

United Continental Holdings, Inc.  
Form 10-Q  
October 23, 2014  
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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, 2014

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, Principal Executive Office Address and Telephone Number | State of Incorporation | I.R.S. Employer Identification No. |
|------------|---|------------------------|------------------------------------|
| 001-06033  | United Continental Holdings, Inc.<br>233 South Wacker Drive,<br>Chicago, Illinois 60606<br>(872) 825-4000     | Delaware               | 36-2675207                         |
| 001-10323  | United Airlines, Inc.<br>233 South Wacker Drive,  | Delaware               | 74-2099724                         |

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Chicago, Illinois 60606

(872) 825-4000

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

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

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

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

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

United Continental

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock as of October 15, 2014 is shown below:

|                                   |   |
|-----------------------------------|---|
| United Continental Holdings, Inc. | 369,070,761 shares of common stock (\$0.01 par value)   |
| United Airlines, Inc.             | 1,000 (100% owned by United Continental Holdings, Inc.) |

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

## OMISSION OF CERTAIN INFORMATION

This combined Form 10-Q is separately filed by United Continental Holdings, Inc. and United Airlines, Inc.

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

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**United Continental Holdings, Inc.**

**United Airlines, Inc.**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended September 30, 2014**

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UNITED CONTINENTAL HOLDINGS, INC.****STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)****(In millions, except per share amounts)**

|  | <b>Three Months Ended September 30,</b> |              | <b>Nine Months Ended September 30,</b> |               |
|--|---|--------------|--|---------------|
|  | <b>2014</b>                             | <b>2013</b>  | <b>2014</b>                            | <b>2013</b>   |
| Operating revenue:                                 |   |              |  |               |
| Passenger Mainline                                 | \$ 7,414                                | \$ 7,025     | \$ 20,410                              | \$ 19,792     |
| Passenger Regional                                 | 1,900                                   | 1,893        | 5,269                                  | 5,353         |
| <b>Total passenger revenue</b>                     | <b>9,314</b>                            | <b>8,918</b> | <b>25,679</b>                          | <b>25,145</b> |
| Cargo  | 237                                     | 199          | 678                                    | 662           |
| Other operating revenue                            | 1,012                                   | 1,111        | 3,231                                  | 3,143         |
|  | 10,563                                  | 10,228       | 29,588                                 | 28,950        |
| Operating expense:                                 |   |              |  |               |
| Aircraft fuel                                      | 3,127                                   | 3,262        | 9,145                                  | 9,380         |
| Salaries and related costs                         | 2,344                                   | 2,209        | 6,684                                  | 6,511         |
| Regional capacity purchase                         | 597                                     | 621          | 1,747                                  | 1,837         |
| Landing fees and other rent                        | 567                                     | 540          | 1,706                                  | 1,544         |
| Aircraft maintenance materials and outside repairs | 435                                     | 472          | 1,364                                  | 1,390         |
| Depreciation and amortization                      | 422                                     | 435          | 1,248                                  | 1,268         |
| Distribution expenses                              | 375                                     | 377          | 1,039                                  | 1,052         |
| Aircraft rent                                      | 222                                     | 231          | 668                                    | 706           |
| Special charges (Note 10)                          | 43                                      | 211          | 264                                    | 355           |
| Other operating expenses                           | 1,240                                   | 1,362        | 3,975                                  | 3,893         |
|  | 9,372                                   | 9,720        | 27,840                                 | 27,936        |
| Operating income                                   | 1,191                                   | 508          | 1,748                                  | 1,014         |
| Nonoperating income (expense):                     |   |              |  |               |
| Interest expense                                   | (186)                                   | (195)        | (559)                                  | (590)         |
| Interest capitalized                               | 13                                      | 12           | 40                                     | 35            |
| Interest income                                    | 8                                       | 5            | 17                                     | 16            |
| Miscellaneous, net                                 | (106)                                   | 52           | (141)                                  | (48)          |
|  | (271)                                   | (126)        | (643)                                  | (587)         |
| Income before income taxes                         | 920                                     | 382          | 1,105                                  | 427           |
| Income tax expense (benefit)                       | (4)                                     | 3            | 1                                      | (4)           |
| Net income   | \$ 924                                  | \$ 379       | \$ 1,104                               | \$ 431        |
| Earnings per share, basic                          | \$ 2.49                                 | \$ 1.06      | \$ 2.97                                | \$ 1.25       |

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|                             |         |         |         |         |
|-----------------------------|---------|---------|---------|---------|
| Earnings per share, diluted | \$ 2.37 | \$ 0.98 | \$ 2.84 | \$ 1.15 |
|-----------------------------|---------|---------|---------|---------|

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

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**UNITED CONTINENTAL HOLDINGS, INC.**

**STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

**(In millions)**

|   | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                            | <b>2013</b> |
| Net income  | \$ 924                                  | \$ 379      | \$ 1,104                               | \$ 431      |
| Other comprehensive income (loss), net change related to: |   |             |  |             |
| Fuel derivative financial instruments                     | (120)                                   | 30          | (95)                                   | 20          |
| Employee benefit plans                                    | (82)                                    | 51          | (121)                                  | 531         |
| Investments and other                                     | 1                                       | (5)         | (4)                                    | 2           |
|   | (201)                                   | 76          | (220)                                  | 553         |
| Total comprehensive income, net                           | \$ 723                                  | \$ 455      | \$ 884                                 | \$ 984      |

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

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

(In millions, except shares)

|   | (Unaudited)<br>September 30,<br>2014 | December 31, 2013 |
|---|--------------------------------------|-------------------|
| <b>ASSETS</b>   |                                      |                   |
| Current assets:   |                                      |                   |
| Cash and cash equivalents   | \$ 3,117                             | \$ 3,220          |
| Short-term investments  | 2,397                                | 1,901             |
| <b>Total unrestricted cash, cash equivalents and short-term investments</b>                   | <b>5,514</b>                         | <b>5,121</b>      |
| Restricted cash   | 32                                   | 31                |
| Receivables, less allowance for doubtful accounts (2014 \$24; 2013 \$13)                      | 1,559                                | 1,503             |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2014 \$161; 2013 \$162) | 700                                  | 667               |
| Deferred income taxes   | 582                                  | 676               |
| Prepaid expenses and other  | 838                                  | 704               |
|   | 9,225                                | 8,702             |
| Operating property and equipment:   |                                      |                   |
| Owned   |                                      |                   |
| Flight equipment  | 20,367                               | 18,786            |
| Other property and equipment  | 3,934                                | 3,687             |
|   | 24,301                               | 22,473            |
| Less Accumulated depreciation and amortization  | (6,894)                              | (6,080)           |
|   | 17,407                               | 16,393            |
| Purchase deposits for flight equipment  | 734                                  | 706               |
| Capital leases  |                                      |                   |
| Flight equipment  | 1,343                                | 1,490             |
| Other property and equipment  | 321                                  | 307               |
|   | 1,664                                | 1,797             |
| Less Accumulated amortization   | (862)                                | (849)             |
|   | 802                                  | 948               |
|   | 18,943                               | 18,047            |
| Other assets:   |                                      |                   |
| Goodwill  | 4,523                                | 4,523             |
| Intangibles, less accumulated amortization (2014 \$1,019; 2013 \$933)                         | 4,330                                | 4,436             |
| Restricted cash   | 284                                  | 364               |
| Other, net  | 706                                  | 740               |

9,843 10,063

\$ 38,011 \$ 36,812

(continued on next page)



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

(In millions, except shares)

|  | (Unaudited)   |                   |
|--|---------------|-------------------|
|  | September 30, | December 31, 2013 |
|  | 2014          |                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |               |                   |
| Current liabilities:   |               |                   |
| Advance ticket sales   | \$ 4,514      | \$ 3,405          |
| Frequent flyer deferred revenue  | 2,090         | 2,369             |
| Accounts payable   | 2,085         | 2,087             |
| Accrued salaries and benefits  | 1,651         | 1,696             |
| Current maturities of long-term debt   | 1,340         | 1,368             |
| Current maturities of capital leases   | 99            | 117               |
| Other  | 1,085         | 1,065             |
|  | 12,864        | 12,107            |
| Long-term debt   | 9,988         | 10,171            |
| Long-term obligations under capital leases   | 667           | 753               |
| Other liabilities and deferred credits:  |               |                   |
| Frequent flyer deferred revenue  | 2,820         | 2,535             |
| Postretirement benefit liability   | 1,684         | 1,703             |
| Pension liability  | 1,517         | 1,650             |
| Advanced purchase of miles   | 1,170         | 1,338             |
| Deferred income taxes  | 1,570         | 1,662             |
| Lease fair value adjustment, net   | 496           | 626               |
| Other  | 1,371         | 1,283             |
|  | 10,628        | 10,797            |
| Commitments and contingencies  |               |                   |
| Stockholders equity:   |               |                   |
| Preferred stock  |               |                   |
| Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 369,728,970 and 362,283,555 shares at September 30, 2014 and December 31, 2013, respectively | 4             | 4                 |
| Additional capital invested  | 7,620         | 7,425             |
| Accumulated deficit  | (3,911)       | (5,015)           |
| Stock held in treasury, at cost  | (237)         | (38)              |
| Accumulated other comprehensive income   | 388           | 608               |
|  | 3,864         | 2,984             |
|  | \$ 38,011     | \$ 36,812         |

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



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

|   | <b>Nine Months Ended<br/>September 30,</b> |              |
|---|--|--------------|
|   | <b>2014</b>                                | <b>2013</b>  |
| <b>Cash Flows from Operating Activities:</b>                                    |  |              |
| Net cash provided by operating activities                                       | \$ 2,732                                   | \$ 1,778     |
| <b>Cash Flows from Investing Activities:</b>                                    |  |              |
| Capital expenditures  | (1,345)                                    | (1,399)      |
| Increase in short-term and other investments, net                               | (471)                                      | (22)         |
| Decrease in restricted cash, net  | 79   | 35           |
| Proceeds from sale of property and equipment                                    | 73   | 65           |
| Other, net  | 34   | 22           |
| <br>Net cash used in investing activities                                       | <br>(1,630)                                | <br>(1,299)  |
| <b>Cash Flows from Financing Activities:</b>                                    |  |              |
| Payments of long-term debt  | (2,001)                                    | (1,965)      |
| Proceeds from issuance of long-term debt  | 1,177                                      | 819          |
| Repurchases of common stock   | (220)                                      |              |
| Principal payments under capital leases   | (81)                                       | (98)         |
| Other, net  | (80)                                       | (70)         |
| <br>Net cash used in financing activities                                       | <br>(1,205)                                | <br>(1,314)  |
| <br>Net decrease in cash and cash equivalents                                   | <br>(103)                                  | <br>(835)    |
| Cash and cash equivalents at beginning of the period                            | 3,220                                      | 4,770        |
| <br>Cash and cash equivalents at end of the period                              | <br>\$ 3,117                               | <br>\$ 3,935 |
| <b>Investing and Financing Activities Not Affecting Cash:</b>                   |  |              |
| Property and equipment acquired through the issuance of debt and capital leases | \$ 765                                     | \$ 239       |
| Exchanges of certain convertible notes for common stock                         | 202  | 240          |
| Airport construction financing  | 14   | 35           |

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

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

|  | <b>Three Months Ended September 30, 2014</b> |               | <b>Nine Months Ended September 30, 2013</b> |               |
|--|--|---------------|---|---------------|
|  | <b>2014</b>                                  | <b>2013</b>   | <b>2014</b>                                 | <b>2013</b>   |
| <b>Operating revenue:</b>                          |  |               |   |               |
| Passenger Mainline                                 | \$ 7,414                                     | \$ 7,025      | \$ 20,410                                   | \$ 19,792     |
| Passenger Regional                                 | 1,900  | 1,893         | 5,269                                       | 5,353         |
| <b>Total passenger revenue</b>                     | <b>9,314</b>                                 | <b>8,918</b>  | <b>25,679</b>                               | <b>25,145</b> |
| Cargo  | 237  | 199           | 678   | 662           |
| <b>Other operating revenue</b>                     | <b>1,012</b>                                 | <b>1,113</b>  | <b>3,231</b>                                | <b>3,149</b>  |
|  | 10,563                                       | 10,230        | 29,588                                      | 28,956        |
| <b>Operating expense:</b>                          |  |               |   |               |
| Aircraft fuel                                      | 3,127  | 3,262         | 9,145                                       | 9,380         |
| Salaries and related costs                         | 2,344  | 2,209         | 6,684                                       | 6,511         |
| Regional capacity purchase                         | 597  | 621           | 1,747                                       | 1,837         |
| Landing fees and other rent                        | 567  | 540           | 1,706                                       | 1,544         |
| Aircraft maintenance materials and outside repairs | 435  | 472           | 1,364                                       | 1,390         |
| Depreciation and amortization                      | 422  | 435           | 1,248                                       | 1,268         |
| Distribution expenses                              | 375  | 377           | 1,039                                       | 1,052         |
| Aircraft rent                                      | 222  | 231           | 668   | 706           |
| Special charges (Note 10)                          | 43   | 211           | 264   | 355           |
| <b>Other operating expenses</b>                    | <b>1,245</b>                                 | <b>1,362</b>  | <b>3,972</b>                                | <b>3,892</b>  |
|  | 9,377  | 9,720         | 27,837                                      | 27,935        |
| <b>Operating income</b>                            | <b>1,186</b>                                 | <b>510</b>    | <b>1,751</b>                                | <b>1,021</b>  |
| <b>Nonoperating income (expense):</b>              |  |               |   |               |
| Interest expense                                   | (187)  | (195)         | (564)                                       | (586)         |
| Interest capitalized                               | 13   | 12            | 40  | 35            |
| Interest income                                    | 8  | 5             | 17  | 16            |
| Miscellaneous, net                                 | (91)   | 50            | (121)                                       | 18            |
|  | (257)  | (128)         | (628)                                       | (517)         |
| <b>Income before income taxes</b>                  | <b>929</b>                                   | <b>382</b>    | <b>1,123</b>                                | <b>504</b>    |
| Income tax expense (benefit)                       | (4)  | 4             | 1   | 4             |
| <b>Net income</b>                                  | <b>\$ 933</b>                                | <b>\$ 378</b> | <b>\$ 1,122</b>                             | <b>\$ 500</b> |

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

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

|   | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                            | <b>2013</b> |
| Net income  | \$ 933                                  | \$ 378      | \$ 1,122                               | \$ 500      |
| Other comprehensive income (loss), net change related to: |   |             |  |             |
| Fuel derivative financial instruments                     | (120)                                   | 30          | (95)                                   | 20          |
| Employee benefit plans                                    | (82)                                    | 51          | (121)                                  | 531         |
| Investments and other                                     | 1                                       | (5)         | (4)                                    | 3           |
| Other   |   |             |  | 6           |
|   | (201)                                   | 76          | (220)                                  | 560         |
| Total comprehensive income, net                           | \$ 732                                  | \$ 454      | \$ 902                                 | \$ 1,060    |

