

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

OR

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

Exact Name of Registrant as

Specified in its Charter, Principal

Commission

Executive Office Address and

State of

I.R.S. Employer

File Number
001-06033

Telephone Number
United Continental Holdings, Inc.

Incorporation
Delaware

Identification No.
36-2675207

233 South Wacker Drive,
Chicago, Illinois 60606

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001-10323

(872) 825-4000
 United Airlines, Inc.

Delaware

74-2099724

233 South Wacker Drive,

Chicago, Illinois 60606

(872) 825-4000

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

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

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

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

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

United Continental Holdings, Inc.	Large accelerated filer <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 11, 2016 is shown below:

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

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

OMISSION OF CERTAIN INFORMATION

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

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United Continental Holdings, Inc.

United Airlines, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2016

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenue:				
Passenger Mainline	\$ 7,017	\$ 7,254	\$ 19,119	\$ 20,153
Passenger Regional	1,586	1,706	4,577	4,903
Total passenger revenue	8,603	8,960	23,696	25,056
Cargo	224	235	626	706
Other operating revenue	1,086	1,111	3,182	3,066
	9,913	10,306	27,504	28,828
Operating expense:				
Salaries and related costs	2,625	2,534	7,707	7,289
Aircraft fuel	1,603	1,934	4,258	5,904
Regional capacity purchase	572	572	1,645	1,725
Landing fees and other rent	546	551	1,612	1,647
Depreciation and amortization	503	469	1,473	1,343
Aircraft maintenance materials and outside repairs	451	424	1,301	1,252
Distribution expenses	345	366	987	1,026
Aircraft rent	168	185	521	580
Special charges (Note 10)	45	76	669	195
Other operating expenses	1,431	1,295	3,997	3,780
	8,289	8,406	24,170	24,741
Operating income	1,624	1,900	3,334	4,087
Nonoperating income (expense):				
Interest expense	(150)	(164)	(466)	(504)
Interest capitalized	20	13	48	38
Interest income	14	5	31	16
Miscellaneous, net (Note 10)	2	(147)	(11)	(322)
	(114)	(293)	(398)	(772)
Income before income taxes	1,510	1,607	2,936	3,315
Income tax expense (benefit)	545	(3,169)	1,069	(3,163)
Net income	\$ 965	\$ 4,776	\$ 1,867	\$ 6,478

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

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UNITED AIRLINES, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 965	\$ 4,776	\$ 1,867	\$ 6,478
Other comprehensive income (loss), net change related to:				
Fuel derivative financial instruments	12	(104)	123	129
Employee benefit plans	(75)	(12)	(89)	18
Investments and other	(1)	(6)	(1)	(1)
	(64)	(122)	33	146
Total comprehensive income, net	\$ 901	\$ 4,654	\$ 1,900	\$ 6,624

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)**

	(Unaudited) September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,624	\$ 3,000
Short-term investments	2,226	2,190
Receivables, less allowance for doubtful accounts (2016 \$12; 2015 \$18)	1,481	1,128
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2016 \$263; 2015 \$235)	842	738
Prepaid expenses and other	840	813
	8,013	7,869
Operating property and equipment:		
Owned		
Flight equipment	25,093	23,728
Other property and equipment	5,237	4,542
	30,330	28,270
Less Accumulated depreciation and amortization	(9,529)	(8,339)
	20,801	19,931
Purchase deposits for flight equipment	1,068	788
Capital leases		
Flight equipment	1,398	1,527
Other property and equipment	337	332
	1,735	1,859
Less Accumulated amortization	(959)	(998)
	776	861
	22,645	21,580
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2016 \$1,212; 2015 \$1,144)	3,654	4,136
Deferred income taxes	821	1,995
Restricted cash	123	204
Other, net	549	554

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9,670

11,412

\$ 40,328

\$ 40,861

(continued on next page)

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

(In millions, except shares)

