

CONTINENTAL AIRLINES INC /DE/
Form 10-Q
April 27, 2012
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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 March 31, 2012

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,	State of	I.R.S. Employer
File Number	Principal Office Address and Telephone Number	Incorporation	Identification No

001-06033

United Continental Holdings, Inc.

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

Delaware 36-2675207

001-11355

United Air Lines, Inc.

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

Delaware 36-2675206

001-10323

Continental Airlines, Inc.

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

Delaware 74-2099724

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

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

Indicate by check mark whether the registrant 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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>	United Air Lines, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Continental Airlines, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>			

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock as of April 15, 2012 is shown below:

United Continental Holdings, Inc.	332,061,107 shares of common stock (\$0.01 par value) 205 (100% owned by United Continental Holdings, Inc.)
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United Air Lines, Inc.	There is no market for United Air Lines, Inc. common stock.
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Continental Airlines, Inc.

1,000 (100% owned by United Continental Holdings, Inc.)

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

OMISSION OF CERTAIN INFORMATION

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

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United Continental Holdings, Inc.

United Air Lines, Inc.

Continental Airlines, Inc.

Report on Form 10-Q

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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 March 31,	
	2012	2011
Operating revenue:		
Passenger - Mainline	\$ 5,954	\$ 5,707
Passenger - Regional	1,554	1,410
Total passenger revenue	7,508	7,117
Cargo	264	283
Other operating revenue	830	802
	8,602	8,202
Operating expense:		
Aircraft fuel	3,229	2,672
Salaries and related costs	1,897	1,806
Regional capacity purchase	616	573
Landing fees and other rent	469	473
Aircraft maintenance materials and outside repairs	407	439
Depreciation and amortization	380	388
Distribution expenses	337	350
Aircraft rent	251	253
Special charges (Note 10)	164	77
Other operating expenses	1,123	1,137
	8,873	8,168
Operating income (loss)	(271)	34
Nonoperating income (expense):		
Interest expense	(216)	(254)
Interest capitalized	8	6
Interest income	5	4
Miscellaneous, net	27	(1)
	(176)	(245)
Loss before income taxes	(447)	(211)
Income tax expense	1	2
Net loss	\$ (448)	\$ (213)
Loss per share, basic and diluted	\$ (1.36)	\$ (0.65)

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The accompanying Combined Notes to 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 March 31,	
	2012	2011
Net loss	\$ (448)	\$ (213)
Other comprehensive income, net:		
Fuel derivative financial instruments:		
Reclassification into earnings	31	(154)
Change in fair value	93	524
Employee benefit plans:		
Amortization of net actuarial (gains) losses	4	(5)
Investments and other	9	4
	137	369
Total comprehensive income (loss), net	\$ (311)	\$ 156

The accompanying Combined Notes to 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) March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,606	\$ 6,246
Short-term investments	1,667	1,516
Total unrestricted cash, cash equivalents and short-term investments	7,273	7,762
Restricted cash	42	40
Receivables, less allowance for doubtful accounts (2012 \$8; 2011 \$7)	1,908	1,358
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2012 \$96; 2011 \$89)	645	615
Deferred income taxes	610	615
Prepaid expenses and other	783	607
	11,261	10,997
Operating property and equipment:		
Owned		
Flight equipment	16,035	15,786
Other property and equipment	3,066	3,126
	19,101	18,912
Less Accumulated depreciation and amortization	(4,191)	(4,005)
	14,910	14,907
Purchase deposits for flight equipment	418	382
Capital leases		
Flight equipment	1,483	1,458
Other property and equipment	235	237
	1,718	1,695
Less Accumulated amortization	(602)	(565)
	1,116	1,130
	16,444	16,419
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2012 \$701; 2011 \$670)	4,712	4,750
Restricted cash	529	529
Other, net	730	770
	10,494	10,572

\$ 38,199 \$ 37,988

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

(In millions, except shares)

