compared to 2010. Excluding the merger impact discussed above, United's interest expense is consistent with UAL's interest expense, except for approximately \$5 million of interest expense from UAL's \$345 million 6% Senior Convertible Notes due 2029 that are not outstanding at United.

### Continental

As a result of the application of acquisition accounting effective October 1, 2010, the financial statements prior to October 1, 2010 are not comparable with the financial statements after October 1, 2010. The following table presents information related to Continental's results of operations for the three and nine months ended September 30 (in millions, except percentage changes):

|  | Three Months Ended<br>September 30, |                     |          | Nine Months Ended<br>September 30, |                     |          |
|--|-------------------------------------|---------------------|----------|------------------------------------|---------------------|----------|
|  | Successor<br>2011                   | Predecessor<br>2010 | % Change | Successor<br>2011                  | Predecessor<br>2010 | % Change |
| Operating Revenue:                                 |                                     |                     |          |                                    |                     |          |
| Passenger revenue                                  | \$ 3,924                            | \$ 3,494            | 12.3     | \$ 10,894                          | \$ 9,503            | 14.6     |
| Special revenue item                               |                                     |                     | NM       | 19                                 |                     | NM       |
| Cargo and other revenue                            | 448                                 | 441                 | 1.6      | 1,301                              | 1,285               | 1.2      |
| Total revenue                                      | \$ 4,372                            | \$ 3,935            | 11.1     | \$ 12,214                          | \$ 10,788           | 13.2     |
| Operating Expenses:                                |                                     |                     |          |                                    |                     |          |
| Aircraft fuel                                      | \$ 1,422                            | \$ 1,006            | 41.4     | \$ 3,976                           | \$ 2,872            | 38.4     |
| Salaries and related costs                         | 906                                 | 909                 | (0.3)    | 2,575                              | 2,527               | 1.9      |
| Regional capacity purchase                         | 211                                 | 207                 | 1.9      | 617                                | 608                 | 1.5      |
| Landing fees and other rent                        | 230                                 | 228                 | 0.9      | 678                                | 656                 | 3.4      |
| Aircraft maintenance materials and outside repairs | 152                                 | 126                 | 20.6     | 455                                | 399                 | 14.0     |
| Depreciation and amortization                      | 156                                 | 124                 | 25.8     | 473                                | 380                 | 24.5     |
| Distribution expenses                              | 183                                 | 169                 | 8.3      | 523                                | 474                 | 10.3     |
| Aircraft rent                                      | 171                                 | 230                 | (25.7)   | 516                                | 689                 | (25.1)   |
| Special charges                                    | 48                                  | 13                  | NM       | 107                                | 47                  | NM       |
| Other operating expenses                           | 533                                 | 481                 | 10.8     | 1,531                              | 1,416               | 8.1      |
| Total operating expenses                           | \$ 4,012                            | \$ 3,493            | 14.9     | \$ 11,451                          | \$ 10,068           | 13.7     |
| Operating income                                   | \$ 360                              | \$ 442              | (18.6)   | \$ 763                             | \$ 720              | 6.0      |
| Nonoperating expense                               | (122)                               | (88)                | 38.6     | (316)                              | (278)               | 13.7     |

Continental's operating income and net income in the third quarter of 2011 were \$360 million and \$236 million, respectively, as compared to operating income and net income of \$442 million and \$354 million, respectively, in the third quarter of 2010. Similarly, Continental's operating income and net income in the nine months ended September 30, 2011 were \$763 million and \$507 million, respectively, as compared to operating income and net income of \$720 million and \$474 million, respectively, in the nine months ended September 30, 2010.





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\$441 million, respectively, as compared to operating income and net income of \$720 million and \$441 million, respectively, in the nine months ended September 30, 2010. These improvements were largely due to year-over-year capacity discipline, consistent with the improvement in UAL's and United's results described above.

