

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

United Continental Holdings, Inc.
Form 10-Q
April 18, 2017
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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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

| | | | | | |
|-----------------------------------|-------------------------|-------------------|-----------------------|---------------------------|-------------------------|
| United Continental Holdings, Inc. | Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller reporting company | Emerging growth company |
| United Airlines, Inc. | Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller reporting company | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 April 12, 2017 is shown below:

| | |
|-----------------------------------|---|
| United Continental Holdings, Inc. | 309,656,006 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

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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 March 31, 2017

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

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2017 | 2016 |
| Operating revenue: | | |
| Passenger Mainline | \$ 5,831 | \$ 5,577 |
| Passenger Regional | 1,343 | 1,413 |
| Total passenger revenue | 7,174 | 6,990 |
| Cargo | 220 | 194 |
| Other operating revenue | 1,026 | 1,011 |
| Total operating revenue | 8,420 | 8,195 |
| Operating expense: | | |
| Salaries and related costs | 2,661 | 2,490 |
| Aircraft fuel | 1,560 | 1,218 |
| Landing fees and other rent | 544 | 525 |
| Regional capacity purchase | 536 | 522 |
| Depreciation and amortization | 518 | 479 |
| Aircraft maintenance materials and outside repairs | 454 | 402 |
| Distribution expenses | 307 | 303 |
| Aircraft rent | 179 | 178 |
| Special charges (Note 10) | 51 | 190 |
| Other operating expenses | 1,332 | 1,239 |
| Total operating expenses | 8,142 | 7,546 |
| Operating income | 278 | 649 |
| Nonoperating income (expense): | | |
| Interest expense | (150) | (159) |
| Interest capitalized | 23 | 14 |
| Interest income | 11 | 8 |
| Miscellaneous, net (Note 10) | (17) | (18) |
| Total nonoperating expense, net | (133) | (155) |
| Income before income taxes | 145 | 494 |
| Income tax expense | 49 | 181 |
| Net income | \$ 96 | \$ 313 |
| Earnings per share, basic | \$ 0.31 | \$ 0.88 |

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| | | |
|-----------------------------|---------|---------|
| Earnings per share, diluted | \$ 0.31 | \$ 0.88 |
|-----------------------------|---------|---------|

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

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UNITED CONTINENTAL HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2017 | 2016 |
| Net income | \$ 96 | \$ 313 |
| Other comprehensive income (loss), net change related to: | | |
| Fuel derivative financial instruments, net of taxes | 1 | 78 |
| Employee benefit plans, net of taxes | (8) | (24) |
| Total other comprehensive income (loss), net | (7) | 54 |
| Total comprehensive income, net | \$ 89 | \$ 367 |

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) March 31, 2017 | December 31, 2016 |
|---|-------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,164 | \$ 2,179 |
| Short-term investments | 2,215 | 2,249 |
| Receivables, less allowance for doubtful accounts (2017 \$10; 2016 \$10) | 1,429 | 1,176 |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2017 \$314; 2016 \$295) | 900 | 873 |
| Prepaid expenses and other | 1,016 | 832 |
| Total current assets | 7,724 | 7,309 |
| Operating property and equipment: | | |
| Owned | | |
| Flight equipment | 27,187 | 25,873 |
| Other property and equipment | 5,887 | 5,652 |
| Total owned property and equipment | 33,074 | 31,525 |
| Less Accumulated depreciation and amortization | (10,403) | (9,975) |
| Total owned property and equipment, net | 22,671 | 21,550 |
| Purchase deposits for flight equipment | 922 | 1,059 |
| Capital leases | | |
| Flight equipment | 1,247 | 1,319 |
| Other property and equipment | 342 | 331 |
| Total capital leases | 1,589 | 1,650 |
| Less Accumulated amortization | (941) | (941) |
| Total capital leases, net | 648 | 709 |
| Total operating property and equipment, net | 24,241 | 23,318 |
| Other assets: | | |
| Goodwill | 4,523 | 4,523 |
| Intangibles, less accumulated amortization (2017 \$1,254; 2016 \$1,234) | 3,612 | 3,632 |
| Deferred income taxes | 598 | 655 |
| Restricted cash | 129 | 124 |
| Other, net | 618 | 579 |
| Total other assets | 9,480 | 9,513 |
| Total assets | \$ 41,445 | \$ 40,140 |