	(Unaudited) March 31, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Advance ticket sales	\$ 4,433	\$ 3,114
Frequent flyer deferred revenue	2,607	2,405
Accounts payable	2,220	1,998
Accrued salaries and benefits	1,139	1,509
Current maturities of long-term debt	1,013	1,186
Current maturities of capital leases	127	125
Other	947	1,057
	12,486	11,394
Long-term debt	10,408	10,496
Long-term obligations under capital leases	888	928
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	2,958	3,253
Postretirement benefit liability	2,415	2,407
Pension liability	1,857	1,862
Advanced purchase of miles	1,668	1,711
Deferred income taxes	1,596	1,603
Lease fair value adjustment, net	1,062	1,133
Other	1,351	1,395
	12,907	13,364
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 332,043,357 and 330,906,192 shares at March 31, 2012 and December 31, 2011, respectively	3	3
Additional capital invested	7,130	7,114
Retained deficit	(5,311)	(4,863)
Stock held in treasury, at cost	(32)	(31)
Accumulated other comprehensive loss	(280)	(417)
	1,510	1,806
	\$ 38,199	\$ 37,988

The accompanying Combined Notes to 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)**

	Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$ (448)	\$ (213)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Increase in advance ticket sales	1,319	1,326
Decrease in other liabilities	(470)	(235)
Increase in receivables	(427)	(379)
Depreciation and amortization	380	388
Increase in other current assets	(288)	(190)
Increase in accounts payable	230	98
Increase (decrease) in frequent flyer deferred revenue and advanced purchase of miles	(136)	38
Debt and lease discount amortization	(70)	(44)
Special charges, non-cash portion	12	4
Increase (decrease) in fuel hedge collateral	(1)	178
Other, net	23	34
Net cash provided by operating activities	124	1,005
Cash Flows from Investing Activities:		
Capital expenditures	(266)	(205)
Increase in short-term and other investments, net	(148)	(107)
Proceeds from sale of property and equipment	89	39
Aircraft purchase deposits paid, net	(35)	(38)
Increase in restricted cash, net	(2)	(9)
Net cash used in investing activities	(362)	(320)
Cash Flows from Financing Activities:		
Payments of long-term debt	(479)	(528)
Proceeds from issuance of long-term debt	86	32
Principal payments under capital leases	(23)	(125)
Other, net	14	32
Net cash used in financing activities	(402)	(589)
Net increase (decrease) in cash and cash equivalents during the period	(640)	96
Cash and cash equivalents at beginning of the period	6,246	8,069
Cash and cash equivalents at end of the period	\$ 5,606	\$ 8,165
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 136	\$ 64

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

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

	Three Months Ended March 31,	
	2012	2011
Operating revenue:		
Passenger - Mainline	\$ 3,158	\$ 3,087
Passenger - Regional	876	878
Total passenger revenue	4,034	3,965
Cargo	171	167
Other operating revenue	570	544
	4,775	4,676
Operating expense:		
Aircraft fuel	1,842	1,512
Salaries and related costs	1,027	987
Regional capacity purchase	379	382
Landing fees and other rent	255	252
Aircraft maintenance materials and outside repairs	267	292
Depreciation and amortization	231	227
Distribution expenses	182	187
Aircraft rent	78	81
Special charges (Note 10)	96	74
Other operating expenses	726	674
	5,083	4,668
Operating income (loss)	(308)	8
Nonoperating income (expense):		
Interest expense	(137)	(168)
Interest capitalized	3	3
Interest income	3	2
Miscellaneous, net	18	(5)
	(113)	(168)
Loss before income taxes	(421)	(160)
Income tax expense	2	
Net loss	\$ (423)	\$ (160)

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

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

	Three Months Ended March 31,	
	2012	2011
Net loss	\$ (423)	\$ (160)
Other comprehensive income, net:		
Fuel derivative financial instruments:		
Reclassification into earnings	15	(125)
Change in fair value	58	385
Employee benefit plans:		
Amortization of net actuarial (gains) losses	(1)	
Investments and other	4	
	76	260
Total comprehensive income (loss), net	\$ (347)	\$ 100