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

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

|  | <b>(Unaudited)</b><br><b>September 30, 2014</b> | <b>December 31, 2013</b> |
|--|---|--------------------------|
| <b>ASSETS</b>  |   |                          |
| Current assets:  |   |                          |
| Cash and cash equivalents  | \$ 3,111  | \$ 3,214                 |
| Short-term investments   | 2,397   | 1,901                    |
| <b>Total unrestricted cash, cash equivalents and short-term investments</b>                      | <b>5,508</b>                                    | <b>5,115</b>             |
| Restricted cash  | 32  | 31                       |
| Receivables, less allowance for doubtful accounts (2014 \$24;<br>2013 \$13)                      | 1,559   | 1,503                    |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance<br>(2014 \$161; 2013 \$162) | 700   | 667                      |
| Deferred income taxes  | 582   | 674                      |
| Prepaid expenses and other   | 887   | 705                      |
|  | <b>9,268</b>                                    | <b>8,695</b>             |
| Operating property and equipment:  |   |                          |
| Owned  |   |                          |
| Flight equipment   | 20,367  | 18,786                   |
| Other property and equipment   | 3,934   | 3,687                    |
|  | <b>24,301</b>                                   | <b>22,473</b>            |
| Less Accumulated depreciation and amortization   | (6,894)   | (6,080)                  |
|  | <b>17,407</b>                                   | <b>16,393</b>            |
| Purchase deposits for flight equipment   | 734   | 706                      |
| Capital leases   |   |                          |
| Flight equipment   | 1,343   | 1,490                    |
| Other property and equipment   | 321   | 307                      |
|  | <b>1,664</b>                                    | <b>1,797</b>             |
| Less Accumulated amortization  | (862)   | (849)                    |
|  | <b>802</b>                                      | <b>948</b>               |
|  | <b>18,943</b>                                   | <b>18,047</b>            |
| Other assets:  |   |                          |
| Goodwill   | 4,523   | 4,523                    |
| Intangibles, less accumulated amortization (2014 \$1,019;<br>2013 \$933)                         | 4,330   | 4,436                    |
| Restricted cash  | 284   | 364                      |

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|            |           |           |
|------------|-----------|-----------|
| Other, net | 1,204     | 1,221     |
|            | 10,341    | 10,544    |
|            | \$ 38,552 | \$ 37,286 |

(continued on next page)

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

(In millions, except shares)

|  | (Unaudited)<br>September 30, 2014 | December 31, 2013 |
|--|-----------------------------------|-------------------|
| <b>LIABILITIES AND STOCKHOLDER S EQUITY</b>  |                                   |                   |
| Current liabilities:   |                                   |                   |
| Advance ticket sales   | \$ 4,514                          | \$ 3,405          |
| Frequent flyer deferred revenue  | 2,090                             | 2,369             |
| Accounts payable   | 2,089                             | 2,092             |
| Accrued salaries and benefits  | 1,651                             | 1,696             |
| Current maturities of long-term debt   | 1,340                             | 1,368             |
| Current maturities of capital leases   | 99                                | 117               |
| Payables to related parties  |                                   | 114               |
| Other  | 1,086                             | 1,064             |
|  | 12,869                            | 12,225            |
| Long-term debt   | 9,892                             | 10,020            |
| Long-term obligations under capital leases   | 667                               | 753               |
| Other liabilities and deferred credits:  |                                   |                   |
| Frequent flyer deferred revenue  | 2,820                             | 2,535             |
| Postretirement benefit liability   | 1,684                             | 1,703             |
| Pension liability  | 1,517                             | 1,650             |
| Advanced purchase of miles   | 1,170                             | 1,338             |
| Deferred income taxes  | 1,571                             | 1,661             |
| Lease fair value adjustment  | 496                               | 626               |
| Other  | 1,667                             | 1,552             |
|  | 10,925                            | 11,065            |
| Commitments and contingencies  |                                   |                   |
| Stockholder s equity:  |                                   |                   |
| Common stock at par, \$0.01 par value; authorized 1,000 shares; issued and outstanding 1,000 shares at both September 30, 2014 and December 31, 2013 |                                   |                   |
| Additional capital invested  | 7,433                             | 7,590             |
| Accumulated deficit  | (3,619)                           | (4,743)           |
| Accumulated other comprehensive income   | 388                               | 608               |
| Receivable from related parties  | (3)                               | (232)             |
|  | 4,199                             | 3,223             |
|  | \$ 38,552                         | \$ 37,286         |

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



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

|   | <b>Nine Months Ended September 30,</b> |              |
|---|--|--------------|
|   | <b>2014</b>                            | <b>2013</b>  |
| <b>Cash Flows from Operating Activities:</b>                                    |  |              |
| Net cash provided by operating activities                                       | \$ 2,623                               | \$ 1,774     |
| <b>Cash Flows from Investing Activities:</b>                                    |  |              |
| Capital expenditures  | (1,345)                                | (1,399)      |
| Increase in short-term and other investments, net                               | (471)                                  | (22)         |
| Decrease in restricted cash, net  | 79                                     | 36           |
| Proceeds from sale of property and equipment                                    | 73                                     | 65           |
| Other, net  | 34                                     | 20           |
| <br>Net cash used in investing activities                                       | <br>(1,630)                            | <br>(1,300)  |
| <b>Cash Flows from Financing Activities:</b>                                    |  |              |
| Payments of long-term debt  | (2,001)                                | (1,965)      |
| Proceeds from issuance of long-term debt  | 1,177                                  | 819          |
| Principal payments under capital leases   | (81)                                   | (98)         |
| Dividend to UAL   | (120)                                  |              |
| Other, net  | (71)                                   | (67)         |
| <br>Net cash used in financing activities                                       | <br>(1,096)                            | <br>(1,311)  |
| <br>Net decrease in cash and cash equivalents                                   | <br>(103)                              | <br>(837)    |
| Cash and cash equivalents at beginning of the period                            | 3,214                                  | 4,765        |
| <br>Cash and cash equivalents at end of the period                              | <br>\$ 3,111                           | <br>\$ 3,928 |
| <b>Investing and Financing Activities Not Affecting Cash:</b>                   |  |              |
| Property and equipment acquired through the issuance of debt and capital leases | \$ 765                                 | \$ 239       |
| Transfer of UAL subsidiaries to United  | 186                                    |              |
| Contribution of capital associated with conversion of convertible notes         | 156                                    |              |
| Airport construction financing  | 14                                     | 35           |

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

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

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

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

The UAL and United unaudited condensed consolidated financial statements shown here have been prepared as required by the U.S. Securities and Exchange Commission (the SEC). Some information and footnote disclosures normally included in financial statements that comply with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted as permitted by the SEC. The financial statements include all adjustments, including normal recurring adjustments and other adjustments, which are considered necessary for a fair presentation of the Company's financial position and results of operations. The UAL and United financial statements should be read together with the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Annual Report). The Company's quarterly financial data is subject to seasonal fluctuations and historically its second and third quarter financial results, which reflect higher travel demand, are better than its first and fourth quarter financial results.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Frequent Flyer Accounting.* On March 30, 2014, US Airways exited Star Alliance. Effective with the exit date, the Company updated its estimated selling price for miles to a value based on the equivalent ticket value less fulfillment discount, which incorporates the expected redemption of miles. The equivalent ticket value used as the basis for the estimated selling price of miles is based on the prior 12 months weighted average equivalent ticket value of similar fares as those used to settle award redemptions while taking into consideration such factors as redemption pattern, cabin class, loyalty status and geographic region. The estimated selling price of miles is adjusted by a fulfillment discount that considers a number of factors, including redemption patterns of various customer groups. This change in estimate was applied on a prospective basis beginning April 1, 2014. The estimated impact of this change on consolidated revenue is expected to be an increase of approximately \$75 million in 2014.

During the third quarter of 2014, the Company refined its estimate of the number of miles that have been redeemed for award travel, but for which travel has not occurred, to a computation that uses actual miles open versus a historical average. Although this change is not expected to significantly impact the reported amount of passenger revenue recognized in 2014 or in any future years, the new estimate will likely result in more seasonality in the results between quarters. The Company expects that based on historical redemption and travel patterns, using the revised method will result in lower revenue from frequent flyer awards redeemed during the first quarter and higher revenue during the third quarter in future periods than historical amounts, with minimal differences during the second and fourth quarters.

*Related Party Receivables.* At December 31, 2013, United had receivables from two affiliates, which were wholly-owned subsidiaries of UAL, of \$232 million that were classified against stockholder's equity. UAL transferred all of its equity interest in each of the two subsidiaries to United in the first quarter of 2014, and the transfers have been reflected as reductions in paid in capital.

*Recently Issued Accounting Standards.* In May 2014, the Financial Accounting Standards Board (FASB) amended the FASB Accounting Standards Codification and created a new Topic 606, Revenue from Contracts with Customers. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The amendments will become effective for the Company's annual and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact on its financial statements.

**Table of Contents****NOTE 2 - EARNINGS PER SHARE**

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

|   | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                            | <b>2013</b> |
| <b>Basic earnings per share:</b>  |   |             |  |             |
| Net income  | \$ 924                                  | \$ 379      | \$ 1,104                               | \$ 431      |
| Less: Income allocable to participating securities                                    | (1)                                     | (1)         | (2)                                    | (1)         |
| Earnings available to common stockholders   | \$ 923                                  | \$ 378      | \$ 1,102                               | \$ 430      |
| Basic weighted-average shares outstanding   | 370                                     | 357         | 370                                    | 343         |
| Earnings per share, basic   | \$ 2.49                                 | \$ 1.06     | \$ 2.97                                | \$ 1.25     |
| <b>Diluted earnings per share:</b>  |   |             |  |             |
| Earnings available to common stockholders   | \$ 923                                  | \$ 378      | \$ 1,102                               | \$ 430      |
| Effect of convertible notes   | 6                                       | 9           | 20                                     | 20          |
| Earnings available to common stockholders including the effect of dilutive securities | \$ 929                                  | \$ 387      | \$ 1,122                               | \$ 450      |
| <b>Diluted shares outstanding:</b>  |   |             |  |             |
| Basic weighted-average shares outstanding   | 370                                     | 357         | 370                                    | 343         |
| Effect of convertible notes   | 22                                      | 37          | 24                                     | 46          |
| Effect of employee stock options  |   | 1           | 1                                      | 1           |
| Diluted weighted-average shares outstanding   | 392                                     | 395         | 395                                    | 390         |
| Earnings per share, diluted   | \$ 2.37                                 | \$ 0.98     | \$ 2.84                                | \$ 1.15     |

**Potentially dilutive shares excluded from diluted per share amounts:**

|                                    |   |   |   |   |
|------------------------------------|---|---|---|---|
| Restricted stock and stock options | 1 | 3 | 1 | 3 |
| Convertible notes                  |   |   |   | 4 |

During the second quarter of 2014, UAL used cash to purchase and retire \$28 million aggregate principal amount of its 4.5% Convertible Notes due 2015 (the 4.5% Convertible Notes) in market transactions. The corresponding equivalent amount of shares of UAL common stock are excluded from the determination of diluted weighted-average shares outstanding for the three and nine months ended September 30, 2014 from the date the debt was purchased.

In the first quarter of 2014, UAL issued approximately five million shares of UAL common stock in exchange for, or upon conversion of, \$46 million in aggregate principal amount of UAL's outstanding 6% convertible senior notes due 2029 held by holders of these notes. The newly issued shares of UAL common stock are included in the determination of basic weighted-average shares outstanding for the three and nine months ended September 30, 2014 from the date the shares were issued. The Company retired the 6% convertible senior notes acquired in the exchange. In October 2014, UAL notified holders of these notes of its intention to redeem the \$58 million of notes outstanding with the redemption scheduled to occur in late November 2014. The holders of these notes have the right to convert their notes into shares of UAL common stock prior to redemption at a conversion rate of 115.1013 per \$1,000 principal amount of notes. If all of the holders of these notes exercise their conversion right, UAL would issue approximately 6.7 million shares of UAL common stock upon conversion.

Also on January 10, 2014, UAL called the 4.5% Senior Limited-Subordination Convertible Notes due 2021 (the 4.5% Notes) that remained outstanding for redemption on February 10, 2014. In the first quarter of 2014, holders of substantially all of the remaining \$156 million

outstanding principal amount of the 4.5% Notes exercised their right to convert such notes into

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approximately five million shares of UAL common stock at a conversion rate of 30.6419 shares of UAL common stock per \$1,000 principal amount of 4.5% Notes. The newly issued shares of UAL common stock are included in the determination of basic weighted-average shares outstanding for the three and nine months ended September 30, 2014 from the date the shares were issued. See Note 9 for additional information related to exercises of rights under the 4.5% Notes.