	(Unaudited) September 30, 2016	December 31, 2015
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Advance ticket sales	\$ 4,558	\$ 3,753
Accounts payable	2,143	1,874
Frequent flyer deferred revenue	2,168	2,117
Accrued salaries and benefits	2,282	2,350
Current maturities of long-term debt	969	1,224
Current maturities of capital leases	124	135
Fuel derivative instruments	4	124
Other	1,009	840
	13,257	12,417
Long-term debt	9,612	9,673
Long-term obligations under capital leases	752	727
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	2,743	2,826
Postretirement benefit liability	1,927	1,882
Pension liability	1,220	1,488
Advanced purchase of miles	574	1,010
Lease fair value adjustment, net	299	359
Other	1,509	1,516
	8,272	9,081
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, 2016 and December 31, 2015		
Additional capital invested	3,718	6,138
Retained earnings	5,540	3,673
Accumulated other comprehensive loss	(798)	(831)
Receivable from related parties	(25)	(17)
	8,435	8,963
	\$ 40,328	\$ 40,861

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)**

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net cash provided by operating activities	\$ 4,878	\$ 4,866
Cash Flows from Investing Activities:		
Capital expenditures	(2,343)	(1,984)
Purchases of short-term investments and other investments	(1,989)	(1,859)
Proceeds from sale of short-term and other investments	1,957	2,069
Decrease in restricted cash	82	112
Proceeds from sale of property and equipment	24	50
Investment in and loans to affiliates	(8)	(130)
Other	(5)	23
Net cash used in investing activities	(2,282)	(1,719)
Cash Flows from Financing Activities:		
Dividend to UAL	(2,442)	(709)
Payments of long-term debt	(911)	(1,528)
Proceeds from issuance of long-term debt	510	613
Principal payments under capital leases	(95)	(80)
Other, net	(34)	(18)
Net cash used in financing activities	(2,972)	(1,722)
Net (decrease) increase in cash and cash equivalents	(376)	1,425
Cash and cash equivalents at beginning of the period	3,000	1,996
Cash and cash equivalents at end of the period	\$ 2,624	\$ 3,421
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 115	\$ 797
Airport construction financing	68	5
Operating lease conversions to capital lease	12	285

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, 2015. 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 - RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) amended the FASB Accounting Standards Codification and created a new Topic 606, *Revenue from Contracts with Customers*. This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Accounting Standards Codification, and is effective for annual and interim reporting periods beginning after December 15, 2017. Under the new standard, certain airline ancillary fees directly related to passenger revenue tickets, such as airline change fees and baggage fees, are likely to no longer be considered distinct performance obligations separate from the passenger travel component. In addition, the change fees which were previously recognized when received, will likely be recognized when transportation is provided. The Company is evaluating other possible impacts on its consolidated financial statements.

In February 2016, the FASB amended the FASB Accounting Standards Codification and created a new Topic 842, *Leases* (Topic 842). The guidance requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) at the commencement date and recognize expenses on their income statements similar to the current Topic 840, *Leases*. It is effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. Lessees and lessors are required to adopt Topic 842 using a modified retrospective approach for all leases existing at or commencing after the date of initial application with an option to use certain practical expedients. The Company is evaluating the impact the adoption of this standard will have on its consolidated financial statements and believes this standard will have a significant impact on its consolidated balance sheets.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The update requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through earnings as a component of income tax expense. Under current GAAP, these differences are generally recorded in additional paid-in capital and thus have no impact on net income. The change in treatment of excess tax benefits and tax deficiencies will also impact the computation of diluted earnings per share, and the cash flows associated with those items will be classified as

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operating activities on the condensed statements of consolidated cash flows. Additionally, entities will be permitted to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required under current GAAP, or recognized when they occur. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). The update amends the guidance in Accounting Standards Codification 230, *Statement of Cash Flows*, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

The FASB issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the standard, investments for which fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient will no longer be categorized in the fair value hierarchy. The Company adopted this standard on January 1, 2016. As of September 30, 2016, the Company had approximately \$202 million of such investments as part of its Short-term investments balance sheet total. In addition, pension plan investments measured at NAV per share will no longer be categorized within the fair value hierarchy. As of September 30, 2016, the Company had approximately \$1.9 billion of such investments.