During the second quarter of 2011, the Company modified the United and Continental co-branded credit card agreements with Chase as a result of the merger. This contract modification resulted in a one-time adjustment of \$19 million for Continental to decrease the deferred revenue balance and increase special revenue in accordance with ASU 2009-13. See Note 1 to the financial statements included in Part I, Item 1 of this report for additional information related to this accounting pronouncement.

Aircraft fuel expense increased approximately 41% and 38% in both the three and nine months ended September 30, 2011, respectively, as compared to 2010, primarily due to an increase in the market prices of aircraft fuel. Fuel hedge gains were \$4 million and \$99 million in the three and nine months ended September 30, 2011, respectively.

Depreciation and amortization increased approximately 26% and 24% in both the three and nine months ended September 30, 2011, respectively, primarily due to an increase in intangible asset amortization as a result of acquisition accounting for the merger.

Aircraft rent decreased 26% and 25% for the three and nine months ended September 30, 2011, respectively, as compared to the three and nine months ended September 30, 2010, primarily due to the amortization of a lease fair value adjustment which was recorded as part of acquisition accounting.

Other operating expense increased 8% for the nine months ended September 30, 2011 due to the introduction and expansion of Continental's food for sale program, along with offerings on shorter flights and at later times in the day.

Nonoperating expense includes losses from fuel hedge ineffectiveness of \$23 million and \$49 million, respectively, for the three and nine months ended September 30, 2011. Continental's nonoperating expense in both the three and nine months ended September 30, 2011 also includes a net loss of \$12 million and \$26 million, respectively, associated with marking to market the fair value of derivative assets and liabilities related to agreements that provide for Continental's convertible debt to be settled with UAL common stock. This net loss and the related derivatives are reflected only in the Continental stand-alone financial statements. See Note 5 to the financial statements included in Part I, Item 1 of this report for additional information.

## RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

The non-GAAP financial measures in this report are presented because they provide management and investors the ability to measure and monitor UAL's performance on a consistent basis. Special items relate to activities that are not central to our ongoing operations. A reconciliation of net income and diluted earnings per share to the non-GAAP financial measure of net income and diluted earnings per share, excluding special items, for the three and nine months ended September 30 is as follows (in millions, except per share amounts):

|                                    |          | Three Months Ended<br>September 30,<br>Diluted<br>Earnings<br>per Share |         | Nine Months Ended September 30,<br>Diluted<br>Earnings<br>per Share |                    |         |                    |
|------------------------------------|----------|---|---------|---|--------------------|---------|--------------------|
|                                    |          | Net Income<br>2011  | 2011    | Net Income<br>2010  | Net Income<br>2011 | 2011    | Net Income<br>2010 |
| Net income                         | GAAP     | \$ 653  | \$ 1.69 | \$ 387  | \$ 978             | \$ 2.59 | \$ 578             |
| Special revenue item               |          |   |         |   | (107)              | (0.27)  |                    |
| Special charges                    |          | 120   | 0.31    | 63  | 343                | 0.86    | 187                |
| Operating non-cash MTM losses      |          |   |         | 12  |                    |         | 18                 |
| Other items                        |          |   |         | 11  |                    |         | 28                 |
| Net income excluding special items | non-GAAP | \$ 773  | \$ 2.00 | \$ 473  | \$ 1,214           | \$ 3.18 | \$ 811             |

## CRITICAL ACCOUNTING POLICIES

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See *Critical Accounting Policies* in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2010 Annual Report for a discussion of the Company's critical accounting policies. Also see Note 1 to the financial statements included in Part I, Item 1 of this report for a discussion of changes in accounting for revenue due to the adoption of new accounting policies.