UAL's Board of Directors authorized a share repurchase program to acquire up to \$1 billion of UAL's common stock. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

On July 24, 2014, pursuant to the \$1.0 billion share repurchase program, UAL entered into two separate agreements to repurchase an aggregate of \$200 million of shares of UAL common stock through an accelerated share repurchase program (the ASR Program). UAL paid \$200 million and received approximately 4.4 million shares. In addition to shares purchased under the ASR Program, UAL spent \$20 million on open market repurchases of 0.4 million shares of UAL common stock in September 2014. See Part II, Item 2., Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

**NOTE 3 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

| <b>UAL (a)</b>                   | <b>Pension and<br/>Other<br/>Postretirement<br/>Liabilities</b> | <b>Derivative<br/>Contracts</b> | <b>Investments<br/>and<br/>Other</b> | <b>Total</b> |
|----------------------------------|---|---------------------------------|--------------------------------------|--------------|
| Balance at June 30, 2014         | \$ 545  | \$ 36                           | \$ 8                                 | \$ 589       |
| Changes in value                 | (66)  | (120)                           | 3                                    | (183)        |
| Amounts reclassified to earnings | (16)  |                                 | (2)                                  | (18)         |
| Net change                       | (82)  | (120)                           | 1                                    | (201)        |
| Balance at September 30, 2014    | \$ 463  | \$ (84)                         | \$ 9                                 | \$ 388       |
| Balance at December 31, 2013     | \$ 584  | \$ 11                           | \$ 13                                | \$ 608       |
| Changes in value                 | (71)  | (99)                            | 4                                    | (166)        |
| Amounts reclassified to earnings | (50)  | 4                               | (8)                                  | (54)         |
| Net change                       | (121)   | (95)                            | (4)                                  | (220)        |
| Balance at September 30, 2014    | \$ 463  | \$ (84)                         | \$ 9                                 | \$ 388       |

| <b>UAL (a)</b>                   | <b>Pension and<br/>Other<br/>Postretirement<br/>Liabilities</b> | <b>Derivative<br/>Contracts</b> | <b>Investments<br/>and<br/>Other</b> | <b>Total</b> |
|----------------------------------|---|---------------------------------|--------------------------------------|--------------|
| Balance at June 30, 2013         | \$ (562)  | \$ (20)                         | \$ 13                                | \$ (569)     |
| Changes in value                 | 41  | 44                              | (5)                                  | 80           |
| Amounts reclassified to earnings | 10  | (14)                            |                                      | (4)          |
| Net change                       | 51  | 30                              | (5)                                  | 76           |
| Balance at September 30, 2013    | \$ (511)  | \$ 10                           | \$ 8                                 | \$ (493)     |

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|                                  |            |         |      |            |
|----------------------------------|------------|---------|------|------------|
| Balance at December 31, 2012     | \$ (1,042) | \$ (10) | \$ 6 | \$ (1,046) |
| Changes in value                 | 483        | 16      | 2    | 501        |
| Amounts reclassified to earnings | 48         | 4       |      | 52         |
| Net change                       | 531        | 20      | 2    | 553        |
| Balance at September 30, 2013    | \$ (511)   | \$ 10   | \$ 8 | \$ (493)   |

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| Details about AOCI Components   | Amount Reclassified from AOCI to Income |         |                                      |       | Affected Line Item in the Statements of Consolidated Operations |
|---|---|---------|--------------------------------------|-------|---|
|   | Three Months Ended September 30, 2014   |         | Nine Months Ended September 30, 2013 |       |   |
|   | 2014                                    | 2013    | 2014                                 | 2013  |   |
| Derivatives designated as cash flow hedges  |   |         |                                      |       |   |
| Fuel contracts-reclassifications of (gains) losses into earnings (b)                | \$                                      | \$ (14) | \$ 4                                 | \$ 4  | Aircraft fuel   |
| Amortization of pension and post-retirement items                                   |   |         |                                      |       |   |
| Amortization of unrecognized (gains) losses and prior service cost (credit) (b) (c) | \$ (16)                                 | \$ 10   | \$ (50)                              | \$ 48 | Salaries and related costs                                      |
| Investments and other   |   |         |                                      |       |   |
| Available for sale securities-reclassifications of gains into earnings (b)          | \$ (2)                                  | \$      | \$ (8)                               | \$    | Miscellaneous, net  |

(a) UAL and United amounts are substantially the same except for an additional \$6 million of income tax benefit at United and additional gains related to investments and other of \$1 million at United in the nine months ended September 30, 2013, respectively.

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

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

**Table of Contents****NOTE 4 - INCOME TAXES**

Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of changes to existing valuation allowances. We continue to provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because we have concluded that it is more likely than not that such deferred tax assets will ultimately not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible. The Company's management assesses available positive and negative evidence regarding the realizability of its deferred tax assets and records a valuation allowance when it is more likely than not that deferred tax assets will not be realized. To form a conclusion, management considers positive evidence in the form of reversing temporary differences, projections of future taxable income and tax planning strategies and negative evidence such as historical losses. Although the Company was not in a three-year cumulative loss position at the end of 2013, management determined that the modest level of cumulative pretax income supports the conclusion that the valuation allowance is still necessary. Management will continue to evaluate future financial performance to determine whether such performance is both sustained and significant enough to provide sufficient evidence to support reversal of the valuation allowance.

**NOTE 5 - EMPLOYEE BENEFIT PLANS**

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

|  | <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>2014</b>               | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
| Service cost   | \$ 24                     | \$ 29       | \$ 5                                 | \$ 14       |
| Interest cost  | 50                        | 48          | 22                                   | 29          |
| Expected return on plan assets   | (45)                      | (41)        | (1)                                  | (1)         |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 3                         | 8           | (19)                                 | 2           |
| Settlement gain  | (1)                       | (1)         |                                      |             |
| Total  | \$ 31                     | \$ 43       | \$ 7                                 | \$ 44       |

|  | <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>2014</b>              | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
| Service cost   | \$ 73                    | \$ 94       | \$ 14                                | \$ 42       |
| Interest cost  | 151                      | 142         | 66                                   | 85          |
| Expected return on plan assets   | (134)                    | (121)       | (2)                                  | (2)         |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 8                        | 41          | (58)                                 | 7           |
| Curtailment loss   |                          | 2           |                                      |             |
| Settlement gain  | (1)                      | (2)         |                                      |             |
| Total  | \$ 97                    | \$ 156      | \$ 20                                | \$ 132      |

During the three and nine months ended September 30, 2014, the Company contributed \$160 million and \$278 million, respectively, to its tax-qualified defined benefit pension plans.

*Settlement and Plan Remeasurement.* During September 2014, the Company recognized a settlement gain of \$1 million in earnings resulting from certain lump-sum payments under a separate defined benefit pension plan. Application of settlement accounting required the Company to remeasure the assets and liabilities of this plan in the third quarter of 2014. The Company





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remeasured the pension plan's liabilities using an average weighted discount rate of 4.28% compared to the year-end 2013 discount rate of 5.09%. As a result of the settlement, the projected benefit obligation of the plan increased by \$53 million and Other comprehensive gain decreased by an actuarial loss of \$67 million. These items will also result in an increase of approximately \$1 million in the expected net periodic benefit cost for the remainder of 2014. The Company recognizes the earnings impacts of its pension plans in Salaries and related costs in the statements of consolidated operations.

**Share-Based Compensation.** In February 2014, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 0.3 million shares of restricted stock and 0.5 million restricted stock units (RSUs) that vest pro-rata over three years on the anniversary of the grant date. The time-vested RSUs are cash-settled based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. In addition, the Company granted 0.6 million performance-based RSUs that will vest based on the Company's return on invested capital for the three years ending December 31, 2016. If this performance condition is achieved, cash payments will be made after the end of the performance period based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company accounts for the RSUs as liability awards. The table below presents information related to share-based compensation (in millions):

|                                       | Three Months Ended September |       | Nine Months Ended September 30, |       |
|---------------------------------------|------------------------------|-------|---------------------------------|-------|
|                                       | 2014                         | 2013  | 2014                            | 2013  |
| Share-based compensation expense (a)  | \$ 23                        | \$ 32 | \$ 69                           | \$ 72 |
|                                       | <b>September 30, 2014</b>    |       | <b>December 31, 2013</b>        |       |
| Unrecognized share-based compensation | \$ 62                        | \$ 44 |                                 |       |

(a) Includes \$3 million of expense recognized in merger integration-related costs for the nine months ended September 30, 2014. Includes \$(2) million and \$9 million of (benefit) expense recognized in merger integration-related costs for the three and nine months ended September 30, 2013, respectively.

**Profit Sharing Plans.** Substantially all employees participated in profit sharing plans, which depending on the work group, pay from 5% to 20% of total pre-tax earnings, excluding special items and share-based compensation expense, to eligible employees when pre-tax profit, excluding special items, profit sharing expense and share-based compensation program expense, exceeds \$10 million. Eligible U.S. co-workers in each participating work group received a profit sharing payout using a formula based on the ratio of each qualified co-worker's annual eligible earnings to the eligible earnings of all qualified co-workers in all domestic work groups. The international profit sharing plan paid eligible non-U.S. co-workers the same percentage of eligible pay that is calculated under the U.S. profit sharing plan for management and administrative employees. Profit sharing expense is recorded as a component of Salaries and related costs in the consolidated statements of operations.

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

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

|  | Total    | September 30, 2014 |         |         | Total    | December 31, 2013 |         |         |
|--|----------|--------------------|---------|---------|----------|-------------------|---------|---------|
|  |          | Level 1            | Level 2 | Level 3 |          | Level 1           | Level 2 | Level 3 |
|  |          |                    |         | UAL     |          |                   |         |         |
| Cash and cash equivalents  | \$ 3,117 | \$ 3,117           | \$      | \$      | \$ 3,220 | \$ 3,220          | \$      | \$      |
| Short-term investments:  |          |                    |         |         |          |                   |         |         |
| Asset-backed securities  | 908      |                    | 908     |         | 694      |                   | 694     |         |
| Corporate debt   | 853      |                    | 853     |         | 685      |                   | 685     |         |
| Certificates of deposit placed through an account registry service ( CDARS ) | 305      |                    | 305     |         | 301      |                   | 301     |         |
| Auction rate securities  | 26       |                    |         | 26      | 105      |                   |         | 105     |
| U.S. government and agency notes   | 41       |                    | 41      |         | 38       |                   | 38      |         |
| Other fixed income securities  | 264      |                    | 264     |         | 78       |                   | 78      |         |
| Fuel derivatives, net  | (114)    |                    | (114)   |         | 104      |                   | 104     |         |
| Enhanced equipment trust certificates ( EETC )                               | 28       |                    |         | 28      | 61       |                   |         | 61      |
| Foreign currency derivative asset (liability), net                           | 3        |                    | 3       |         | 1        |                   | 1       |         |
| Restricted cash  | 316      | 316                |         |         | 395      | 395               |         |         |
|  |          |                    |         | United  |          |                   |         |         |
| Cash and cash equivalents  | \$ 3,111 | \$ 3,111           | \$      | \$      | \$ 3,214 | \$ 3,214          | \$      | \$      |
| Short-term investments:  |          |                    |         |         |          |                   |         |         |
| Asset-backed securities  | 908      |                    | 908     |         | 694      |                   | 694     |         |
| Corporate debt   | 853      |                    | 853     |         | 685      |                   | 685     |         |
| CDARS  | 305      |                    | 305     |         | 301      |                   | 301     |         |
| Auction rate securities  | 26       |                    |         | 26      | 105      |                   |         | 105     |
| U.S. government and agency notes   | 41       |                    | 41      |         | 38       |                   | 38      |         |
| Other fixed income securities  | 264      |                    | 264     |         | 78       |                   | 78      |         |
| Fuel derivatives, net  | (114)    |                    | (114)   |         | 104      |                   | 104     |         |
| EETC   | 28       |                    |         | 28      | 61       |                   |         | 61      |
| Foreign currency derivative asset (liability), net                           | 3        |                    | 3       |         | 1        |                   | 1       |         |
| Restricted cash  | 316      | 316                |         |         | 395      | 395               |         |         |
| Convertible debt derivative asset  | 498      |                    |         | 498     | 480      |                   |         | 480     |
| Convertible debt option liability  | (297)    |                    |         | (297)   | (270)    |                   |         | (270)   |

**Available-for-sale investment maturities** - The short-term investments and EETC securities shown in the table above are classified as available-for-sale. As of September 30, 2014, asset-backed securities have remaining maturities of less than one year to approximately 40 years, corporate debt securities have remaining maturities of less than one year to approximately seven years, CDARS have maturities of less than one year, and auction rate securities have remaining maturities of approximately 24 to 32 years. U.S. government and other securities have maturities of less than one year to approximately four years. The EETC securities mature in 2019.

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The table below presents disclosures about the activity for Level 3 financial assets and financial liabilities (in millions):

|  | Three Months Ended September 30,   |                |  |  |  |                |  |  |
|--|--|----------------|--|--|--|----------------|--|--|
|  | 2014   |                | United   |  | 2013   |                | United   |  |
|  | UAL and United<br>Student<br>Loan-Related<br>Auction<br>Rate<br>Securities | United<br>EETC | Convertible<br>Debt<br>Supplemental<br>Derivative<br>Asset | Convertible<br>Debt<br>Conversion<br>Option<br>Liability | UAL and United<br>Student<br>Loan-Related<br>Auction<br>Rate<br>Securities | United<br>EETC | Convertible<br>Debt<br>Supplemental<br>Derivative<br>Asset | Convertible<br>Debt<br>Conversion<br>Option<br>Liability |
| Balance at June 30                                       | \$ 26  | \$ 59          | \$ 449   | \$ (263)   | \$ 115   | \$ 62          | \$ 395   | \$ (199)   |
| Purchases, (sales), issuances and<br>(settlements) (net) |  | (30)           |  |  | (9)  | (2)            |  |  |
| Gains and (losses):                                      |  |                |  |  |  |                |  |  |
| Reported in earnings:                                    |  |                |  |  |  |                |  |  |
| Realized   |  | 1              |  |  | 1  |                |  |  |
| Unrealized   |  |                | 49   | (34)   |  |                | (19)   | 14   |
| Reported in other comprehensive income<br>(loss)         |  | (2)            |  |  | (3)  | (1)            |  |  |
| Balance at September 30                                  | \$ 26  | \$ 28          | \$ 498   | \$ (297)   | \$ 104   | \$ 59          | \$ 376   | \$ (185)   |

|  | Nine Months Ended September 30,  |                |  |  |  |                |  |  |
|--|--|----------------|--|--|--|----------------|--|--|
|  | 2014   |                | United   |  | 2013   |                | United   |  |
|  | UAL and United<br>Student<br>Loan-Related<br>Auction<br>Rate<br>Securities | United<br>EETC | Convertible<br>Debt<br>Supplemental<br>Derivative<br>Asset | Convertible<br>Debt<br>Conversion<br>Option<br>Liability | UAL and United<br>Student<br>Loan-Related<br>Auction<br>Rate<br>Securities | United<br>EETC | Convertible<br>Debt<br>Supplemental<br>Derivative<br>Asset | Convertible<br>Debt<br>Conversion<br>Option<br>Liability |
| Balance at January 1                                     | \$ 105   | \$ 61          | \$ 480   | \$ (270)   | \$ 116   | \$ 63          | \$ 268   | \$ (128)   |
| Purchases, (sales), issuances and<br>(settlements) (net) | (84)   | (33)           | (62)   | 34   | (19)   | (4)            |  |  |
| Gains and (losses):                                      |  |                |  |  |  |                |  |  |
| Reported in earnings:                                    |  |                |  |  |  |                |  |  |
| Realized   | 10   | 1              | (5)  | 5  | 3  |                |  |  |
| Unrealized   |  |                | 85   | (66)   | 1  |                | 108  | (57)   |
| Reported in other comprehensive income<br>(loss)         | (5)  | (1)            |  |  | 3  |                |  |  |
| Balance at September 30                                  | \$ 26  | \$ 28          | \$ 498   | \$ (297)   | \$ 104   | \$ 59          | \$ 376   | \$ (185)   |

United's debt-related derivatives presented in the tables above relate to (a) supplemental indenture agreements that provide that United's convertible debt is convertible into shares of UAL common stock upon the terms and conditions specified in the indentures, and (b) the embedded conversion options in United's convertible debt that are required to be separated and accounted for as though they are free-standing derivatives as a result of the United debt becoming convertible into the common stock of a different reporting entity. The derivatives described above relate to the 6% Convertible Junior Subordinated Debentures due 2030 and the 4.5% Convertible Notes. Gains (losses) on these derivatives are recorded in Nonoperating income (expense): Miscellaneous, net in United's Statements of Consolidated Operations. These derivatives along with their gains (losses) are reported in United's separate financial statements and are eliminated in consolidation for UAL.