NOTE 2 - EARNINGS PER SHARE

The computations of UAL's basic and diluted earnings per share are set forth below (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic earnings per share:				
Earnings available to common stockholders	\$ 965	\$ 4,816	\$ 1,866	\$ 6,517
Basic weighted-average shares outstanding	320	375	335	379
Earnings per share, basic	\$ 3.02	\$ 12.83	\$ 5.57	\$ 17.19
Diluted earnings per share:				
Earnings available to common stockholders including the effect of dilutive securities	\$ 965	\$ 4,816	\$ 1,866	\$ 6,517
Diluted shares outstanding:				
Basic weighted-average shares outstanding	320	375	335	379
Effect of employee stock awards	1	1		1
Diluted weighted-average shares outstanding	321	376	335	380
Earnings per share, diluted	\$ 3.01	\$ 12.82	\$ 5.57	\$ 17.15

The number of antidilutive securities excluded from the computation of diluted earnings per share amounts was not material. In the three and nine months ended September 30, 2016, UAL repurchased 5 million and 48 million shares of UAL common stock in open market transactions, respectively, for \$255 million and \$2.4 billion, respectively. As of September 30, 2016, the Company had approximately \$2 billion remaining to purchase shares under its existing share repurchase authority. 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 UAL common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

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NOTE 3 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

UAL (a)	Pension and Other		Investments and Other	Deferred Taxes Pension and Other		Total
	Postretirement Liabilities	Fuel Derivative Contracts		Postretirement Liabilities	Fuel Derivative Contracts	
Balance at June 30, 2016	\$ (385)	\$ (41)	\$ 3	\$ (146)	\$ (165)	\$ (734)
Changes in value	(124)	(6)	(2)	45	2	(85)
Amounts reclassified to earnings	6	24	1	(2)	(8)	21
Net change	(118)	18	(1)	43	(6)	(64)
Balance at September 30, 2016	\$ (503)	\$ (23)	\$ 2	\$ (103)	\$ (171) (b)	\$ (798)
Balance at December 31, 2015	\$ (363)	\$ (215)	\$ 3	\$ (154)	\$ (102)	\$ (831)
Changes in value	(157)	(5)	(2)	57	2	(105)
Amounts reclassified to earnings	17	197	1	(6)	(71)	138
Net change	(140)	192	(1)	51	(69)	33
Balance at September 30, 2016	\$ (503)	\$ (23)	\$ 2	\$ (103)	\$ (171) (b)	\$ (798)

UAL (a)	Pension and Other		Investments and Other	Deferred Taxes Pension and Other		Total
	Postretirement Liabilities	Fuel Derivative Contracts		Postretirement Liabilities	Fuel Derivative Contracts	
Balance at June 30, 2015	\$ (442)	\$ (266)	\$ 11	\$ (115)	\$ (c)	\$ (812)
Changes in value	(10)	(181)	(6)	(1)	82	(116)
Amounts reclassified to earnings	8	150		(9)	(155)	(6)
Net change	(2)	(31)	(6)	(10)	(73)	(122)
Balance at September 30, 2015	\$ (444)	\$ (297)	\$ 5	\$ (125)	\$ (73)	\$ (934)
Balance at December 31, 2014	\$ (472)	\$ (499)	\$ 7	\$ (115)	\$ (c)	\$ (1,079)
Changes in value	3	(227)	(1)	(1)	82	(144)
Amounts reclassified to earnings	25	429	(1)	(9)	(155)	289
Net change	28	202	(2)	(10)	(73)	145
Balance at September 30, 2015	\$ (444)	\$ (297)	\$ 5	\$ (125)	\$ (73)	\$ (934)

Details about AOCI Components

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	Amount Reclassified from AOCI to Income				Affected Line Item in the Statements of Consolidated Operations
	Three Months Ended September 30, 2016		September 30, 2015		
Fuel derivative contracts					
Reclassifications of losses into earnings	\$ 24	\$ 150	\$ 197	\$ 429	Aircraft fuel
Pension and other postretirement liabilities					
Amortization of unrecognized losses and prior service cost (credit) (d)	6	8	17	25	Salaries and related costs
Investments and other					
Available-for-sale securities-reclassifications of gains into earnings	1		1	(1)	Miscellaneous, net

(a) UAL and United amounts are substantially the same except for an additional gain related to investments and other of \$1 million at United for the nine months ended September 30, 2015.