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### **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; 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 aviation fuel and energy refining capacity in relevant markets); its ability to cost-effectively hedge against increases in the price of aviation 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; the costs and availability of aviation and other insurance; the costs associated with security measures and practices; 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); 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; the possibility that expected merger synergies will not be realized or will not be realized within the expected time period; and other risks and uncertainties set forth under Item 1A., Risk Factors of the 2010 Annual Report, as well as other risks and uncertainties set forth from time to time in the reports the Company files with the SEC. Consequently, forward-looking statements should not be regarded as representations or warranties by the Company that such matters will be realized.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2010 Annual Report except as follows:

Aircraft Fuel. As of September 30, 2011, UAL's projected consolidated fuel requirements for the remainder of 2011 were hedged as follows:

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|                            | Maximum Price |              | Minimum Price |              |
|----------------------------|---------------|--------------|---------------|--------------|
|                            | %             | Weighted     | % of          | Weighted     |
|                            | of            | Average      | Expected      | Average      |
|                            | Expected      | Price        | Consumption   | Price        |
|                            | Consumption   | (per gallon) |               | (per gallon) |
| <b>Remainder of 2011</b>   |               |              |               |              |
| Heating oil collars        | 19%           | \$ 3.27      | 19%           | \$ 2.63      |
| Heating oil call options   | 5             | 3.23         | N/A           | N/A          |
| Heating oil swaps          | 4             | 2.93         | 4             | 2.93         |
| WTI crude oil call options | 12            | 2.35         | N/A           | N/A          |
| WTI crude oil swaps        | 10            | 2.19         | 10            | 2.19         |
| Aircraft fuel call options | 2             | 3.21         | N/A           | N/A          |
| Aircraft fuel swaps        | 4             | 3.03         | 4             | 3.03         |
| Total                      | 56%           |              | 37%           |              |

As of September 30, 2011, UAL had hedged 34% of the projected first half 2012 fuel consumption.

At September 30, 2011, UAL fuel derivatives were in a net liability position of \$75 million. See Note 6 to the financial statements included in Part I, Item 1 of this report for additional information related to fuel hedges.

Fuel derivative disclosures for United and Continental are omitted under the reduced disclosure format permitted by General Instruction H (2) of Form 10-Q.

**ITEM 4. CONTROLS AND PROCEDURES.**

UAL, United and Continental each maintain 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 management of UAL, United and Continental, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL's, United's and Continental'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, United and Continental have concluded that as of September 30, 2011, disclosure controls and procedures of each company were effective.

***Changes in Internal Control over Financial Reporting during the Quarter Ended September 30, 2011***

Except as set forth below, during the three months ended September 30, 2011, there were no changes in UAL's, United's or Continental's internal controls over financial reporting during their most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, their internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

On October 1, 2010, UAL and Continental completed the merger transaction. We are currently integrating policies, processes, employees, technology and operations for the combined company. Management will continue to evaluate the Company's internal controls over financial reporting as it executes merger integration activities.

During the third quarter of 2011, we made certain changes to the Company's internal controls over financial reporting related to the implementation of a new payroll system. The operating effectiveness of these changes to our internal controls over financial reporting will be evaluated as part of our annual assessment of the effectiveness of internal controls over financial reporting as of the end of fiscal 2011. The new payroll system is the first phase of the implementation of an integrated enterprise resource planning system, which is expected to require several years to complete. We expect that the new payroll system implemented in the third quarter of 2011 will have no impact on our internal controls over financial reporting.

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### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS.**

In addition to the legal proceedings below, UAL, United and Continental are parties to other legal proceedings as described in the Company's 2010 Annual Report and the Form 10-Q for the quarter ended March 31, 2011.

##### ***Air Cargo/Passenger Surcharge Investigations***

On July 31, 2008, state prosecutors in Sao Paulo, Brazil, commenced criminal proceedings against eight individuals, including United's cargo manager, for allegedly participating in cartel activity. Separately, Brazilian antitrust authorities initiated an administrative proceeding in order to verify the existence of a cartel among certain airlines for the determination and implementation of a fuel surcharge, including United and its cargo manager. On January 4, 2010, the Economic Law Secretariat of Brazil issued its opinion recommending that civil penalties be assessed against all parties being investigated, including United, to the Administrative Counsel of Economic Defense (CADE), which is charged with making a determination on the matter. On August 30, 2011, the Brazil Federal Public Prosecutor issued an opinion to the CADE recommending the dismissal of the proceedings against United and its cargo manager, which is currently under consideration by the CADE. United continues to vigorously defend itself before the CADE.