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

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

(In millions, except shares)

	(Unaudited) March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,338	\$ 3,458
Short-term investments	338	275
Total unrestricted cash, cash equivalents and short-term investments	3,676	3,733
Restricted cash	42	40
Receivables from related parties (Note 11)	1,712	228
Receivables, less allowance for doubtful accounts (2012 \$5; 2011 \$5)	1,641	763
Deferred income taxes	340	348
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2012 \$75; 2011 \$73)	335	340
Prepaid expenses and other	524	447
	8,270	5,899
Operating property and equipment:		
Owned		
Flight equipment	9,177	9,135
Other property and equipment	2,170	2,260
	11,347	11,395
Less Accumulated depreciation and amortization	(3,419)	(3,359)
	7,928	8,036
Purchase deposits for flight equipment	60	57
Capital leases		
Flight equipment	1,483	1,458
Other property and equipment	65	67
	1,548	1,525
Less Accumulated amortization	(581)	(548)
	967	977
	8,955	9,070
Other assets:		
Intangibles, less accumulated amortization (2012 \$547; 2011 \$534)	2,269	2,283
Receivables from related parties (Note 11)	1,290	
Restricted cash	393	393
Other, net	602	600

	4,554	3,276
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	\$ 21,779	\$ 18,245
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Table of Contents**UNITED AIR LINES, INC.****CONSOLIDATED BALANCE SHEETS****(In millions, except shares)**

	(Unaudited) March 31, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDER S DEFICIT		
Current liabilities:		
Advance ticket sales	\$ 3,411	\$ 1,652
Frequent flyer deferred revenue (Note 11)	2,607	1,484
Accounts payable	1,385	1,109
Accrued salaries and benefits	789	988
Current maturities of long-term debt	615	615
Current maturities of capital leases	124	122
Payables to related parties	105	104
Other	784	853
	9,820	6,927
Long-term debt	4,987	5,130
Long-term obligations under capital leases	711	735
Other liabilities and deferred credits:		
Frequent flyer deferred revenue (Note 11)	2,958	2,018
Postretirement benefit liability	2,119	2,115
Advanced purchase of miles (Note 11)	1,668	1,442
Deferred income taxes	699	707
Pension liability	85	92
Other	980	983
	8,509	7,357
Commitments and contingencies		
Stockholder s deficit:		
Common stock at par, \$5 par value; authorized 1,000 shares; outstanding 205 shares at both March 31, 2012 and December 31, 2011		
Additional capital invested	3,435	3,432
Retained deficit	(5,631)	(5,208)
Accumulated other comprehensive loss	(52)	(128)
	(2,248)	(1,904)
	\$ 21,779	\$ 18,245

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

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

	Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$ (423)	\$ (160)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Increase in advance ticket sales	1,759	736
Decrease in other liabilities	(256)	(119)
Increase in receivables	(805)	(159)
Depreciation and amortization	231	227
Increase in other current assets	(157)	(60)
Increase in accounts payable	281	148
Decrease in frequent flyer deferred revenue and advanced purchase of miles	(98)	(41)
Debt and lease discount amortization	9	22
Special charges, non-cash portion		6
Increase in receivables from related parties	(427)	(20)
(Increase) decrease in fuel hedge cash collateral	(1)	178
Increase (decrease) in payables to related parties	41	(2)
Other, net	14	30
Net cash provided by operating activities	168	786
Cash Flows from Investing Activities:		
Capital expenditures	(113)	(125)
(Increase) decrease in short-term and other investments, net	(59)	2
Proceeds from sale of property and equipment	56	1
Aircraft purchase deposits paid, net	(3)	(3)
Increase in restricted cash, net	(2)	(10)
Net cash used in investing activities	(121)	(135)
Cash Flows from Financing Activities:		
Payments of long-term debt	(147)	(397)
Principal payments under capital leases	(23)	(125)
Other, net	3	12
Net cash used in financing activities	(167)	(510)
Net increase (decrease) in cash and cash equivalents	(120)	141
Cash and cash equivalents at beginning of the period	3,458	4,665
Cash and cash equivalents at end of the period	\$ 3,338	\$ 4,806
Investing and Financing Activities Not Affecting Cash:		
Transfer of OnePass frequent flyer liability and advanced purchase of miles from Continental	\$ 2,387	\$