(b) Includes deferred income tax expense of \$180 million that will remain in AOCI until all fuel derivatives which are designated for hedge accounting are settled.

(c) Deferred tax balance was offset by the Company's valuation allowance.

(d) 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).

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Prior to the release of the valuation allowance in the third quarter of 2015, the Company recorded \$180 million of deferred income tax expense adjustments in AOCI related to losses on fuel hedges designated for hedge accounting. This deferred income tax expense of \$180 million will remain in AOCI until all fuel derivatives which are designated for hedge accounting are settled. Currently, our fuel hedges that are designated for hedge accounting have settlement dates through December 2016. If we do not enter into and designate additional fuel derivative contracts for hedge accounting by the end of 2016, a non-cash income tax expense of \$180 million will be recognized in the fourth quarter of 2016.

NOTE 4 - INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2016 was 36% which represented a blend of federal, state and foreign taxes and the impact of certain nondeductible items. During 2015, after considering all positive and negative evidence, the Company concluded that its deferred income taxes would more likely than not be realized. The Company released substantially all of its valuation allowance in the third quarter of 2015, which resulted in a \$3.2 billion benefit in its provision for income taxes.

NOTE 5 - EMPLOYEE BENEFIT PLANS

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

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Service cost	\$ 29	\$ 31	\$ 4	\$ 5
Interest cost	50	50	22	20
Expected return on plan assets	(54)	(49)		
Amortization of unrecognized (gain) loss and prior service cost (credit)	19	21	(13)	(13)
Settlement loss	2	1		
Curtailement gain			(47)	
Total	\$ 46	\$ 54	\$ (34)	\$ 12

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	September 30, 2016		September 30, 2016	
	2016	2015	2016	2015
Service cost	\$ 84	\$ 93	\$ 14	\$ 15
Interest cost	151	150	66	61
Expected return on plan assets	(162)	(147)	(1)	(1)
Amortization of unrecognized (gain) loss and prior service cost (credit)	57	65	(40)	(40)
Settlement loss	4	2		
Curtailement gain			(47)	
Total	\$ 134	\$ 163	\$ (8)	\$ 35

During the three and nine months ended September 30, 2016, the Company contributed \$240 million and \$400 million, respectively, to its U.S. domestic tax-qualified defined benefit pension plans.

Plan Curtailments. As part of the recently ratified contract with the Association of Flight Attendants (AFA), the Company amended its postretirement medical plans. The amendments triggered curtailment accounting, resulting in the recognition of a one-time \$47 million gain for accelerated recognition of a prior service credit in the third quarter of 2016. The Company remeasured the plans' liabilities using an average

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weighted discount rate of 3.43% compared to the year-end 2015 weighted average discount rate of 4.52%. As a result of the amendments, remeasurements and curtailments, the projected benefit obligation of the plans increased by \$49 million and Other comprehensive loss increased by \$96 million, respectively.

Table of Contents**Share-Based Compensation.**

During 2016, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 0.4 million stock options, 0.4 million shares of restricted stock and 1.9 million restricted stock units (RSUs).