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

|             | Carrying Amount | Fair Value of Debt by Fair Value Hierarchy Level |         |          |          |                   |           |         |          |          |
|-------------|-----------------|--|---------|----------|----------|-------------------|-----------|---------|----------|----------|
|             |                 | September 30, 2014                               |         |          |          | December 31, 2013 |           |         |          |          |
|             |                 | Total  | Level 1 | Level 2  | Level 3  | Total             | Level 1   | Level 2 | Level 3  |          |
| UAL debt    | \$ 11,328       | \$ 12,386  | \$      | \$ 8,290 | \$ 4,096 | \$ 11,539         | \$ 12,695 | \$      | \$ 8,829 | \$ 3,866 |
| United debt | 11,232          | 12,122   |         | 8,026    | 4,096    | 11,388            | 12,249    |         | 8,383    | 3,866    |

**Quantitative Information About Level 3 Fair Value Measurements (in millions)**

| Item                    | Fair Value at September 30, 2014 | Valuation Technique               | Unobservable Input        | Weighted Average |
|-------------------------|----------------------------------|-----------------------------------|---------------------------|------------------|
| Auction rate securities | \$ 26                            | Valuation Service / Broker Quotes | Broker quotes (a)         | NA               |
| EETC                    | 28                               | Discounted Cash Flows             | Structure credit risk (b) | 4%               |
| Convertible debt        | 498                              | Binomial Lattice Model            | Expected volatility (c)   | 40%              |
| derivative asset        |                                  |                                   | Own credit risk (d)       | 5%               |
| Convertible debt        | (297)                            | Binomial Lattice Model            | Expected volatility (c)   | 40%              |
| option liability        |                                  |                                   | Own credit risk (d)       | 5%               |

(a) Broker quotes obtained by a third-party valuation service.

(b) Represents the credit risk premium of the EETC structure above the risk-free rate that the Company has determined market participants would use when pricing the instruments.

(c) Represents the volatility estimate that the Company has determined market participants would use when pricing the instruments.

(d) Represents the Company-specific risk adjustment that the Company has determined market participants would use as a model input.

**Valuation Processes - Level 3 Measurements** - Depending on the instrument, the Company utilizes broker quotes obtained from third-party valuation services, discounted cash flow methods, or option pricing methods, as indicated above. Valuations using discounted cash flow methods are generally conducted by the Company. Valuations using option pricing models are generally provided to the Company by third-party valuation experts. Each reporting period, the Company reviews the unobservable inputs used by third-party valuation experts for reasonableness utilizing relevant information available to the Company from other sources.

The Company uses broker quotes obtained from a valuation service (in replacement of a discounted cash flows method) for valuing auction rate securities. This approach provides the best available information.

**Sensitivity Analysis - Level 3 Measurements** - Changes in the structure credit risk would be unlikely to cause material changes in the fair value of the EETCs.

The significant unobservable inputs used in the fair value measurement of the United convertible debt derivative assets and liabilities are the expected volatility in UAL common stock and the Company's own credit risk. Significant increases (decreases) in expected stock volatility would result in a higher (lower) fair value measurement. Significant increases (decreases) in the Company's own credit risk would result in a lower (higher) fair value measurement. A change in one of the inputs would not necessarily result in a directionally similar change in the other.



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

| <b>Description</b>  | <b>Fair Value Methodology</b>  |
|---|--|
| <i>Cash and cash equivalents</i>                              | The carrying amounts approximate fair value because of the short-term maturity of these assets.  |
| <i>Short-term investments and</i>                             | Fair value is based on (a) the trading prices of the investment or similar instruments, (b) an income approach, which uses valuation techniques to convert future amounts into a single present amount based on current market expectations about those future amounts when observable trading prices are not available, (c) internally-developed models of the expected future cash flows related to the securities, or (d) broker quotes obtained by third-party valuation services. |
| <i>Restricted cash</i>  |  |
| <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> | United 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 the Company's credit risk component of the discount rate.  |

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

The Company routinely hedges a portion of its expected aircraft fuel requirements to protect against increases in the price of fuel. As of September 30, 2014, the Company had hedged approximately 39%, 24% and less than 1% of its projected fuel requirements (372 million gallons, 925 million gallons and 35 million gallons, respectively) for the remainder of 2014, 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of September 30, 2014, the Company had fuel hedges expiring through March 2016. The Company does not enter into derivative instruments for non-risk management purposes.

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

The Company also utilizes certain derivative instruments that are economic hedges but do not qualify for hedge accounting under U.S. GAAP. As with derivatives that qualify for hedge accounting, the purpose of these economic hedges is to mitigate the adverse financial impact of potential increases in the price of fuel. Currently, the only such economic hedges in the Company's hedging portfolio are three-way collars (a collar with a higher strike sold call option). The Company records changes in the fair value of three-way collars to Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

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

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

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

| Classification  | Balance Sheet Location                        | September 30,<br>2014 | December 31,<br>2013 |
|---|---|-----------------------|----------------------|
| <b><u>Derivatives designated as cash flow hedges</u></b>      |   |                       |                      |
| <i>Assets:</i>  |   |                       |                      |
| Fuel contracts due within one year                            | Receivables                                   | \$                    | \$ 19                |
| Fuel contracts with maturities greater than one year          | Other assets: Other, net                      |                       | 6                    |
| <b>Total assets</b>   |   | <b>\$</b>             | <b>\$ 25</b>         |
| <i>Liabilities:</i>   |   |                       |                      |
| Fuel contracts due within one year                            | Current liabilities: Other                    | \$ 66                 | \$                   |
| Fuel contracts with maturities greater than one year          | Other liabilities and deferred credits: Other | 16                    |                      |
| <b>Total liabilities</b>                                      |   | <b>\$ 82</b>          | <b>\$</b>            |
| <b><u>Derivatives not designated for hedge accounting</u></b> |   |                       |                      |
| <i>Assets:</i>  |   |                       |                      |
| Fuel contracts due within one year                            | Receivables                                   | \$                    | \$ 70                |
| Fuel contracts with maturities greater than one year          | Other assets: Other, net                      | 1                     | 9                    |
| <b>Total assets</b>   |   | <b>\$ 1</b>           | <b>\$ 79</b>         |
| <i>Liabilities:</i>   |   |                       |                      |
| Fuel contracts due within one year                            | Current liabilities: Other                    | \$ 27                 | \$                   |
| Fuel contracts with maturities greater than one year          | Other liabilities and deferred credits: Other | 6                     |                      |
| <b>Total liabilities</b>                                      |   | <b>\$ 33</b>          | <b>\$</b>            |
| <b><u>Total derivatives</u></b>                               |   |                       |                      |
| <i>Assets:</i>  |   |                       |                      |
| Fuel contracts due within one year                            | Receivables                                   | \$                    | \$ 89                |
| Fuel contracts with maturities greater than one year          | Other assets: Other, net                      | 1                     | 15                   |
| <b>Total assets</b>   |   | <b>\$ 1</b>           | <b>\$ 104</b>        |

*Liabilities:*



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|  |   |           |            |           |
|--|---|-----------|------------|-----------|
| Fuel contracts due within one year                   | Current liabilities: Other                    | \$        | 93         | \$        |
| Fuel contracts with maturities greater than one year | Other liabilities and deferred credits: Other |           | 22         |           |
| <b>Total liabilities</b>                             |   | <b>\$</b> | <b>115</b> | <b>\$</b> |

***Derivative Credit Risk and Fair Value***

The Company is exposed to credit losses in the event of nonperformance by counterparties to its derivative instruments. While the Company records derivative instruments on a gross basis, the Company monitors its net derivative position with each counterparty to monitor credit risk. Based on the fair value of our fuel derivative instruments, our counterparties may require us to post collateral when the price of the underlying commodity decreases, and we may require our counterparties to provide us with collateral when the price of the underlying commodity increases. The Company did not post or hold collateral as of September 30, 2014 and December 31, 2013.

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

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
| Receivables                                   | \$                    | \$ 89                |
| Other assets: Other, net                      |                       | 15                   |
| Current liabilities: Other                    | (93)                  |                      |
| Other liabilities and deferred credits: Other | (21)                  |                      |
| Hedge derivatives assets (liabilities), net   | \$ (114)              | \$ 104               |

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

**Derivatives designated as cash flow hedges**

|  | Amount of Gain (Loss)<br>Recognized<br>in AOCI on Derivatives<br>(Effective Portion)<br>Three Months Ended<br>September 30, |          | Gain<br>Reclassified from<br>AOCI into<br>Fuel Expense<br>Three Months Ended<br>September 30, |      | Amount of Gain (Loss)<br>Recognized in<br>Nonoperating income<br>(expense): Miscellaneous, net<br>(Ineffective Portion)<br>Three Months Ended<br>September 30, |        |
|--|---|----------|---|------|--|--------|
|  | 2014  | 2013     | 2014  | 2013 | 2014   | 2013   |
|  | Fuel contracts  | \$ (120) | \$ 44   | \$   | \$ 14  | \$ (8) |

**Derivatives designated as cash flow hedges**

|  | Amount of Gain (Loss)<br>Recognized<br>in AOCI on Derivatives<br>(Effective Portion)<br>Nine Months Ended<br>September 30, |         | Loss<br>Reclassified from<br>AOCI into<br>Fuel Expense<br>Nine Months Ended<br>September 30, |        | Amount of Loss<br>Recognized in<br>Nonoperating income<br>(expense): Miscellaneous, net<br>(Ineffective Portion)<br>Nine Months Ended<br>September 30, |        |
|--|--|---------|--|--------|--|--------|
|  | 2014   | 2013    | 2014   | 2013   | 2014   | 2013   |
|  | Fuel contracts   | \$ (99) | \$ 16  | \$ (4) | \$ (4)   | \$ (4) |

**Derivatives not designated for hedge accounting**Fuel contracts

|   | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|---|-------------------------------------|-------|------------------------------------|-------|
|   | 2014                                | 2013  | 2014                               | 2013  |
| Amount of gain (loss) recognized<br>in Nonoperating income<br>(expense): Miscellaneous, net | \$ (102)                            | \$ 61 | \$ (103)                           | \$ 30 |



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

**Commitments.** As of September 30, 2014, United had firm commitments to purchase aircraft from The Boeing Company ( Boeing ), Embraer S.A. ( Embraer ) and Airbus S.A.S. ( Airbus ) presented in the table below:

| Aircraft Type       | Number of Firm<br>Commitments (a) |
|---------------------|-----------------------------------|
| Airbus A350-1000    | 35                                |
| Boeing 737-900ER    | 39                                |
| Boeing 737 MAX 9    | 100                               |
| Boeing 787-8/-9/-10 | 53                                |
| Embraer 175         | 22                                |

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

The aircraft listed in the table above are scheduled for delivery for the remainder of 2014 through 2025. In the remainder of 2014, United expects to take delivery of five Boeing 737-900ER aircraft, one Boeing 787-8 aircraft, one Boeing 787-9 aircraft and 11 Embraer 175 aircraft.

The table below summarizes United's commitments as of September 30, 2014, 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 billions) |
|---------------------------|---------------|
| Last three months of 2014 | \$ 1.1        |
| 2015                      | 3.0           |
| 2016                      | 1.7           |
| 2017                      | 1.2           |
| 2018                      | 2.1           |
| After 2018                | 13.5          |
|                           | \$ 22.6       |

Any incremental firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

As of September 2014, United has arranged for EETC and bank debt financing for all 2014 aircraft deliveries and 20 of our 2015 aircraft deliveries, including 11 Boeing 737-900ER aircraft, four Boeing 787-9 aircraft and five Embraer 175 aircraft. In addition, United has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing will be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. The Company can provide no assurance that any financing not already in place for aircraft and spare engine deliveries will be available to the Company on acceptable terms when necessary or at all. See Note 9 of this report for additional information on aircraft financing.

***Aircraft Operating Leases and Capacity Purchase Agreements***

In September 2014, United entered into an amendment to a contract with Shuttle America Corporation ( Shuttle America ), a wholly-owned subsidiary of Republic Airways Holdings, for Shuttle America to operate 50 new Embraer 175 aircraft under the United Express brand and extend the term of 38 existing Embraer 170 aircraft operating under the United Express brand. Shuttle America will acquire fifty 76-seat Embraer 175 aircraft with deliveries from 2015 through 2017, although United has the right to acquire the aircraft under certain circumstances and lease the aircraft to Shuttle America. These 50 aircraft are in addition to United's other 70 Embraer 175 aircraft that are currently being operated or will in the future be operated by different United Express carriers under capacity purchase agreements ( CPAs ). In a separate but related amendment with Republic Airways Holdings Inc. and its subsidiary, Republic Airline Inc. ( Republic ), United and Republic agreed to remove 31 Q400 aircraft from United Express service in 2015 and 2016.



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The table below summarizes the Company's future payments through the end of the terms of our CPAs, excluding variable pass-through costs such as fuel and landing fees, among others. In addition, the table below summarizes the Company's scheduled future minimum lease payments under aircraft operating leases having initial or remaining noncancelable lease terms of more than one year and includes aircraft rent or ownership costs under CPAs, including estimated commitments under the Shuttle America contract for the Embraer 175 aircraft which will be delivered starting in 2015.

| <i>(In millions)</i>      | <b>Capacity<br/>Purchase<br/>Agreements</b> | <b>Aircraft<br/>Operating<br/>Leases</b> |
|---------------------------|---|--|
| Last three months of 2014 | \$ 460                                      | \$ 296                                   |
| 2015                      | 1,665                                       | 1,442                                    |
| 2016                      | 1,531                                       | 1,265                                    |
| 2017                      | 1,479                                       | 1,190                                    |
| 2018                      | 1,416                                       | 960                                      |
| After 2018                | 5,054                                       | 3,194                                    |
|                           | <b>\$ 11,605</b>                            | <b>\$ 8,347</b>                          |

**Facility and Other Operating Leases**

In September 2014, United entered into a 10-year lease extension through 2035 with the City and County of Denver to continue its use of the airport terminal space at Denver International Airport. This extension is expected to result in annual cost savings for the Company through the original lease term end date of 2025. The table below summarizes the Company's scheduled future minimum lease payments under facility operating leases having initial or remaining noncancelable lease terms of more than one year.

| <i>(In millions)</i>      | <b>Facility and Other<br/>Operating Leases</b> |
|---------------------------|--|
| Last three months of 2014 | \$ 284   |
| 2015                      | 953  |
| 2016                      | 828  |
| 2017                      | 793  |
| 2018                      | 671  |
| After 2018                | 7,458  |
|                           | <b>\$ 10,987</b>                               |

**Guarantees and Off-Balance Sheet Financing**

**Guarantees.** United is the guarantor of approximately \$1.9 billion in aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon. These bonds, issued by various airport municipalities, are payable solely from rentals paid under long-term agreements with the respective governing bodies. The leasing arrangements associated with \$1.6 billion of these obligations are accounted for as operating leases with the associated expense recorded on a straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with \$280 million of these obligations are accounted for as capital leases. All of these bonds are due between 2015 and 2038.