##### ***Litigation Associated with September 11, 2001 Terrorism***

Families of 94 victims of the September 11, 2001, terrorist attacks filed lawsuits asserting a variety of claims against the airline industry. United and American Airlines (the aviation defendants), as the two carriers whose flights were hijacked on September 11, 2001, are the central focus of the litigation, but a variety of additional parties, including Continental, have been sued on a number of legal theories ranging from collective responsibility for airport screening and security systems that allegedly failed to prevent the attacks to faulty design and construction of the World Trade Center towers. World Trade Center Properties, Inc., as lessee, also filed claims against the aviation defendants and The Port Authority of New York and New Jersey (the Port Authority), the owner of the World Trade Center, for property and business interruption damages. The Port Authority has also filed cross-claims against the aviation defendants in both the wrongful death litigation and for property damage sustained in the attacks. The insurers of various tenants at the World Trade Center filed subrogation claims for damages as well. By statute, these matters were consolidated in the U.S. District Court for the Southern District of New York and the aviation defendants' exposure was capped at the limit of the liability coverage maintained by each carrier at the time of the attacks. In September 2011, United settled the last remaining wrongful death claim in connection with this matter. In 2010, insurers for the aviation defendants reached a settlement with all of the subrogated insurers and most of the uninsured plaintiffs with property and business interruption claims, which was approved by the court. The court's approval order has been appealed to the U.S. Court of Appeals for the Second Circuit. The U.S. District Court for the Southern District of New York dismissed a claim for environmental cleanup damages filed by a neighboring property owner, Cedar & Washington Associates, LLC. This dismissal order has also been appealed to the U.S. Court of Appeals for the Second Circuit. In the aggregate, claims related to the events of September 11, 2001 are estimated to be well in excess of \$10 billion. The Company anticipates that any liability it could ultimately face arising from the events of September 11, 2001 could be significant, but the Company believes that it will have no financial exposure for claims arising out of the events of September 11, 2001 in light of the provisions of the Air Transportation Safety and System Stabilization Act of 2001 limiting claimants' recoveries to insurance proceeds, the resolution of the wrongful death and personal injury cases by settlement, the resolution of the majority of the property damage claims and the withdrawal of all related proofs of claim from UAL Corporation's Chapter 11 bankruptcy proceeding.

##### ***Antitrust Litigation Related to the Merger Transaction***

On June 29, 2010, forty-nine purported purchasers of airline tickets filed an antitrust lawsuit in the U.S. District Court for the Northern District of California against Continental and UAL Corporation in connection with the merger. The plaintiffs alleged that the merger may substantially lessen competition or tend to create a monopoly in the transportation of airline passengers in the United States and the transportation of airline passengers to and from the United States on international flights, in violation of Section 7 of the Clayton Act. On August 9, 2010, the plaintiffs filed a motion for preliminary injunction pursuant to Section 16 of the Clayton Act, seeking to enjoin the merger. On September 27, 2010, the court denied the plaintiffs' motion for a preliminary injunction, which allowed the merger to close. After the closing of the merger, the plaintiffs appealed the court's ruling to the United States Court of Appeals for the Ninth Circuit and moved for a hold separate order pending the appeal, which was denied. The Ninth Circuit affirmed the District Court's denial of the preliminary injunction on May 23, 2011 and, on July 8, 2011, denied the plaintiffs' motions for rehearing and for rehearing en banc. On August 22, 2011, the plaintiffs moved to amend their complaint in order to, among other things, add a claim for damages. Continental and United opposed that motion, which remains pending before the District Court.