The stock options vest in one-third increments over either (i) the first three anniversaries of the date of grant (for seven-year term options) or (ii) the fourth, fifth and sixth anniversaries of the date of grant (for ten-year term options). The restricted stock awards and the time-vested RSUs vest in one-third increments over the first three anniversaries of the date of grant. The time-vested RSUs are generally stock-settled for domestic employees and cash-settled for international employees based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The remainder of the RSUs are performance-based and vest based on the Company's return on invested capital and the Company's relative improvement in pre-tax margin for the three years ending December 31, 2018. If the applicable performance conditions are achieved, cash payments will be made after the end of the performance period based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company accounts for the performance-based RSUs as liability awards.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Share-based compensation expense	\$ 23	\$ 7	\$ 36	\$ 40
	September 30, 2016		December 31, 2015	
Unrecognized share-based compensation	\$ 79	\$ 41		

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

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

	September 30, 2016				December 31, 2015			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,630	\$ 2,630	\$	\$	\$ 3,006	\$ 3,006	\$	\$
Short-term investments:								
Corporate debt	861		861		891		891	
Asset-backed securities	764		764		710		710	
Certificates of deposit placed through an account registry service (CDARS)	252		252		281		281	
U.S. government and agency notes	97		97		72		72	
Auction rate securities					9			9
Other fixed-income securities	50		50		26		26	
Other investments measured at NAV (a)	202				201			
Restricted cash	124	124			206	206		
Enhanced equipment trust certificates (EETC)	23			23	26			26
Fuel derivatives liability, net	4		4		124		124	
Foreign currency derivatives liability, net	1		1					

(a) In accordance with the relevant accounting standards, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The investments measured using NAV are shares of mutual funds that invest in fixed-income instruments including bonds, debt securities, and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities. The Company can redeem its shares at any time at NAV subject to a three-day settlement period.

Available-for-sale investment maturities - The short-term investments shown in the table above are classified as available-for-sale. As of September 30, 2016, asset-backed securities have remaining maturities of less than one year to approximately 33 years, corporate debt securities have remaining maturities of less than one year to approximately six years and CDARS have maturities of less than one year. U.S. government and other securities have maturities of less than one year to approximately three years. The EETC securities mature in 2019.

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

	Carrying Amount	Fair Value of Debt by Fair Value Hierarchy Level								
		September 30, 2016				December 31, 2015				
		Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	
Long-term debt	\$ 10,581	\$ 11,218	\$	\$ 8,359	\$ 2,859	\$ 10,897	\$ 11,371	\$	\$ 8,646	\$ 2,725

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

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

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

The Company may hedge a portion of its future fuel requirements to protect against increases in the price of fuel. The Company may restructure hedges in response to market conditions prior to their original settlement dates which may result in changes in hedge coverage levels and the potential recognition of gains or losses on such hedge contracts. As of September 30, 2016, the Company had hedged approximately 13% of its projected fuel requirements (126 million gallons) for the remainder of 2016 with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of September 30, 2016, the Company had fuel hedges expiring through December 2016.

As required, the Company assesses the effectiveness of each of its individual hedges on a quarterly basis. The Company also examines the effectiveness of its entire hedging program on a quarterly basis utilizing statistical analysis. This analysis involves utilizing regression and other statistical analyses that compare changes in the price of aircraft fuel to changes in the prices of the commodities used for hedging 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. The types of instruments the Company utilizes that qualify for hedge accounting treatment typically include swaps, call options, collars (which consist of a purchased call option and a sold put option), four-way collars (a collar with a higher strike sold call option and a lower strike purchased put option) and other combinations of options. Generally, utilizing hedge accounting, all periodic changes in the fair value of 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 derivative instrument exceeds the change in the value of the Company's expected future cash outlay to purchase and consume fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is classified as Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

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

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

In addition to cash flow hedges, the Company from time to time enters into fair value hedges related to its aircraft fuel inventory using derivatives such as swaps and futures contracts based on aircraft fuel. Under fair value hedge accounting, the Company records changes in the fair value of both the hedging derivative and the hedged aircraft fuel inventory as fuel expense. The Company records ineffectiveness on fair value hedges as Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations. As of September 30, 2016, the Company did not have any fair value hedges.

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, 2016	December 31, 2015
<u>Derivatives designated as cash flow hedges</u>			
<i>Liabilities:</i>			
Fuel contracts due within one year	Fuel derivative instruments	\$ 4	\$ 119
<u>Derivatives not designated for hedge accounting</u>			
<i>Liabilities:</i>			
Fuel contracts due within one year	Fuel derivative instruments	\$ 5	\$ 5
<u>Total derivatives</u>			
Total liabilities		\$ 4	\$ 124

Derivative Credit Risk and Fair Value

The Company is exposed to credit losses in the event of non-performance 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 hold or post collateral as of September 30, 2016. The Company had on deposit \$26 million of collateral with fuel derivative counterparties as of December 31, 2015. The collateral is recorded as Prepaid expenses and other on the Company's balance sheets.