In the Company's financing transactions that include loans, the Company typically agrees to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate (LIBOR), for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. At September 30, 2014, the Company had \$2.5 billion of floating rate debt and \$168 million of fixed rate debt, with remaining terms of up to twelve years, that are subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to twelve years and an aggregate balance of \$2.6 billion, the Company bears the risk of any change in tax

laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

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**Credit Facilities.** As of September 30, 2014, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's Credit and Guaranty Agreement (the "Credit Agreement"). See Note 9 of this report for additional information.

**Labor Negotiations.** As of September 30, 2014, United had approximately 85,000 active employees, of whom approximately 80% were represented by various labor organizations. We are currently in the process of negotiating amended collective bargaining agreements with our employee groups without joint collective bargaining agreements, including our technicians and flight attendants.

**NOTE 9 - DEBT**

As of September 30, 2014, a substantial portion of our assets is pledged as collateral for our debt. These assets principally consist of aircraft, route authorities and loyalty program intangible assets. As of September 30, 2014, the Company was in compliance with its debt covenants.

**4.5% Convertible Notes.** During the second quarter of 2014, UAL used cash to purchase and retire \$28 million aggregate principal amount of its 4.5% Convertible Notes in market transactions. As of September 30, 2014, the outstanding balance is \$202 million.

**6% Convertible Senior Notes.** During the three months ended March 31, 2014, UAL issued approximately five million shares of UAL common stock in exchange for, or upon conversion of, \$46 million in aggregate principal amount of UAL's outstanding 6% convertible senior notes due 2029 held by the holders of these notes. As of September 30, 2014, the outstanding balance is \$58 million. In October 2014, UAL notified holders of these notes of its intention to redeem the remaining notes outstanding with the redemption scheduled to occur in late November 2014. The holders of these notes have the right to convert their notes into shares of UAL common stock prior to redemption at a conversion rate of 115.1013 per \$1,000 principal amount of notes. If all of the holders of these notes exercise their conversion right, UAL would issue approximately 6.7 million shares of UAL common stock upon conversion.

**8% Notes Due 2024.** UAL redeemed in cash at par value all \$400 million aggregate principal amount of its 8% Notes due 2024 on January 17, 2014.

**4.5% Senior Limited-Subordination Convertible Notes.** On January 10, 2014, UAL called the 4.5% Notes that remained outstanding for redemption on February 10, 2014. In the first quarter of 2014, holders of substantially all of the remaining \$156 million outstanding principal amount of the 4.5% Notes exercised their right to convert such notes into approximately five million shares of UAL common stock at a conversion rate of 30.6419 shares of UAL common stock per \$1,000 principal amount of 4.5% Notes.

**2013 Credit and Guaranty Agreement.** In September 2014, United borrowed a \$500 million term loan under the Credit Agreement. The loan is due September 2021 and bears interest at LIBOR plus a margin of 3.0% per annum. The \$500 million term loan ranks pari passu with the \$900 million term loan that United originally borrowed under the Credit Agreement, of which \$887 million is outstanding. Also in September 2014, UAL amended its revolving credit facility under the Credit Agreement increasing the capacity from \$1.0 billion to \$1.35 billion and establishing the maturity date for \$1.315 billion in lender commitments as January 2, 2019.

As of September 30, 2014, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's Credit Agreement. See Note 11 in the 2013 Annual Report for additional information on the terms of the Credit Agreement.

**6.75% Senior Secured Notes.** In September 2014, United retired, at par, the entire \$800 million principal balance of the 6.75% Senior Secured Notes.

**6% Convertible Junior Subordinated Debentures.** On October 10, 2014, United used cash to retire, at par, the entire \$248 million principal balance of the 6% Convertible Junior Subordinated Debentures and the 6% Convertible Preferred Securities, Term Income Deferrable Equity Securities (TIDES). United will account for this debt extinguishment as a component of Special charges in Nonoperating income (expense): Miscellaneous, net for approximately \$65 million in the fourth quarter of 2014.



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**EETCs.** In August 2014, April 2014 and August 2013, United created separate EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depositary in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depositary are not United's assets. United expects to receive all proceeds from these pass-through trusts by the end of 2015. Certain details of the pass-through trusts are as follows (in millions, except stated interest rate):

| <b>EETC Date</b> | <b>Class</b> | <b>Principal</b> | <b>Final expected distribution date</b> | <b>Stated interest rate</b> | <b>Total debt recorded as of September 30, 2014</b> | <b>Proceeds received from issuance of debt in the nine months ended September 30, 2014</b> | <b>Remaining proceeds from issuance of debt to be received in future periods</b> |
|------------------|--------------|------------------|---|-----------------------------|---|--|--|
| August 2014      | A            | \$ 823           | September 2026                          | 3.75%                       | \$  | \$   | \$ 823   |
| August 2014      | B            | 238              | September 2022                          | 4.625%                      |   |  | 238  |
| April 2014       | A            | 736              | April 2026                              | 4.0%                        | 427   | 427  | 309  |
| April 2014       | B            | 213              | April 2022                              | 4.75%                       | 123   | 123  | 90   |
| August 2013      | A            | 720              | August 2025                             | 4.3%                        | 720   | 567  |  |
| August 2013      | B            | 209              | August 2021                             | 5.375%                      | 209   | 165  |  |
|                  |              | \$ 2,939         |   |                             | \$ 1,479  | \$ 1,282   | \$ 1,460   |

The table below presents contractual principal payments at September 30, 2014 under then-outstanding long-term debt agreements in each of the next five calendar years (in millions):

|                           | <b>UAL</b> | <b>United</b> |
|---------------------------|------------|---------------|
| Last three months of 2014 | \$ 485     | \$ 485        |
| 2015                      | 1,301      | 1,301         |
| 2016                      | 1,156      | 1,156         |
| 2017                      | 716        | 716           |
| 2018                      | 1,231      | 1,231         |
| After 2018                | 6,603      | 6,545         |
|                           | \$ 11,492  | \$ 11,434     |

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

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

|   | Three Months Ended |        | Nine Months Ended |        |
|---|--------------------|--------|-------------------|--------|
|   | September 30,      |        | September 30,     |        |
|   | 2014               | 2013   | 2014              | 2013   |
| <b>Operating:</b>   |                    |        |                   |        |
| Integration-related costs   | \$ 28              | \$ 50  | \$ 79             | \$ 165 |
| Severance and benefits  | 6                  |        | 58                | 14     |
| Labor agreement costs   |                    | 127    |                   | 127    |
| Costs associated with permanently grounding Embraer ERJ 135 aircraft          |                    |        | 66                |        |
| Impairment of assets held for disposal  |                    |        | 33                |        |
| Additional costs associated with the temporarily grounded Boeing 787 aircraft |                    |        |                   | 18     |
| Losses on sale of assets and other special (gains) losses, net                | 9                  | 34     | 28                | 31     |
| Special charges   | 43                 | 211    | 264               | 355    |
| <b>Nonoperating:</b>  |                    |        |                   |        |
| Venezuela currency loss   |                    |        | 21                |        |
| Income tax benefit  | (3)                |        | (4)               |        |
| Total operating and nonoperating special charges, net of income taxes         | \$ 40              | \$ 211 | \$ 281            | \$ 355 |

**2014**

Integration-related costs include compensation costs related to systems integration, training, severance and relocation for employees.

During the nine months ended September 30, 2014, the Company recorded \$58 million of severance and benefits primarily related to reductions of management and front-line employees, including from Hopkins International Airport ( Cleveland ), as part of its cost savings initiatives. The Company reduced its average daily departures from Cleveland by over 60 percent during the second quarter of 2014. The Company is currently evaluating its options regarding its long-term contractual commitments at Cleveland. The capacity reductions at Cleveland may result in further special charges, which could be significant, related to our contractual commitments.

During the nine months ended September 30, 2014, the Company recorded \$66 million for the permanent grounding of 21 of the Company's Embraer ERJ 135 regional aircraft under lease through 2018, which includes an accrual for remaining lease payments and an amount for maintenance return conditions. As a result of the current fuel prices, new Embraer 175 regional jet deliveries and impact of pilot shortages at regional carriers, the Company decided to permanently ground these 21 Embraer ERJ 135 aircraft. The Company continues to operate nine Embraer ERJ 135 aircraft and will assess the possibility of grounding those aircraft when the term of the current capacity purchase contract ends.

During the nine months ended September 30, 2014, the Company recorded \$33 million for charges related primarily to impairment of its flight equipment held for disposal associated with its Boeing 737-300 and 737-500 fleets.

During the nine months ended September 30, 2014, the Company recorded \$21 million of losses as part of Nonoperating income (expense): Miscellaneous, net due to ongoing negotiations applicable to funds held in local Venezuelan currency. Approximately \$100 million of the Company's unrestricted cash balance was held as Venezuelan bolivars as of September 30, 2014.

In the third quarter of 2014, United and the Association of Flight Attendants announced that United will offer certain of its flight attendants an enhanced early out program, which allows eligible participants a one-time opportunity to voluntarily separate from the Company and receive a severance payment, with a maximum value of \$100,000 per participant. The Company is targeting approximately 2,100 participants, although the actual number of participants is unknown at this time, and may be more or fewer than 2,100. United also announced that it is recalling all flight attendants who are on voluntary and involuntary furlough.



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**2013**

Integration-related costs included compensation costs related to systems integration and training, branding activities, new uniforms, write-off or acceleration of depreciation on systems and facilities that were no longer used or planned to be used for significantly shorter periods, relocation for employees and severance primarily associated with administrative headcount reductions.

During the nine months ended September 30, 2013, the Company recorded \$14 million associated with a voluntary program offered by United in which certain flight attendants took an unpaid 13-month leave of absence. The flight attendants continue to receive medical benefits and other Company benefits while on leave under this program. Approximately 1,300 flight attendants opted to participate in the program.

In October 2013, fleet service, passenger service and storekeeper employees represented by the International Association of Machinists ratified a joint collective bargaining agreement with the Company. The Company recorded a \$127 million special charge for lump sum payments made in conjunction with the ratification. The lump sum payments were not in lieu of future pay increases. The Company completed substantially all cash payments in 2013.

During the three months ended September 30, 2013, the Company adjusted its reserves for certain legal matters by \$34 million. For the nine months ended September 30, 2013, the Company also recorded a \$5 million gain related to a contract termination and \$2 million in losses on the sale of assets.

During the nine months ended September 30, 2013, the Company recorded \$18 million associated with the temporary grounding of its Boeing 787 aircraft. The charges were comprised of aircraft depreciation expense and dedicated personnel costs that the Company incurred while the aircraft were grounded. The aircraft returned to service in May 2013.

***Accruals***

The accrual for severance and medical costs was \$70 million as of September 30, 2014, compared to \$29 million as of September 30, 2013. The severance-related accrual as of September 30, 2014 is expected to be paid through 2015.

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

**Overview**

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

The Company transports people and cargo through its mainline operations, which utilize jet aircraft with at least 118 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express carriers. The Company serves virtually every major market around the world, either directly or through participation in Star Alliance®, the world's largest airline alliance. The Company operates an average of 5,100 flights a day to 374 airports across six continents.

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**Third Quarter Financial Highlights**

Third quarter 2014 net income was \$1.1 billion, or \$2.75 diluted earnings per share, excluding \$40 million of special charges and \$111 million of Economic Hedge Adjustments, consisting of \$95 million of mark-to-market losses recorded in Nonoperating expense from fuel hedges settling in future periods and \$16 million of prior period gains recorded in Nonoperating expense on fuel contracts settled in the current period. Unadjusted third quarter 2014 net income was \$924 million, or \$2.37 diluted earnings per share.

Passenger revenue increased 4.4% to \$9.3 billion during the third quarter of 2014 as compared to the third quarter of 2013.

Third quarter 2014 aircraft fuel cost decreased 4.1% year-over-year due mainly to a 3.2% decrease in fuel prices, combined with a 0.9% decrease in fuel consumption.

Unrestricted liquidity was \$6.9 billion, including \$1.35 billion of undrawn commitments under the revolving credit facility of the Company's Credit and Guaranty Agreement (the "Credit Agreement").

On July 24, 2014, UAL announced a \$1.0 billion share repurchase program, which was authorized by UAL's Board of Directors. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

On July 24, 2014, pursuant to the \$1.0 billion share repurchase program, UAL entered into two separate agreements to repurchase an aggregate of \$200 million of shares of UAL common stock through an accelerated share repurchase program (the "ASR Program"). UAL paid \$200 million and received approximately 4.4 million shares. In addition to shares purchased under the ASR Program, UAL spent \$20 million on open market repurchases of 0.4 million shares of UAL common stock in September 2014. See Part II, Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds" of this report for additional information.

**Third Quarter Operational Highlights**

For the quarter ended September 30, 2014, United recorded a U.S. Department of Transportation on-time arrival rate of 77.4% and a system completion factor of 98.8%.

Consolidated traffic increased 0.4% and consolidated capacity increased 0.5% during the third quarter of 2014 as compared to the third quarter of 2013. The Company's load factor for the third quarter of 2014 was 85.8%.

The Company took delivery of four Boeing 737-900ER aircraft, one Boeing 787-9 aircraft and four Embraer 175 aircraft during the third quarter of 2014.

**Outlook**

The Company expects full-year 2014 consolidated capacity to increase between 0.2% and 0.4% year-over-year. The Company expects full year 2014 cost per available seat mile ( "CASM" ) excluding profit sharing, third-party business expense, fuel and special charges to increase 1.2% to 1.6% year-over-year. We are unable to project CASM on a GAAP basis, as defined below, as the nature and amount of special charges are not determinable at this time.

United announced five new international routes including Guam to Seoul, Korea and Shanghai; Houston to Punta Cana, Dominican Republic; and Newark to London, Ontario, Canada. Should fuel prices increase significantly or should the U.S. or global economic growth outlook decline

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substantially, we would likely adjust our capacity plans to reflect the different operating environment.

Effective March 1, 2015, the Company will modify its MileagePlus program for most tickets from the current model in which members earn redeemable miles based on distance traveled to one based on ticket price (including base fare and carrier imposed surcharges). Members will be able to earn between five and eleven miles per dollar spent based on their MileagePlus status. The updated program will enhance the rewards for customers who spend more with United and give them improved mileage-earning opportunities.

**Table of Contents****RESULTS OF OPERATIONS**

The following discussion provides an analysis of results of operations and reasons for material changes therein for the three months ended September 30, 2014 as compared to the corresponding period in 2013.

