

United Continental Holdings, Inc.

Form 10-Q

April 24, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2014

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

Office Address and

State of

I.R.S. Employer

File Number

Telephone Number

Incorporation

Identification No

001-06033

United Continental Holdings, Inc.

Delaware

36-2675207

233 South Wacker Drive,

Chicago, Illinois 60606

(872) 825-4000

001-10323

United Airlines, Inc.

Delaware

74-2099724

233 South Wacker Drive,

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Chicago, Illinois 60606

(872) 825-4000

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

United Continental Holdings, Inc.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
United 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 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 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	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
United 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 14, 2014 is shown below:

United Continental Holdings, Inc.	373,504,409 shares of common stock (\$0.01 par value)
United Airlines, Inc.	1,000 (100% owned by United Continental Holdings, Inc.)

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

OMISSION OF CERTAIN INFORMATION

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

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United Continental Holdings, Inc.

United Airlines, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2014

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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,	
	2014	2013
Operating revenue:		
Passenger Mainline	\$ 5,848	\$ 5,938
Passenger Regional	1,536	1,621
Total passenger revenue	7,384	7,559
Cargo	209	227
Other operating revenue	1,103	935
	8,696	8,721
Operating expense:		
Aircraft fuel	2,917	3,050
Salaries and related costs	2,153	2,127
Regional capacity purchase	559	588
Landing fees and other rent	572	497
Aircraft maintenance materials and outside repairs	458	438
Depreciation and amortization	409	408
Distribution expenses	318	328
Aircraft rent	224	240
Special charges (Note 10)	52	92
Other operating expenses	1,383	1,217
	9,045	8,985
Operating loss	(349)	(264)
Nonoperating income (expense):		
Interest expense	(187)	(201)
Interest capitalized	14	11
Interest income	5	5
Miscellaneous, net	(89)	23
	(257)	(162)
Loss before income taxes	(606)	(426)
Income tax expense (benefit)	3	(9)
Net loss	\$ (609)	\$ (417)
Loss per share, basic	\$ (1.66)	\$ (1.26)

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Loss per share, diluted	\$ (1.66)	\$ (1.26)
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The accompanying Combined Notes to Consolidated Financial Statements are an integral part of these statements.

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UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

	Three Months Ended March 31,	
	2014	2013
Net loss	\$ (609)	\$ (417)
Other comprehensive income (loss), net change related to:		
Fuel derivative financial instruments	(7)	
Employee benefit plans	(21)	21
Investments and other		(2)
	(28)	19
Total comprehensive loss, net	\$ (637)	\$ (398)

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, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,009	\$ 3,220
Short-term investments	2,015	1,901
Total unrestricted cash, cash equivalents and short-term investments	5,024	5,121
Restricted cash	49	31
Receivables, less allowance for doubtful accounts (2014 \$17; 2013 \$13)	1,609	1,503
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2014 \$170; 2013 \$162)	641	667
Deferred income taxes	620	676
Prepaid expenses and other	845	704
	8,788	8,702
Operating property and equipment:		
Owned		
Flight equipment	19,376	18,786
Other property and equipment	3,759	3,687
	23,135	22,473
Less Accumulated depreciation and amortization	(6,364)	(6,080)
	16,771	16,393
Purchase deposits for flight equipment	688	706
Capital leases		
Flight equipment	1,496	1,490
Other property and equipment	315	307
	1,811	1,797
Less Accumulated amortization	(886)	(849)
	925	948
	18,384	18,047
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2014 \$954; 2013 \$933)	4,402	4,436
Restricted cash	340	364
Other, net	748	740
	10,013	10,063

\$	37,185	\$	36,812
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Table of Contents**UNITED CONTINENTAL HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS**

(In millions, except shares)

	(Unaudited) March 31, 2014	December 31, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Advance ticket sales	\$ 4,804	\$ 3,405
Frequent flyer deferred revenue	2,318	2,369
Accounts payable	2,332	2,087
Accrued salaries and benefits	1,363	1,696
Current maturities of long-term debt	1,178	1,368
Current maturities of capital leases	112	117
Other	984	1,065
	13,091	12,107
Long-term debt	10,098	10,171
Long-term obligations under capital leases	736	753
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	2,593	2,535
Postretirement benefit liability	1,701	1,703
Pension liability	1,626	1,650
Advanced purchase of miles	1,282	1,338
Deferred income taxes	1,608	1,662
Lease fair value adjustment, net	590	626
Other	1,281	1,283
	10,681	10,797
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 373,502,963 and 362,283,555 shares at March 31, 2014 and December 31, 2013, respectively	4	4
Additional capital invested	7,666	7,425
Accumulated deficit	(5,624)	(5,015)
Stock held in treasury, at cost	(47)	(38)
Accumulated other comprehensive loss	580	608
	2,579	2,984
	\$ 37,185	\$ 36,812