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

Table of Contents**CONTINENTAL AIRLINES, INC.****STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)****(In millions, except per share amounts)**

	Three Months Ended March 31,	
	2012	2011
Operating revenue:		
Passenger - Mainline	\$ 2,796	\$ 2,619
Passenger - Regional	678	532
Total passenger revenue	3,474	3,151
Cargo	92	115
Other operating revenue	356	292
	3,922	3,558
Operating expense:		
Aircraft fuel	1,387	1,160
Salaries and related costs	847	805
Regional capacity purchase	237	192
Landing fees and other rent	214	220
Aircraft maintenance materials and outside repairs	146	149
Depreciation and amortization	149	161
Distribution expenses	155	163
Aircraft rent	174	172
Special charges (Note 10)	68	3
Other operating expenses	505	504
	3,882	3,529
Operating income	40	29
Nonoperating income (expense):		
Interest expense	(80)	(83)
Interest capitalized	5	4
Interest income	3	2
Miscellaneous, net	23	(7)
	(49)	(84)
Loss before income taxes	(9)	(55)
Income tax expense (benefit)	(1)	2
Net loss	\$ (8)	\$ (57)

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

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

	Three Months Ended March 31,	
	2012	2011
Net loss	\$ (8)	\$ (57)
Other comprehensive income, net:		
Fuel derivative financial instruments:		
Reclassification into earnings	16	(29)
Change in fair value	35	139
Employee benefit plans:		
Amortization of net actuarial (gains) losses	5	(5)
Investments and other	6	4
	62	109
Total comprehensive income, net	\$ 54	\$ 52

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

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CONTINENTAL AIRLINES, INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

	(Unaudited) March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,262	\$ 2,782
Short-term investments	1,329	1,241
Total unrestricted cash, cash equivalents and short-term investments	3,591	4,023
Receivables, less allowance for doubtful accounts (2012 \$3; 2011 \$2)	267	595
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2012 \$21; 2011 \$16)	310	275
Deferred income taxes	269	267
Prepaid expenses and other	266	165
	4,703	5,325
Operating property and equipment:		
Owned		
Flight equipment	6,859	6,651
Other property and equipment	895	866
	7,754	7,517
Less Accumulated depreciation and amortization	(772)	(646)
	6,982	6,871
Purchase deposits for flight equipment	358	324
Capital leases Other property and equipment	170	170
Less Accumulated amortization	(20)	(17)
	150	153
	7,490	7,348
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2012 \$154; 2011 \$136)	2,445	2,469
Restricted cash	135	135
Other, net	360	364
	7,463	7,491
	\$ 19,656	\$ 20,164

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CONTINENTAL AIRLINES, INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

	(Unaudited) March 31, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Payables to related parties (Note 11)	\$ 1,493	\$ 11
Advance ticket sales	1,022	1,462
Accounts payable	841	894
Current maturities of long-term debt	398	571
Accrued salaries and benefits	350	521
Current maturities of capital leases	3	3
Frequent flyer deferred revenue (Note 11)		921
Other	237	279
	4,344	4,662
Long-term debt	5,013	4,957
Long-term obligations under capital leases	177	193
Other liabilities and deferred credits:		
Pension liability	1,772	1,770
Payables to related parties (Note 11)	1,290	
Lease fair value adjustment, net	1,062	1,133
Deferred income taxes	821	820
Postretirement benefit liability	296	292
Frequent flyer deferred revenue (Note 11)		1,235
Advanced purchase of miles (Note 11)		270
Other	490	507
	5,731	6,027
Commitments and contingencies		
Stockholder s equity:		
Common stock at par, \$0.01 par value; authorized and outstanding 1,000 shares at both March 31, 2012 and December 31, 2011		
Additional capital invested	4,160	4,148
Retained earnings	466	474
Accumulated other comprehensive loss	(235)	(297)
	4,391	4,325
	\$ 19,656	\$ 20,164