**Third Quarter 2014 Compared to Third Quarter 2013**

The Company recorded net income of \$924 million in the third quarter of 2014 as compared to net income of \$379 million in the third quarter of 2013. Excluding special charges and with Economic Hedge Adjustments, the Company had net income of \$1.1 billion in the third quarter of 2014 as compared to net income of \$541 million in the third quarter of 2013. See Reconciliation of GAAP to Non-GAAP Financial Measures at the end of this item for additional information related to accounting principles generally accepted in the United States ( GAAP ) to Non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was \$1.2 billion for the third quarter of 2014, as compared to \$508 million for the third quarter of 2013. Significant components of our operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

|                              | 2014      | 2013      | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|------------------------------|-----------|-----------|------------------------|--------------------------|
| Operating revenue            | \$ 10,563 | \$ 10,228 | \$ 335                 | 3.3                      |
| Operating expense            | 9,372     | 9,720     | (348)                  | (3.6)                    |
| Operating income             | 1,191     | 508       | 683                    | 134.4                    |
| Nonoperating expense         | (271)     | (126)     | 145                    | 115.1                    |
| Income tax expense (benefit) | (4)       | 3         | (7)                    | NM                       |
| Net income                   | \$ 924    | \$ 379    | \$ 545                 | 143.8                    |

NM - Not meaningful

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

|   | 2014    | 2013    | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|---|---------|---------|------------------------|-----------------------------|
| Passengers (thousands) (a)                                  | 36,735  | 36,795  | (60)                   | (0.2)                       |
| Revenue passenger miles ( RPMs ) (millions) (b)             | 56,065  | 55,863  | 202                    | 0.4                         |
| Available seat miles ( ASMs ) (millions) (c)                | 65,378  | 65,040  | 338                    | 0.5                         |
| Passenger load factor (d)                                   | 85.8 %  | 85.9 %  | (0.1) pts.             | N/A                         |
| Passenger revenue per available seat mile ( PRASM ) (cents) | 14.25   | 13.71   | 0.54                   | 3.9                         |
| Average yield per revenue passenger mile (cents) (e)        | 16.61   | 15.96   | 0.65                   | 4.1                         |
| CASM (cents)  | 14.34   | 14.94   | (0.60)                 | (4.0)                       |
| Average price per gallon of fuel, including fuel taxes      | \$ 3.02 | \$ 3.12 | \$ (0.10)              | (3.2)                       |
| Fuel gallons consumed (millions)                            | 1,037   | 1,046   | (9)                    | (0.9)                       |
| Average full-time equivalent employees                      | 81,900  | 84,500  | (2,600)                | (3.1)                       |

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

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

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- (c) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
- (d) Revenue passenger miles divided by available seat miles.
- (e) The average passenger revenue received for each revenue passenger mile flown.



**Table of Contents****Operating Revenue**

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

|                         | 2014      | 2013      | Increase<br>(Decrease) | % Change |
|-------------------------|-----------|-----------|------------------------|----------|
| Passenger Mainline      | \$ 7,414  | \$ 7,025  | \$ 389                 | 5.5      |
| Passenger Regional      | 1,900     | 1,893     | 7                      | 0.4      |
| Total passenger revenue | 9,314     | 8,918     | 396                    | 4.4      |
| Cargo                   | 237       | 199       | 38                     | 19.1     |
| Other operating revenue | 1,012     | 1,111     | (99)                   | (8.9)    |
|                         | \$ 10,563 | \$ 10,228 | \$ 335                 | 3.3      |

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

|                                    | Domestic | Pacific | Atlantic | Latin   | Total<br>Mainline | Regional | Consolidated |
|------------------------------------|----------|---------|----------|---------|-------------------|----------|--------------|
| Increase (decrease) from 2013 (a): |          |         |          |         |                   |          |              |
| Passenger revenue (in millions)    | \$ 216   | \$ 37   | \$ 87    | \$ 49   | \$ 389            | \$ 7     | \$ 396       |
| Passenger revenue                  | 6.5 %    | 2.9 %   | 4.9 %    | 7.8 %   | 5.5 %             | 0.4 %    | 4.4 %        |
| Average fare per passenger         | 6.6 %    | 6.5 %   | 5.5 %    | (5.8) % | 4.7 %             | 2.5 %    | 4.6 %        |
| Yield                              | 7.6 %    | 1.8 %   | 5.4 %    | (2.1) % | 5.1 %             | 0.1 %    | 4.1 %        |
| PRASM                              | 7.9 %    | 0.2 %   | 3.6 %    | 0.9 %   | 4.8 %             | 1.2 %    | 3.9 %        |
| Average stage length               | 0.2 %    | 5.3 %   | 0.7 %    | (3.0) % | 1.0 %             | 3.5 %    | 2.2 %        |
| Passengers                         | (0.1) %  | (3.4) % | (0.6) %  | 14.4 %  | 0.8 %             | (2.1) %  | (0.2) %      |
| RPMs (traffic)                     | (1.1) %  | 1.1 %   | (0.5) %  | 10.1 %  | 0.4 %             | 0.2 %    | 0.4 %        |
| ASMs (capacity)                    | (1.3) %  | 2.7 %   | 1.3 %    | 6.8 %   | 0.7 %             | (0.9) %  | 0.5 %        |
| Passenger load factor (points)     | 0.2      | (1.3)   | (1.5)    | 2.5     | (0.3)             | 0.9 %    | (0.1)        |

(a) See Item 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for the definition of these statistics.

Consolidated passenger revenue in the third quarter of 2014 increased 4.4% as compared to the year-ago period due to an increase in consolidated yield of 4.1% year-over-year and year-over-year increases in traffic and capacity of 0.4% and 0.5%, respectively.

Cargo revenue increased \$38 million, or 19.1%, in the third quarter of 2014 as compared to the year-ago period due to higher volumes year-over-year, as cargo traffic returned following lower bookings during the implementation of the Company's new cargo system in the third quarter of 2013.

Other operating revenue in the third quarter of 2014 decreased \$99 million, or 8.9%, as compared to the year-ago period due to the Company's decision to discontinue sales of aircraft fuel to a third party, partially offset by an increase in ancillary revenue.

**Table of Contents****Operating Expenses**

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

|  | 2014     | 2013     | Increase<br>(Decrease) | %<br>Change |
|--|----------|----------|------------------------|-------------|
| Aircraft fuel                                      | \$ 3,127 | \$ 3,262 | \$ (135)               | (4.1)       |
| Salaries and related costs                         | 2,344    | 2,209    | 135                    | 6.1         |
| Regional capacity purchase                         | 597      | 621      | (24)                   | (3.9)       |
| Landing fees and other rent                        | 567      | 540      | 27                     | 5.0         |
| Aircraft maintenance materials and outside repairs | 435      | 472      | (37)                   | (7.8)       |
| Depreciation and amortization                      | 422      | 435      | (13)                   | (3.0)       |
| Distribution expenses                              | 375      | 377      | (2)                    | (0.5)       |
| Aircraft rent                                      | 222      | 231      | (9)                    | (3.9)       |
| Special charges                                    | 43       | 211      | (168)                  | NM          |
| Other operating expenses                           | 1,240    | 1,362    | (122)                  | (9.0)       |
|  | \$ 9,372 | \$ 9,720 | \$ (348)               | (3.6)       |

Aircraft fuel expense decreased \$135 million, or 4.1%, year-over-year primarily due to a 3.2% decrease in the average price per gallon of aircraft fuel, combined with a 0.9% decrease in fuel consumption in the third quarter of 2014 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the three month period ended September 30, 2014 as compared to the year-ago period:

|  | (In millions) |          |             | Average price per gallon |         |             |
|--|---------------|----------|-------------|--------------------------|---------|-------------|
|  | 2014          | 2013     | %<br>Change | 2014                     | 2013    | %<br>Change |
| Total aircraft fuel purchase cost excluding fuel hedge impacts               | \$ 3,127      | \$ 3,276 | (4.5)       | \$ 3.02                  | \$ 3.13 | (3.5)       |
| Hedge gains reported in fuel expense   |               | 14       | NM          |                          | 0.01    | NM          |
| Fuel expense as reported   | 3,127         | 3,262    | (4.1)       | 3.02                     | 3.12    | (3.2)       |
| Cash received on settled hedges that do not qualify for hedge accounting (a) | 1             | 13       | NM          | 0.01                     | 0.01    | NM          |
| Fuel expense including all gains (losses) from settled hedges                | \$ 3,126      | \$ 3,249 | (3.8)       | \$ 3.01                  | \$ 3.11 | (3.2)       |
| Total fuel consumption (gallons)   | 1,037         | 1,046    | (0.9)       |                          |         |             |

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

Salaries and related costs increased \$135 million, or 6.1%, in the third quarter of 2014 as compared to the year-ago period primarily due to higher pay rates driven by new collective bargaining agreements and higher payments under employee incentive plans due to improvements in operational performance and customer satisfaction.

Regional capacity purchase expense decreased \$24 million, or 3.9%, in the third quarter of 2014 as compared to the year-ago period primarily due to a transition from paying regional carriers for landing fees to paying airports directly. Landing fees paid directly to airports are charged to

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Landing fees and other rent while payments to regional carriers are recorded to Regional capacity purchase. As a result of this change, there has been a shift of expense out of Regional capacity purchase into Landing fees and other rent in the third quarter of 2014 versus the year-ago period.

Landing fees and other rent increased \$27 million, or 5.0%, in the third quarter of 2014 as compared to the year-ago period primarily due to a transition from paying regional carriers for landing fees to paying airports directly.

Aircraft maintenance materials and outside repairs decreased \$37 million, or 7.8%, in the third quarter of 2014 as compared to the year-ago period primarily due to improved terms related to outsourced maintenance, a reduction in the volume of aircraft interior upgrades and improvements in the efficiency of the Company's maintenance programs.

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

|  | <b>2014</b>  | <b>2013</b>   |
|--|--------------|---------------|
| Integration-related costs                                      | \$ 28        | \$ 50         |
| Severance and benefits   | 6            |               |
| Labor agreement costs  |              | 127           |
| Losses on sale of assets and other special (gains) losses, net | 9            | 34            |
| <b>Special charges</b>   | <b>\$ 43</b> | <b>\$ 211</b> |

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

Other operating expenses decreased \$122 million, or 9.0%, in the third quarter of 2014 as compared to the year-ago period primarily due to the Company's decision to discontinue sales of aircraft fuel to a third party, partially offset by increases in other personnel-related expenses and purchased services.

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

|                      | <b>2014</b>     | <b>2013</b>     | <b>Increase<br/>(Decrease)</b> | <b>%<br/>Change</b> |
|----------------------|-----------------|-----------------|--------------------------------|---------------------|
| Interest expense     | \$ (186)        | \$ (195)        | \$ (9)                         | (4.6)               |
| Interest capitalized | 13              | 12              | 1                              | 8.3                 |
| Interest income      | 8               | 5               | 3                              | 60.0                |
| Miscellaneous, net   | (106)           | 52              | (158)                          | NM                  |
| <b>Total</b>         | <b>\$ (271)</b> | <b>\$ (126)</b> | <b>\$ 145</b>                  | <b>115.1</b>        |

During the third quarter of 2014, Miscellaneous, net included unrealized losses of \$102 million from derivatives not qualifying for hedge accounting as compared to gains of \$61 million in the year-ago period.

*Income Taxes.* Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of changes to existing valuation allowances. We continue to provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because management has concluded that it is more likely than not that such deferred tax assets will ultimately not be realized. See Note 4 to the financial statements included in Part I, Item 1 of this report.

**Table of Contents****First Nine Months 2014 Compared to First Nine Months 2013**

UAL recorded net income of \$1.1 billion in the first nine months of 2014 as compared to net income of \$431 million in the first nine months of 2013. Excluding operating and nonoperating special charges and with Economic Hedge Adjustments, UAL had net income of \$1.5 billion in the first nine months of 2014 as compared to net income of \$791 million in the first nine months of 2013. See Reconciliation of GAAP to Non-GAAP Financial Measures at the end of this item for additional information related to GAAP to Non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was \$1.7 billion for the first nine months of 2014, as compared to \$1.0 billion for the first nine months of 2013. Significant components of our operating results for the first nine months of 2014 are as follows (in millions, except percentage changes):

|                              | 2014      | 2013      | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|------------------------------|-----------|-----------|------------------------|--------------------------|
| Operating Revenue            | \$ 29,588 | \$ 28,950 | \$ 638                 | 2.2                      |
| Operating Expense            | 27,840    | 27,936    | (96)                   | (0.3)                    |
| Operating Income             | 1,748     | 1,014     | 734                    | 72.4                     |
| Nonoperating Expense         | (643)     | (587)     | 56                     | 9.5                      |
| Income Tax Expense (Benefit) | 1         | (4)       | 5                      | NM                       |
| Net Income                   | \$ 1,104  | \$ 431    | \$ 673                 | 156.1                    |

NM - Not meaningful

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

|  | 2014    | 2013    | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|--|---------|---------|------------------------|-----------------------------|
| Passengers (thousands) (a)                             | 104,472 | 105,102 | (630)                  | (0.6)                       |
| RPMs (millions) (b)                                    | 156,348 | 155,988 | 360                    | 0.2                         |
| ASMs (millions) (c)                                    | 185,808 | 185,663 | 145                    | 0.1                         |
| Passenger load factor (d)                              | 84.1 %  | 84.0 %  | 0.1 pts.               | N/A                         |
| PRASM (cents)  | 13.82   | 13.54   | 0.28                   | 2.1                         |
| Average yield per revenue passenger mile (cents) (e)   | 16.42   | 16.12   | 0.30                   | 1.9                         |
| CASM (cents)   | 14.98   | 15.05   | (0.07)                 | (0.5)                       |
| Average price per gallon of fuel, including fuel taxes | \$ 3.09 | \$ 3.14 | \$ (0.05)              | (1.6)                       |
| Fuel gallons consumed (millions)                       | 2,957   | 2,986   | (29)                   | (1.0)                       |
| Average full-time equivalent employees                 | 82,500  | 84,700  | (2,200)                | (2.6)                       |

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

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

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

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

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

**Operating Revenue**

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

|                         | <b>2014</b> | <b>2013</b> | <b>Increase<br/>(Decrease)</b> | <b>% Change</b> |
|-------------------------|-------------|-------------|--------------------------------|-----------------|
| Passenger Mainline      | \$ 20,410   | \$ 19,792   | \$ 618                         | 3.1             |
| Passenger Regional      | 5,269       | 5,353       | (84)                           | (1.6)           |
| Total passenger revenue | 25,679      | 25,145      | 534                            | 2.1             |
| Cargo                   | 678         | 662         | 16                             | 2.4             |
| Other operating revenue | 3,231       | 3,143       | 88                             | 2.8             |
|                         | \$ 29,588   | \$ 28,950   | \$ 638                         | 2.2             |

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The table below presents selected passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013:

|                                    | Domestic | Pacific | Atlantic | Latin  | Total Mainline | Regional | Consolidated |
|------------------------------------|----------|---------|----------|--------|----------------|----------|--------------|
| Increase (decrease) from 2013 (a): |          |         |          |        |                |          |              |
| Passenger revenue (in millions)    | \$ 432   | \$ (24) | \$ 111   | \$ 99  | \$ 618         | \$ (84)  | \$ 534       |
| Passenger revenue                  | 4.5 %    | (0.7)%  | 2.4 %    | 5.0 %  | 3.1 %          | (1.6)%   | 2.1 %        |
| Average fare per passenger         | 5.1 %    | 2.3 %   | 3.2 %    | (4.8)% | 2.8 %          | 0.8 %    | 2.7 %        |
| Yield                              | 5.1 %    | (1.0) % | 3.0 %    | (1.4)% | 2.8 %          | (1.6)%   | 1.9 %        |
| PRASM                              | 5.9 %    | (2.7) % | 1.3 %    | 1.2 %  | 2.8 %          | 0.2 %    | 2.1 %        |
| Average stage length               | 0.9 %    | 3.9 %   | 0.5 %    | (2.9)% | 1.3 %          | 3.3 %    | 2.4 %        |
| Passengers                         | (0.6)%   | (2.9) % | (0.8)%   | 10.2 % | 0.3 %          | (2.3)%   | (0.6)%       |
| RPMs (traffic)                     | (0.6)%   | 0.3 %   | (0.5)%   | 6.4 %  | 0.3 %          | %        | 0.2 %        |
| ASMs (capacity)                    | (1.3)%   | 2.2 %   | 1.0 %    | 3.7 %  | 0.4 %          | (1.8)%   | 0.1 %        |
| Passenger load factor (points)     | 0.6      | (1.5)   | (1.3)    | 2.2    | (0.1)          | 1.4      | 0.1          |

(a) See Item 6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for the definition of these statistics.