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,	
	2014	2013
Cash Flows from Operating Activities:		
Net cash provided by operating activities	\$ 694	\$ 393
Cash Flows from Investing Activities:		
Capital expenditures	(364)	(375)
Increase in short-term and other investments, net	(111)	(77)
Proceeds from sale of property and equipment	35	9
Decrease in restricted cash, net	6	12
Other, net	7	
Net cash used in investing activities	(427)	(431)
Cash Flows from Financing Activities:		
Payments of long-term debt	(613)	(1,241)
Proceeds from issuance of long-term debt	147	109
Principal payments under capital leases	(24)	(29)
Other, net	12	(33)
Net cash used in financing activities	(478)	(1,194)
Net decrease in cash and cash equivalents	(211)	(1,232)
Cash and cash equivalents at beginning of the period	3,220	4,770
Cash and cash equivalents at end of the period	\$ 3,009	\$ 3,538
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 375	\$ 146
Exchanges of certain convertible notes for common stock	202	
Airport construction financing	2	5

The accompanying Combined Notes to 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 March 31,	
	2014	2013
Operating revenue:		
Passenger Mainline	\$ 5,848	\$ 5,938
Passenger Regional	1,536	1,621
Total passenger revenue	7,384	7,559
Cargo	209	227
Other operating revenue	1,103	937
	8,696	8,723
Operating expense:		
Aircraft fuel	2,917	3,050
Salaries and related costs	2,153	2,127
Regional capacity purchase	559	588
Landing fees and other rent	572	497
Aircraft maintenance materials and outside repairs	458	438
Depreciation and amortization	409	408
Distribution expenses	318	328
Aircraft rent	224	240
Special charges (Note 10)	52	92
Other operating expenses	1,375	1,217
	9,037	8,985
Operating loss	(341)	(262)
Nonoperating income (expense):		
Interest expense	(189)	(203)
Interest capitalized	14	11
Interest income	5	5
Miscellaneous, net	(66)	85
	(236)	(102)
Loss before income taxes	(577)	(364)
Income tax expense (benefit)	3	(2)
Net loss	\$ (580)	\$ (362)

The accompanying Combined Notes to 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 March 31,	
	2014	2013
Net loss	\$ (580)	\$ (362)
Other comprehensive income (loss), net change related to:		
Fuel derivative financial instruments	(7)	
Employee benefit plans	(21)	21
Investments and other	1	(1)
Other		6
	(27)	26
Total comprehensive loss, net	\$ (607)	\$ (336)

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

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UNITED AIRLINES, INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

	(Unaudited) March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,003	\$ 3,214
Short-term investments	2,015	1,901
Total unrestricted cash, cash equivalents and short-term investments	5,018	5,115
Restricted cash	49	31
Receivables, less allowance for doubtful accounts (2014 \$17; 2013 \$13)	1,609	1,503
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2014 \$170; 2013 \$162)	641	667
Deferred income taxes	614	674
Prepaid expenses and other	893	705
	8,824	8,695
Operating property and equipment:		
Owned		
Flight equipment	19,376	18,786
Other property and equipment	3,759	3,687
	23,135	22,473
Less Accumulated depreciation and amortization	(6,364)	(6,080)
	16,771	16,393
Purchase deposits for flight equipment	688	706
Capital leases		
Flight equipment	1,496	1,490
Other property and equipment	315	307
	1,811	1,797
Less Accumulated amortization	(886)	(849)
	925	948
	18,384	18,047
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2014 \$954; 2013 \$933)	4,402	4,436
Restricted cash	340	364
Other, net	1,333	1,221

10,598

10,544

\$ 37,806

\$ 37,286

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UNITED AIRLINES, INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except shares)

	(Unaudited) March 31, 2014	December 31, 2013
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Advance ticket sales	\$ 4,804	\$ 3,405
Frequent flyer deferred revenue	2,318	2,369
Accounts payable	2,336	2,092
Accrued salaries and benefits	1,363	1,696
Current maturities of long-term debt	1,178	1,368
Current maturities of capital leases	112	117
Payables to related parties	102	114
Other	975	1,064
	13,188	12,225