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

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

	Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$ (8)	\$ (57)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Increase (decrease) in advance ticket sales	(440)	589
Decrease in other liabilities	(207)	(127)
(Increase) decrease in receivables	378	(220)
Depreciation and amortization	149	161
Increase in other current assets	(171)	(108)
Decrease in accounts payable	(51)	(52)
Increase (decrease) in frequent flyer deferred revenue and advanced purchase of miles	(39)	79
Debt and lease discount amortization	(79)	(65)
Special charges, non-cash portion	11	(2)
Increase in receivables from related parties	(1)	(63)
Increase in payables to related parties	386	79
Other, net	27	4
Net cash provided by (used in) operating activities	(45)	218
Cash Flows from Investing Activities:		
Capital expenditures	(153)	(80)
Increases in short-term investments, net	(88)	(109)
Aircraft purchase deposits paid, net	(32)	(35)
Proceeds from sale of property and equipment	33	38
Decrease in restricted cash, net		2
Net cash used in investing activities	(240)	(184)
Cash Flows from Financing Activities:		
Payments of long-term debt	(331)	(131)
Proceeds from issuance of long-term debt	86	32
Other, net	10	20
Net cash used in financing activities	(235)	(79)
Net decrease in cash and cash equivalents	(520)	(45)
Cash and cash equivalents at beginning of the period	2,782	3,398
Cash and cash equivalents at end of the period	\$ 2,262	\$ 3,353
Investing and Financing Activities Not Affecting Cash:		
Transfer of frequent flyer liability and advanced purchase of miles to United	\$ 2,387	\$
Property and equipment acquired through the issuance of debt	136	64

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

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UNITED CONTINENTAL HOLDINGS, INC.,

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

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

Interim Financial Statements. The UAL, United and Continental unaudited condensed consolidated financial statements shown here have been prepared as required by the U.S. Securities and Exchange Commission (the SEC). Some information and footnote disclosures normally included in financial statements that comply with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted as permitted by the SEC. The financial statements include all adjustments, including normal recurring adjustments and other adjustments, which are considered necessary for a fair presentation of the Company's financial position and results of operations. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications were made to conform the financial statement presentation of UAL, United and Continental. The UAL, United and Continental financial statements should be read together with the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Annual Report). UAL'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 FREQUENT FLYER AND PASSENGER REVENUE ACCOUNTING

Frequent Flyer Awards. Effective January 1, 2012, the Company updated its estimated selling price for miles to the contractual rate at which we sell miles to our Star Alliance partners participating in reciprocal frequent flyer programs. This change in estimate has been applied prospectively effective January 1, 2012.

United and Continental account for miles sold and awarded that will never be redeemed by program members, which the Company refers to as breakage, using the redemption method. UAL reviews its breakage estimates annually based upon the latest available information regarding redemption and expiration patterns. The Company re-evaluated its population breakage estimates for OnePass miles, which were previously not subject to an expiration policy, and increased the estimate of miles in the population expected to ultimately expire.

The Company's estimate of the expected expiration of miles requires significant management judgment. Current and future changes to expiration assumptions, the expiration policy, program rules or program redemption opportunities may result in material changes to the deferred revenue balance as well as recognized revenues from the programs.

For the three months ended March 31, 2012, the combined net impact of these changes to UAL, United and Continental were not material.