Consolidated passenger revenue in the first nine months of 2014 increased 2.1% as compared to the year-ago period due to an increase in consolidated yield of 1.9% year-over-year and year-over-year increases in traffic and capacity of 0.2% and 0.1% respectively.

Other operating revenue in the first nine months of 2014 increased \$88 million, or 2.8%, as compared to the year-ago period due primarily to increases in ancillary, MileagePlus, and contract services revenues partially offset by a reduction due to the Company's decision to discontinue sales of aircraft fuel to a third party.

### 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):

|  | 2014      | 2013      | Increase (Decrease) | % Change |
|--|-----------|-----------|---------------------|----------|
| Aircraft fuel                                      | \$ 9,145  | \$ 9,380  | \$ (235)            | (2.5)    |
| Salaries and related costs                         | 6,684     | 6,511     | 173                 | 2.7      |
| Regional capacity purchase                         | 1,747     | 1,837     | (90)                | (4.9)    |
| Landing fees and other rent                        | 1,706     | 1,544     | 162                 | 10.5     |
| Aircraft maintenance materials and outside repairs | 1,364     | 1,390     | (26)                | (1.9)    |
| Depreciation and amortization                      | 1,248     | 1,268     | (20)                | (1.6)    |
| Distribution expenses                              | 1,039     | 1,052     | (13)                | (1.2)    |
| Aircraft rent                                      | 668       | 706       | (38)                | (5.4)    |
| Special charges                                    | 264       | 355       | (91)                | NM       |
| Other operating expenses                           | 3,975     | 3,893     | 82                  | 2.1      |
|  | \$ 27,840 | \$ 27,936 | \$ (96)             | (0.3)    |

Aircraft fuel expense decreased \$235 million, or 2.5%, year-over-year primarily due to a 1.6% decrease in the average price per gallon of aircraft fuel and a 1.0% decrease in fuel consumption in the first nine months of 2014 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the nine months ended September 30, 2014 as compared to the year-ago period.





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|  | (In millions) |          |             | Average price per gallon |         |             |
|--|---------------|----------|-------------|--------------------------|---------|-------------|
|  | 2014          | 2013     | %<br>Change | 2014                     | 2013    | %<br>Change |
| Total aircraft fuel purchase cost excluding fuel hedge impacts               | \$ 9,141      | \$ 9,376 | (2.5)       | \$ 3.09                  | \$ 3.14 | (1.6)       |
| Hedge losses reported in fuel expense  | (4)           | (4)      | NM          |                          |         | NM          |
| Fuel expense as reported   | 9,145         | 9,380    | (2.5)       | 3.09                     | 3.14    | (1.6)       |
| Cash received on settled hedges that do not qualify for hedge accounting (a) | 13            | 35       | NM          |                          | 0.01    | NM          |
| Fuel expense including all gains (losses) from settled hedges                | \$ 9,132      | \$ 9,345 | (2.3)       | \$ 3.09                  | \$ 3.13 | (1.3)       |
| Total fuel consumption (gallons)   | 2,957         | 2,986    | (1.0)       |                          |         |             |

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

Salaries and related costs increased \$173 million, or 2.7%, in the first nine months of 2014 as compared to the year-ago period primarily due to higher pay rates driven by new collective bargaining agreements, partially offset by lower pension and post-employment benefit costs.

Regional capacity purchase expense decreased \$90 million, or 4.9%, in the first nine months of 2014 as compared to the year-ago period primarily due to a transition from paying regional carriers for landing fees to paying airports directly. Landing fees paid directly to airports are charged to Landing fees and other rent while payments to regional carriers are recorded to Regional capacity purchase. As a result of this change, there has been a shift of expense out of Regional capacity purchase into Landing fees and other rent in the first nine months of 2014 versus the year-ago period. Regional capacity expense also decreased due to a significant number of weather-driven flight cancellations in the first quarter of 2014. These benefits were partially offset by higher rates primarily due to annual rate escalations and higher aircraft ownership expenses related to an increase in the number of aircraft flying under capacity purchase agreements versus the year-ago period.

Landing fees and other rent increased \$162 million, or 10.5%, in the first nine months of 2014 as compared to the year-ago period primarily due to a transition from paying regional carriers for landing fees to paying airports directly. Landing fees have also increased due to airport security services and modernization projects at certain airport locations.

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

|   | 2014   | 2013   |
|---|--------|--------|
| Integration-related costs   | \$ 79  | \$ 165 |
| Severance and benefits  | 58     | 14     |
| Labor agreement costs   |        | 127    |
| Costs associated with permanently grounding Embraer ERJ 135 aircraft          | 66     |        |
| Impairment of assets held for disposal  | 33     |        |
| Additional costs associated with the temporarily grounded Boeing 787 aircraft |        | 18     |
| Losses on sale of assets and other special (gains) losses, net                | 28     | 31     |
| Special charges   | \$ 264 | \$ 355 |

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

Other operating expenses increased \$82 million, or 2.1%, in the first nine months of 2014 as compared to the year-ago period primarily due to increases in purchased services, other personnel-related expenses, and advertising costs, partially offset by a reduction due to the Company's decision to discontinue sales of aircraft fuel to a third party.



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*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):

|                      | 2014            | 2013            | Increase<br>(Decrease) | % Change   |
|----------------------|-----------------|-----------------|------------------------|------------|
| Interest expense     | \$ (559)        | \$ (590)        | \$ (31)                | (5.3)      |
| Interest capitalized | 40              | 35              | 5                      | 14.3       |
| Interest income      | 17              | 16              | 1                      | 6.3        |
| Miscellaneous, net   | (141)           | (48)            | 93                     | 193.8      |
| <b>Total</b>         | <b>\$ (643)</b> | <b>\$ (587)</b> | <b>\$ 56</b>           | <b>9.5</b> |

Miscellaneous, net increased by \$93 million in the first nine months of 2014 due primarily to fuel derivatives losses of approximately \$107 million versus fuel derivatives gains of \$30 million in the year-ago period and \$21 million of losses due to exchange rate changes implemented in Venezuela applicable to funds held in local currency, partially offset by favorable comparisons versus the year-ago period in foreign currency translation results, debt-related expenses and the results of investments sales.

United's nonoperating expense also includes net gains of \$19 million and \$51 million for the nine months ended September 30, 2014 and 2013, respectively, associated with marking to market the fair value of derivative assets and liabilities related to agreements that provide for United's convertible debt to be settled with UAL common stock. This net gain and related derivatives are reflected only in the United stand-alone financial statements as they are eliminated at the consolidated level. See Note 6 to the financial statements included in Part I, Item 1 of this report for additional information.

*Income Taxes.* Our effective tax rates are lower than the federal statutory rate of 35% primarily because of the impact of changes to existing valuation allowances. We continue to provide a valuation allowance for our deferred tax assets in excess of deferred tax liabilities because management has concluded that it is more likely than not that such deferred tax assets will ultimately not be realized. See Note 4 to the financial statements contained in Part I, Item 1 of this report for additional information.

**LIQUIDITY AND CAPITAL RESOURCES*****Current Liquidity***

As of September 30, 2014, the Company had \$5.5 billion in unrestricted cash, cash equivalents and short-term investments, as compared to \$5.1 billion at December 31, 2013. At September 30, 2014, the Company also had \$316 million of restricted cash and cash equivalents, which is primarily collateral for performance bonds, letters of credit, estimated future workers' compensation claims and credit card processing agreements. As of September 30, 2014, the Company had its entire commitment capacity of \$1.35 billion under the revolving credit facility of the Company's Credit Agreement available for letters of credit or borrowings.

Approximately \$100 million of the Company's unrestricted cash balance was held as Venezuelan bolivars as of September 30, 2014.

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, 2014, the Company had approximately \$12.1 billion of debt and capital lease obligations, including \$1.4 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.

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As of September 30, 2014, United had firm commitments and options to purchase aircraft from The Boeing Company ( Boeing ), Embraer S.A. ( Embraer ) and Airbus S.A.S. ( Airbus ) presented in the table below:

| Aircraft Type       | Number of Firm Commitments (a) |
|---------------------|--------------------------------|
| Airbus A350-1000    | 35                             |
| Boeing 737-900ER    | 39                             |
| Boeing 737 MAX 9    | 100                            |
| Boeing 787-8/-9/-10 | 53                             |
| Embraer 175         | 22                             |

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

The aircraft listed in the table above are scheduled for delivery for the remainder of 2014 through 2025. In the remainder of 2014, United expects to take delivery of five Boeing 737-900ER aircraft, one Boeing 787-8 aircraft, one Boeing 787-9 aircraft and 11 Embraer 175 aircraft.

As of September 2014, United has arranged for EETC and bank debt financing for all 2014 aircraft deliveries and 20 of our 2015 aircraft deliveries, including 11 Boeing 737-900ER aircraft, four Boeing 787-9 aircraft and five Embraer 175 aircraft. In addition, United has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing will be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. The Company can provide no assurance that any financing not already in place for aircraft and spare engine deliveries will be available to the Company on acceptable terms when necessary or at all. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on aircraft financing.

As of September 30, 2014, UAL and United have total capital commitments primarily related to the acquisition of aircraft and related spare engines, aircraft improvements and acquisition of information technology services and assets of approximately \$22.6 billion, of which approximately \$1.1 billion, \$3.0 billion, \$1.7 billion, \$1.2 billion, \$2.1 billion and \$13.5 billion are due in the last three months of 2014 and for the full year for 2015, 2016, 2017, 2018 and thereafter, respectively.

Any incremental firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

As of September 30, 2014, a substantial portion of the Company's assets, principally aircraft, route authorities and certain other intangible assets, were pledged under various loan and other agreements. We must sustain our profitability and/or access the capital markets to meet our significant long-term debt and capital lease obligations and future commitments for capital expenditures, including the acquisition of aircraft and related spare engines.

In September 2014, United entered into an amendment to a contract with Shuttle America Corporation ( Shuttle America ), a wholly-owned subsidiary of Republic Airways Holdings, for Shuttle America to operate 50 new Embraer 175 aircraft under the United Express brand and extend the term of 38 existing Embraer 170 aircraft operating under the United Express brand. Shuttle America will acquire fifty 76-seat Embraer 175 aircraft with deliveries from 2015 through 2017, although United has the right to acquire the aircraft under certain circumstances and lease the aircraft to Shuttle America. These 50 aircraft are in addition to United's other 70 Embraer 175 aircraft that are currently being operated or will in the future be operated by different United Express carriers under capacity purchase agreements. In a separate but related amendment with Republic Airways Holdings Inc. and its subsidiary, Republic Airline Inc. ( Republic ), United and Republic agreed to remove 31 Q400 aircraft from United Express service in 2015 and 2016. See Note 8 to the financial statements included in Part I, Item 1 of this report for additional information.

In September 2014, United entered into a 10-year lease extension through 2035 with the City and County of Denver to continue its use of the airport terminal space at Denver International Airport. This extension is expected to result in annual cost savings for the Company through the original lease term end date of 2025. See Note 8 to the financial statements included in Part I, Item 1 of this report for additional information.

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

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

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

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

**Sources and Uses of Cash**

**Operating Activities.** Cash flow provided by operations for the nine months ended September 30, 2014 was \$2.7 billion compared to \$1.8 billion in the same period in 2013. The increase is primarily attributable to an increase in operating income and advanced ticket sales, partially offset by a decrease in other working capital items.

**Investing Activities.** Capital expenditures were \$1.3 billion and \$1.4 billion in the nine months ended September 30, 2014 and 2013, respectively. Capital expenditures for the nine months ended September 30, 2014 were primarily attributable to the purchase of aircraft, facility and fleet-related costs.

In addition to capital expenditures during the nine months ended September 30, 2014, we acquired 36 aircraft through the issuance of debt. See **Financing Activities** below for additional information.

**Financing Activities.** During the nine months ended September 30, 2014, the Company made debt and capital lease payments of \$2.1 billion.

During the second quarter of 2014, UAL used cash to purchase and retire \$28 million aggregate principal amount of its 4.5% Convertible Notes due 2015 in market transactions. As of September 30, 2014, the outstanding balance was \$202 million.

During the nine months ended September 30, 2014, UAL issued approximately five million shares of UAL common stock in exchange for, or upon conversion of, \$46 million in aggregate principal amount of UAL's outstanding 6% convertible senior notes due 2029 held by the holders of these notes. As of September 30, 2014, the outstanding balance is \$58 million. In October 2014, UAL notified holders of these notes of its intention to redeem the remaining notes outstanding with the redemption scheduled to occur in late November 2014. The holders of these notes have the right to convert their notes into shares of UAL common stock prior to redemption at a conversion rate of 115.1013 per \$1,000 principal amount of notes. If all of the holders of these notes exercise their conversion right, UAL would issue approximately 6.7 million shares of UAL common stock upon conversion.