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, 2016	December 31, 2015
Fuel derivative instruments, net of collateral	\$ (4)	\$ (98)

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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 Loss Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended September 30,		Loss Reclassified from AOCI into Fuel Expense Three Months Ended September 30,		Amount of Loss Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Three Months Ended September 30,	
	2016	2015	2016	2015	2016	2015
Fuel contracts	\$ (6)	\$ (181)	\$ (24)	\$ (150)	\$	\$

Derivatives designated as cash flow hedges

	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion) Nine Months Ended September 30,		Loss Reclassified from AOCI into Fuel Expense Nine Months Ended September 30,		Amount of Loss Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Nine Months Ended September 30,	
	2016	2015	2016	2015	2016	2015
Fuel contracts	\$ (5)	\$ (227)	\$ (197)	\$ (429)	\$	\$

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amount of loss recognized in Nonoperating income (expense):				
Miscellaneous, net	\$	\$ (67)	\$	\$ (69)

Foreign Currency Derivatives

The Company generates revenues and incurs expenses in numerous foreign currencies. Changes in foreign currency exchange rates impact the Company's results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Some of the Company's more significant foreign currency exposures include the Canadian dollar, Chinese renminbi, European euro, British pound and Japanese yen. At times, the Company uses derivative financial instruments, such as options, collars and forward contracts, to hedge its exposure to foreign currency. At September 30, 2016, the Company had foreign currency derivative contracts in place to hedge both European euro denominated sales and Japanese yen denominated sales. The notional amount of the hedges equates to 16% of the Company's projected European euro denominated net cash inflows for the remainder of 2016; and 18% of the Company's projected Japanese yen denominated net cash inflows for the remainder of 2016. Net cash relates primarily to passenger ticket sales inflows, partially offset by expenses paid in local currencies. At September 30, 2016, the fair value of the Company's foreign currency derivatives was a liability of \$1 million.

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

Commitments. As of September 30, 2016, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing) and Airbus S.A.S. (Airbus) presented in the table below:

Aircraft Type	Number of Firm Commitments (a)
Airbus A350-1000	35
Boeing 737NG/737 MAX	172
Boeing 777-300ER	14
Boeing 787-8/-9/-10	21

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

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2016, United expects to take delivery of seven Boeing 737NG aircraft and one Boeing 777-300ER aircraft.

The table below summarizes United's commitments as of September 30, 2016, which primarily relate to the acquisition of aircraft and related spare engines, aircraft improvements and include other commitments primarily to acquire information technology services and assets. Any new firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

	(in billions)
Last three months of 2016	\$ 1.2
2017	4.5
2018	4.1
2019	3.3
2020	2.6
After 2020	6.9
	\$ 22.6

As of September 30, 2016, United had \$1.7 billion in financing available through EETC transactions for the financing of all of its aircraft deliveries scheduled for the remainder of 2016 and first half of 2017. See Note 9 of this report for additional information on aircraft financing. The Company has also 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 may be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures.

Facility and Other Operating Leases. In October 2016, United signed a seven year lease extension through 2024 with the Metropolitan Washington Airports Authority to continue its use of terminals at Washington Dulles International Airport. 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.

(In millions)	Facility and Other Operating Leases
Last three months of 2016	\$ 200
2017	1,156
2018	1,024
2019	954
2020	1,083

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After 2020

7,450

\$ 11,867

Guarantees. As of September 30, 2016, 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 \$1.4 billion of these obligations are accounted for as operating leases with the associated expense recorded on a

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straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with \$376 million of these obligations are accounted for as capital leases. All of these bonds are due between 2017 and 2038.

In the Company's financing transactions that include loans, the Company typically agrees to