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04 (ASU 2011-04), *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. Some of the key amendments to the fair value measurement guidance include the highest and best use and valuation premise for nonfinancial assets, application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, premiums or discounts in fair value measurement and fair value of an instrument

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classified in a reporting entity's shareholders' equity. Additional disclosures for fair value measurements categorized in Level 3 of the fair value hierarchy include a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation processes in place, a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs and the level in the fair value hierarchy of items that are not measured at fair value in the consolidated balance sheet but whose fair value must be disclosed. ASU 2011-04 became effective for the Company's annual and interim periods beginning January 1, 2012, and the required disclosures are disclosed in Note 6 of this report.

NOTE 3 LOSS PER SHARE

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

	Three Months Ended March 31,	
	2012	2011
UAL basic and diluted loss per share:		
Loss available to common stockholders	\$ (448)	\$ (213)
Weighted average shares outstanding, basic and diluted	330	328
Loss per share, basic and diluted	\$ (1.36)	\$ (0.65)
UAL potentially dilutive shares excluded from diluted per share amounts:		
Restricted stock and units and stock options	7	9
Continental 6% convertible junior subordinated debentures	4	4
UAL 6% senior convertible notes	40	40
UAL 4.5% senior limited-subordination convertible notes	5	22
Continental 4.5% convertible notes	12	12

UAL's 6% Senior Notes due 2031 (the 6% Senior Notes), with a principal amount of \$652 million as of March 31, 2012, can be redeemed, and the \$125 million of UAL's 8% Contingent Senior Notes (the 8% Notes), which UAL issued in January 2012, are redeemable with either cash or shares of UAL common stock, or in the case of mandatory redemption, a combination thereof, at UAL's option. These notes are not included in the diluted earnings per share calculation because it is UAL's intent to redeem these notes with cash if UAL were to decide to redeem these notes.

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 all or a portion of the 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 recent history of losses. Although the Company was no longer in a three-year cumulative loss position at the end of 2011, management determined that the size and frequency of financial losses in recent years and the uncertainty associated with projecting future taxable income supported the conclusion that the valuation allowance was still needed on net deferred assets. If UAL achieves significant profitability in 2012, then management will evaluate whether its recent history of profitability constitutes sufficient positive evidence to support a reversal of a portion, or all, of the remaining valuation allowance.

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

	Pension Benefits Three Months Ended March 31,		Other Postretirement Benefits Three Months Ended March 31,	
	2012	2011	2012	2011
UAL				
Service cost	\$ 25	\$ 21	\$ 13	\$ 12
Interest cost	46	44	31	31
Expected return on plan assets	(35)	(34)	(1)	(1)
Amortization of unrecognized (gain) loss and prior service cost	5	(5)	(1)	
Net periodic benefit costs	\$ 41	\$ 26	\$ 42	\$ 42
United				
Service cost	\$ 2	\$ 1	\$ 9	\$ 9
Interest cost	2	2	27	28
Expected return on plan assets	(3)	(2)	(1)	(1)
Amortization of unrecognized gain and prior service cost			(1)	
Net periodic benefit costs	\$ 1	\$ 1	\$ 34	\$ 36
Continental				
Service cost	\$ 23	\$ 20	\$ 4	\$ 3
Interest cost	44	42	4	3
Expected return on plan assets	(32)	(32)		
Amortization of unrecognized (gain) loss and prior service cost	5	(5)		
Net periodic benefit costs	\$ 40	\$ 25	\$ 8	\$ 6

During the three months ended March 31, 2012, Continental contributed \$33 million to its tax-qualified defined benefit pension plans. Continental contributed an additional \$42 million to its tax-qualified defined benefit pension plans in April 2012.

Share-Based Compensation. In February 2012, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 0.5 million shares of restricted stock and 0.6 million restricted stock units (RSUs) that vest pro-rata over three years on the anniversary of the grant date. In addition, UAL granted 1.3 million performance-based RSUs which will vest based on UAL's return on invested capital for the three years ending December 31, 2014. 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 March 31,	
	2012	2011
Share-based compensation expense (a)	\$ 15	\$ 13

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	March 31, 2012	December 31, 2011
Unrecognized share-based compensation expense	\$ 49	\$ 43

- (a) Includes \$4 million and \$3 million of expense recognized in integration-related costs for three months ended March 31, 2012 and 2011, respectively.