UAL redeemed in cash at par value all \$400 million aggregate principal amount of its 8% Notes due 2024 on January 17, 2014.

On January 10, 2014, UAL called the 4.5% Senior Limited-Subordination Convertible Notes due 2021 (the 4.5% Notes) that remained outstanding for redemption on February 10, 2014. In the first quarter of 2014, holders of substantially all of the remaining \$156 million outstanding principal amount of the 4.5% Notes exercised their right to convert such notes into approximately five million shares of UAL common stock at a conversion rate of 30.6419 shares of UAL common stock per \$1,000 principal amount of 4.5% Notes.

In September 2014, United borrowed a \$500 million term loan under the Credit Agreement. The loan is due September 2021 and bears interest at LIBOR plus a margin of 3.0% per annum. The \$500 million term loan ranks pari passu with the \$900 million term loan that United originally borrowed under the Credit Agreement, of which \$887 million is outstanding. Also in September 2014, UAL amended its revolving credit facility under the Credit Agreement increasing the capacity from \$1.0 billion to \$1.35 billion and establishing the maturity date for \$1.315 billion in lender commitments as January 2, 2019.

As of September 30, 2014, United had its entire capacity of \$1.35 billion available under the revolving credit facility of the Company's Credit Agreement.



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The obligations of United under the Credit Agreement are secured by liens on certain international route authorities between certain specified cities, certain take-off and landing rights and related assets of United. Certain covenants in the Credit Agreement and in the Company's indentures are summarized in Note 11 of the 2013 Annual Report.

In September 2014, United retired, at par, the entire \$800 million principal balance of the 6.75% Senior Secured Notes.

On October 10, 2014, United used cash to retire, at par, the entire \$248 million principal balance of the 6% Convertible Junior Subordinated Debentures and the 6% Convertible Preferred Securities, Term Income Deferrable Equity Securities (TIDES). United will account for this debt extinguishment as a component of Special charges in Nonoperating income (expense): Miscellaneous, net for approximately \$65 million in the fourth quarter of 2014.

**Share Repurchase Program.** UAL's Board of Directors authorized a share repurchase program to acquire up to \$1 billion of UAL's common stock. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

On July 24, 2014, pursuant to the \$1.0 billion share repurchase program, UAL entered into two separate agreements to repurchase an aggregate of \$200 million of shares of UAL common stock through an accelerated share repurchase program (the ASR Program). UAL paid \$200 million and received approximately 4.4 million shares. In addition to shares purchased under the ASR Program, UAL spent \$20 million on open market repurchases of 0.4 million shares of UAL common stock in September 2014. See Part II, Item 2., Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

**EETCs.** In August 2014, April 2014 and August 2013, United created separate EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depository in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depository are not United's assets. United expects to receive all proceeds from these pass-through trusts by the end of 2015. Certain details of the pass-through trusts are as follows (in millions, except stated interest rate):

| EETC Date   | Class | Principal | Final expected distribution date | Stated interest rate | Total debt recorded as of September 30, 2014 | Proceeds received from issuance of debt in the nine months ended September 30, 2014 | Remaining proceeds from issuance of debt to be received in future periods |
|-------------|-------|-----------|----------------------------------|----------------------|--|---|---|
| August 2014 | A     | \$ 823    | September 2026                   | 3.75%                | \$   | \$  | \$ 823  |
| August 2014 | B     | 238       | September 2022                   | 4.625%               |  |   | 238   |
| April 2014  | A     | 736       | April 2026                       | 4.0%                 | 427  | 427   | 309   |
| April 2014  | B     | 213       | April 2022                       | 4.75%                | 123  | 123   | 90  |
| August 2013 | A     | 720       | August 2025                      | 4.3%                 | 720  | 567   |   |
| August 2013 | B     | 209       | August 2021                      | 5.375%               | 209  | 165   |   |
|             |       | \$ 2,939  |                                  |                      | \$ 1,479                                     | \$ 1,282  | \$ 1,460  |

**Commitments, Contingencies and Liquidity Matters**

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As described in the 2013 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 2013 Annual Report and Notes 5, 7, 8 and 9 to the financial statements contained in Part I, Item 1 of this report for additional information.



**Table of Contents****RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES**

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

|   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|---|-------------------------------------|--------|------------------------------------|--------|
|   | 2014                                | 2013   | 2014                               | 2013   |
| Net income - GAAP   | \$ 924                              | \$ 379 | \$ 1,104                           | \$ 431 |
| Operating and nonoperating special charges, net (a)   | 40                                  | 211    | 281                                | 355    |
| Mark-to-market (gains) losses from fuel hedges settling in future periods   | 95                                  | (55)   | 57                                 | (34)   |
| Prior period gains on fuel contracts settled in the current period  | 16                                  | 6      | 63                                 | 39     |
| Net income excluding operating and nonoperating special charges, net and reflecting Economic Hedge Adjustments-Non - GAAP | \$ 1,075                            | \$ 541 | \$ 1,505                           | \$ 791 |

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2014                                | 2013    | 2014                               | 2013    |
| Diluted earnings per share - GAAP   | \$ 2.37                             | \$ 0.98 | \$ 2.84                            | \$ 1.15 |
| Operating and nonoperating special charges, net (a)   | 0.10                                | 0.53    | 0.71                               | 0.91    |
| Mark-to-market (gains) losses from fuel hedges settling in future periods   | 0.24                                | (0.14)  | 0.15                               | (0.09)  |
| Prior period gains on fuel contracts settled in the current period  | 0.04                                | 0.02    | 0.16                               | 0.10    |
| Diluted earnings per share excluding operating and nonoperating special charges, net and reflecting Economic Hedge Adjustments-Non - GAAP | \$ 2.75                             | \$ 1.39 | \$ 3.86                            | \$ 2.07 |

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

**CRITICAL ACCOUNTING POLICIES**

See Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2013 Annual Report for a discussion of the Company's critical accounting policies. 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 for the Company's loyalty program.

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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 and revenue-generating initiatives, including optimizing its revenue; its ability to control its costs, including realizing benefits from its resource optimization efforts, cost reduction initiatives and fleet replacement programs; its ability to utilize its net operating losses; its ability to attract and retain customers; demand for transportation in the markets in which it operates; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact that global economic conditions have on customer travel patterns; excessive taxation and the inability to offset future taxable income; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally; its ability to cost-effectively hedge against increases in the price of aircraft fuel; any potential realized or unrealized gains or losses related to fuel or currency hedging programs; the effects of any hostilities, act of war or terrorist attack; the ability of other air carriers with whom the Company has alliances or partnerships to provide the services contemplated by the respective arrangements with such carriers; disruptions to its regional network; the costs and availability of aviation and other insurance; industry consolidation or changes in airline alliances; competitive pressures on pricing and on demand; its capacity decisions and the capacity decisions of its competitors; U.S. or foreign governmental legislation, regulation and other actions (including open skies agreements and environmental regulations); 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 Part I, Item 1A., Risk Factors of the 2013 Annual Report and Part II, Item 1A., Risk Factors of this report, as well as other risks and uncertainties set forth from time to time in the reports the Company files with the U.S. Securities and Exchange Commission (the "SEC").

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

There have been no material changes in market risk from the information provided in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2013 Annual Report except as follows:

**Aircraft Fuel.** As of September 30, 2014, the Company had hedged approximately 39%, 24% and less than 1% of its projected fuel requirements (372 million gallons, 925 million gallons and 35 million gallons, respectively) for the remainder of 2014, 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of September 30, 2014, the Company had fuel hedges expiring through March 2016.

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At September 30, 2014, fuel derivatives were in a net liability position of \$114 million. See Note 7 to the financial statements included in Part I, Item 1 of this report for additional information related to fuel hedges.

**ITEM 4. CONTROLS AND PROCEDURES.**

***Evaluation of Disclosure Control and Procedures***

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted to the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL's and United's disclosure controls and procedures were designed and operating effectively to report the information each company is required to disclose in the reports they file with the SEC on a timely basis. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of UAL and United have concluded that as of September 30, 2014, disclosure controls and procedures of each of UAL and United were effective.

***Changes in Internal Control over Financial Reporting during the Quarter Ended September 30, 2014***

During the three months ended September 30, 2014, there were no changes in UAL's or United's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, their internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

See Part I, Item 3., Legal Proceedings of the 2013 Annual Report for a description of legal proceedings. The disclosure below includes an update to the legal proceedings disclosures included in the 2013 Annual Report, which is in addition to, and not in lieu of, those disclosures contained in the 2013 Annual Report.

***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 Airlines, Inc., United Air Lines, Inc. and UAL Corporation in connection with the October 1, 2010 merger transaction (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 September 27, 2010, the District Court denied the plaintiffs motion for a preliminary injunction, which allowed the Merger to close on October 1, 2010. After the closing of the Merger, the plaintiffs appealed the court's ruling to the United States Court of Appeals for the Ninth Circuit, which was denied on May 23, 2011. The U.S. Supreme Court thereafter denied plaintiffs petition for a writ of certiorari. On December 29, 2011 the District Court granted the Company's motion to dismiss the complaint, with prejudice. On January 16, 2014, the United States Court of Appeals for the Ninth Circuit affirmed the dismissal of the complaint. On October 6, 2014, the U.S. Supreme Court denied plaintiffs writ of certiorari, terminating the case in full.

**ITEM 1A. RISK FACTORS.**

See Part I, Item 1A., Risk Factors, of the 2013 Annual Report and Part II, Item 1A., Risk Factors of the Company's Form 10-Q for the quarter ended March 31, 2014 and Part II, Item 1A., Risk Factors of the Company's Form 10-Q for the quarter ended June 30, 2014 for a detailed discussion of the risk factors affecting UAL and United.

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

(a) None

(b) None

(c) The following table presents repurchases of UAL common stock made in the third quarter of fiscal year 2014:

| Period   | Total number of shares purchased (a) | Average price paid per share (f) | Approximate dollar Total number of value of shares that shares purchased as may yet be part of publicly announced programs (in millions) |                                 |
|--|--------------------------------------|----------------------------------|--|---------------------------------|
|  |                                      |                                  | plans or programs (a)  | under the plans or programs (a) |
| July 1, 2014 through July 31, 2014 (b) (c)       | 1,521,000                            | \$ 45.82                         | 1,521,000  | \$ 900                          |
| July 1, 2014 through July 31, 2014 (b) (d)       | 1,521,000                            | 44.15                            | 1,521,000  | 800                             |
| August 1, 2014 through August 31, 2014 (d)       | 743,770                              | 44.15                            | 743,770  | 800                             |
| September 1, 2014 through September 30, 2014 (e) | 400,600                              | 50.77                            | 400,600  | 780                             |
| <b>Total</b>                                     | <b>4,186,370</b>                     |                                  | <b>4,186,370</b>   |                                 |

(a) UAL's Board of Directors authorized a share repurchase program to acquire up to \$1 billion of UAL's common stock. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

(b) On July 24, 2014, pursuant to the \$1.0 billion share repurchase program, UAL entered into two separate agreements to repurchase an aggregate of \$200 million of shares of UAL common stock through an accelerated share repurchase program (the ASR Program) and received an initial delivery of 1,521,000 shares under each agreement. The aggregate number of shares repurchased by UAL under the ASR Program is based on the volume-weighted average price per share of UAL's common stock during the calculation periods determined pursuant to each agreement, less a discount.

(c) UAL paid \$100 million and received an initial delivery of 1,521,000 shares under this ASR Program agreement. The calculation period for this agreement was completed and 661,223 additional shares were delivered to UAL in October 2014, resulting in an aggregate of 2,182,223 shares repurchased at an average purchase price of \$45.82.

(d) UAL also paid \$100 million and received an initial delivery of 1,521,000 shares under this ASR Program agreement. The calculation period for this agreement was completed and 743,770 additional shares were delivered to UAL in August 2014, resulting in an aggregate of 2,264,770 shares repurchased at an average purchase price of \$44.15.

(e) In addition to shares purchased under the ASR Program, UAL made open market purchases of 400,600 shares of UAL common stock at an average price of \$50.77 per share in September 2014.

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

**ITEM 6. EXHIBITS.**

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

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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.

|                        |   |
|------------------------|---|
| Date: October 23, 2014 | United Continental Holdings, Inc.<br>(Registrant)<br><br>By: /s/ John D. Rainey<br><br>John D. Rainey<br>Executive Vice President and Chief Financial<br>Officer<br>(principal financial officer) |
| Date: October 23, 2014 | By: /s/ Chris Kenny<br><br>Chris Kenny<br>Vice President and Controller<br>(principal accounting officer)   |
| Date: October 23, 2014 | United Airlines, Inc.<br>(Registrant)<br><br>By: /s/ John D. Rainey<br><br>John D. Rainey<br>Executive Vice President and Chief Financial<br>Officer<br>(principal financial officer)             |
| Date: October 23, 2014 | By: /s/ Chris Kenny<br><br>Chris Kenny<br>Vice President and Controller<br>(principal accounting officer)   |

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Registrant</b> | <b>Exhibit</b>   |
|--------------------|-------------------|--|
| *10.1              | UAL<br>United     | Second Amendment to Credit and Guaranty Agreement, dated as of July 25, 2014, among United Airlines, Inc., as borrower, UAL, as parent and a guarantor, and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.1 with UAL's Current Report on Form 8-K on September 19, 2014)                 |
| *10.2              | UAL<br>United     | Third Amendment to Credit and Guaranty Agreement, dated as of September 15, 2014, among United, as borrower, UAL, as parent and a guarantor, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.2 with UAL's Current Report on Form 8-K on September 19, 2014) |
| ^10.3              | UAL<br>United     | Supplemental Agreement No. 3 to Purchase Agreement No. 3860, dated as of July 22, 2014, between United Airlines, Inc. and The Boeing Company   |
| 12.1               | UAL               | United Continental Holdings, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges   |
| 12.2               | United            | United Airlines, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges   |
| 31.1               | UAL               | Certification of the Principal Executive Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)   |
| 31.2               | UAL               | Certification of the Principal Financial Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)   |
| 31.3               | United            | Certification of the Principal Executive Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)   |
| 31.4               | United            | Certification of the Principal Financial Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)   |
| 32.1               | UAL               | Certification of the Chief Executive Officer and Chief Financial Officer of United Continental Holdings, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)   |
| 32.2               | United            | Certification of the Chief Executive Officer and Chief Financial Officer of United Airlines, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)   |
| 101.1              | UAL<br>United     | XBRL Instance Document   |
| 101.2              | UAL<br>United     | XBRL Taxonomy Extension Schema Document  |
| 101.3              | UAL<br>United     | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.4              | UAL<br>United     | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.5              | UAL<br>United     | XBRL Taxonomy Extension Labels Linkbase Document   |
| 101.6              | UAL               | XBRL Taxonomy Extension Presentation Linkbase Document   |

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United

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