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### ***Environmental Proceedings***

In 2009, the EU issued a directive to member states to include aviation in its greenhouse gas Emissions Trading Scheme, which required the Company to begin monitoring emissions of carbon dioxide effective January 1, 2010. Beginning in 2012, the Emissions Trading Scheme would require the Company to ensure it has obtained sufficient emission allowances equal to the amount of carbon dioxide emissions from flights to and from member states of the EU, with such allowances then surrendered on an annual basis to the government. On December 17, 2009, the Air Transportation Association, joined by United, Continental and American Airlines, filed a lawsuit in the United Kingdom's High Court of Justice challenging regulations that transpose into UK law the EU Emissions Trading Scheme as applied to U.S. carriers as violating international law due to the extra-territorial reach of the scheme and as an improper tax. In June 2010, the case was referred to the Court of Justice of the European Union (Case C-366/10) and oral argument was heard July 5, 2011. A preliminary opinion of the court's Advocate General was issued on October 6, 2011 recommending that the court find that the EU Emissions Trading Scheme is not in violation of international law. This opinion is not binding on the court and a final opinion on this matter is expected by the end of 2011 or beginning of 2012.

### **ITEM 1A. RISK FACTORS.**

See Part I, Item 1A., Risk Factors, of the 2010 Annual Report and the Form 10-Q for the quarter ended June 30, 2011 for a detailed discussion of the risk factors affecting UAL, United and Continental.

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

None.

### **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.



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**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.<br>(Registrant)    |
| Date: October 27, 2011 | By: /s/ Zane C. Rowe                                 |
|                        | Zane C. Rowe   |
|                        | Executive Vice President and Chief Financial Officer |
|                        | (principal financial officer)                        |
| Date: October 27, 2011 | By: /s/ Chris Kenny                                  |
|                        | Chris Kenny  |
|                        | Vice President and Controller                        |
|                        | (principal accounting officer)                       |
|                        | United Air Lines, Inc.<br>(Registrant)               |
| Date: October 27, 2011 | By: /s/ Zane C. Rowe                                 |
|                        | Zane C. Rowe   |
|                        | Executive Vice President and Chief Financial Officer |
|                        | (principal financial officer)                        |
| Date: October 27, 2011 | By: /s/ Chris Kenny                                  |
|                        | Chris Kenny  |
|                        | Vice President and Controller                        |
|                        | (principal accounting officer)                       |
|                        | Continental Airlines, Inc.<br>(Registrant)           |
| Date: October 27, 2011 | By: /s/ Zane C. Rowe                                 |
|                        | Zane C. Rowe   |
|                        | Executive Vice President and Chief Financial Officer |

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(principal financial officer)

Date: October 27, 2011

By: /s/ Chris Kenny

Chris Kenny

Vice President and Controller

(principal accounting officer)

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**EXHIBIT INDEX**

- 31.1 Certification of the Principal Executive Officer of UAL Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
- 31.2 Certification of the Principal Financial Officer of UAL Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
- 31.3 Certification of the Principal Executive Officer of United Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
- 31.4 Certification of the Principal Financial Officer of United Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
- 31.5 Certification of the Principal Executive Officer of Continental Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
- 31.6 Certification of the Principal Financial Officer of Continental Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer of UAL Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
- 32.2 Certification of the Chief Executive Officer and Chief Financial Officer of United Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
- 32.3 Certification of the Chief Executive Officer and Chief Financial Officer of Continental Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
- \*\*101.1 XBRL Instance Document
- \*\*101.2 XBRL Taxonomy Extension Schema Document
- \*\*101.3 XBRL Taxonomy Extension Calculation Linkbase Document
- \*\*101.4 XBRL Taxonomy Extension Definition Linkbase Document
- \*\*101.5 XBRL Taxonomy Extension Labels Linkbase Document
- \*\*101.6 XBRL Taxonomy Extension Presentation Linkbase Document
  
- \*\* XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.