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Profit Sharing Plans. In 2012, substantially all employees participate in profit sharing, which pays 15% 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 receive a profit sharing payout using a formula based on the ratio of each qualified co-worker's annual eligible earnings to the eligible earnings of all qualified co-workers in all domestic workgroups. The international profit sharing plan pays eligible non-U.S. co-workers the same percentage of eligible pay that is calculated under the U.S. profit sharing plan. UAL recorded no profit sharing and related payroll tax expense in the three months ended March 31, 2012 and 2011, respectively. Profit sharing expense is recorded as a component of salaries and related costs in the consolidated statements of operations.

NOTE 6 FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The table below presents disclosures about the financial assets and financial liabilities measured at fair value on a recurring basis in the Company's financial statements as of March 31, 2012 and December 31, 2011 (in millions):

	March 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
UAL								
Cash and cash equivalents	\$ 5,606	\$ 5,606	\$	\$	\$ 6,246	\$ 6,246	\$	\$
Short-term investments:								
Asset-backed securities	578		578		478		478	
Corporate debt	508		508		515		515	
Certificates of deposit placed through an account registry service (CDARS)	416		416		355		355	
Auction rate securities	112			112	113			113
U.S. government and agency notes	24		24		22		22	
Other fixed income securities	29		29		33		33	
Enhanced equipment trust certificates (EETC)	62			62	60			60
Fuel derivatives, net	206		206		73		73	
Foreign currency derivatives					(1)		(1)	
Restricted cash	571	571			569	569		
United								
Cash and cash equivalents	\$ 3,338	\$ 3,338	\$	\$	\$ 3,458	\$ 3,458	\$	\$
Short-term investments:								
Asset-backed securities	26		26		29		29	
Corporate debt	128		128		138		138	
CDARS	151		151		87		87	
U.S. government and agency notes	7		7		5		5	
Other fixed income securities	26		26		16		16	
EETC	62			62	60			60
Fuel derivatives, net	120		120		44		44	
Restricted cash	435	435			433	433		

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	Continental							
Cash and cash equivalents	\$ 2,262	\$ 2,262	\$	\$	\$ 2,782	\$ 2,782	\$	\$
Short-term investments:								
Asset-backed securities	552		552		449		449	
Corporate debt	380		380		377		377	
CDARS	265		265		268		268	
Auction rate securities	112			112	113			113
U.S. government and agency notes	17		17		17		17	
Other fixed income securities	3		3		17		17	
Fuel derivatives, net	86		86		29		29	
Foreign currency derivatives					(1)		(1)	
Restricted cash	135	135			135	135		
Convertible debt derivative asset	231			231	193			193
Convertible debt option liability	(119)			(119)	(95)			(95)

The tables below present disclosures about the activity for Level 3 financial assets and financial liabilities for the three months ended March 31 (in millions):

	Three Months Ended March 31,			
	2012		2011	
	Auction Rate Securities	EETC	Auction Rate Securities	EETC
UAL (a)				
Balance at January 1	\$ 113	\$ 60	\$ 119	\$ 66
Settlements		(2)		(2)
Reported in earnings unrealized	(1)			
Reported in other comprehensive income		4	1	(1)
Balance at March 31	\$ 112	\$ 62	\$ 120	\$ 63

(a) For 2012 and 2011, United's only Level 3 recurring measurements are the above EETCs.

Continental	Three Months Ended March 31,					
	2012			2011		
	Auction Rate Securities	Convertible Debt Supplemental Derivative Asset (a)	Convertible Debt Conversion Option Liability (a)	Auction Rate Securities	Convertible Debt Supplemental Derivative Asset (a)	Convertible Debt Conversion Option Liability (a)
Balance at January 1	\$ 113	\$ 193	\$ (95)	\$ 119	\$ 286	