(continued on next page)

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

(In millions, except shares)

| | (Unaudited) March 31, 2017 | December 31, 2016 |
|--|-------------------------------|-------------------|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Advance ticket sales | \$ 5,001 | \$ 3,730 |
| Accounts payable | 2,135 | 2,139 |
| Frequent flyer deferred revenue | 2,120 | 2,135 |
| Accrued salaries and benefits | 1,569 | 2,307 |
| Current maturities of long-term debt | 716 | 849 |
| Current maturities of capital leases | 113 | 116 |
| Other | 1,008 | 1,010 |
| Total current liabilities | 12,662 | 12,286 |
| Long-term debt | 11,178 | 9,918 |
| Long-term obligations under capital leases | 836 | 822 |
| Other liabilities and deferred credits: | | |
| Frequent flyer deferred revenue | 2,806 | 2,748 |
| Postretirement benefit liability | 1,608 | 1,581 |
| Pension liability | 1,851 | 1,892 |
| Advanced purchase of miles | 326 | 430 |
| Lease fair value adjustment, net | 256 | 277 |
| Other | 1,473 | 1,527 |
| Total other liabilities and deferred credits | 8,320 | 8,455 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock | | |
| Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 311,130,231 and 314,612,744 shares at March 31, 2017 and December 31, 2016, respectively | 3 | 3 |
| Additional capital invested | 6,562 | 6,569 |
| Retained earnings | 3,536 | 3,427 |
| Stock held in treasury, at cost | (816) | (511) |
| Accumulated other comprehensive loss | (836) | (829) |
| Total stockholders' equity | 8,449 | 8,659 |
| Total liabilities and stockholders' equity | \$ 41,445 | \$ 40,140 |

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)**

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities: | | |
| Net cash provided by operating activities | \$ 547 | \$ 1,199 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (691) | (816) |
| Purchases of short-term and other investments | (774) | (638) |
| Proceeds from sale of short-term and other investments | 810 | 653 |
| Proceeds from sale of property and equipment | 4 | 17 |
| Investment in and loans to affiliates | | (40) |
| Other | 8 | 1 |
| Net cash used in investing activities | (643) | (823) |
| Cash Flows from Financing Activities: | | |
| Repurchases of common stock | (258) | (1,392) |
| Payments of long-term debt | (315) | (227) |
| Proceeds from issuance of long-term debt | 755 | 42 |
| Principal payments under capital leases | (31) | (34) |
| Other, net | (65) | (2) |
| Net cash provided (used) in financing activities | 86 | (1,613) |
| Net decrease in cash, cash equivalents and restricted cash | (10) | (1,237) |
| Cash, cash equivalents and restricted cash at beginning of the period | 2,303 | 3,212 |
| Cash, cash equivalents and restricted cash at end of the period (a) | \$ 2,293 | \$ 1,975 |

Investing and Financing Activities Not Affecting Cash:

| | | |
|--|--------|-------|
| Property and equipment acquired through the issuance of debt | \$ 711 | \$ 59 |
| Airport construction financing | 21 | 9 |
| Operating lease conversions to capital lease | | 7 |

(a) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the consolidated balance sheet:

Reconciliation of cash, cash equivalents and restricted cash:

| | | |
|--|----------|----------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,164 | \$ 1,795 |
| Restricted cash included in Prepaid expenses and other | | 18 |
| Other assets: | | |
| Restricted cash | 129 | 162 |

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| | | | | |
|--|----|-------|----|-------|
| Total cash, cash equivalents and restricted cash | \$ | 2,293 | \$ | 1,975 |
|--|----|-------|----|-------|

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 March 31, | |
|--|-------------------------------------|-------------|
| | 2017 | 2016 |
| Operating revenue: | | |
| Passenger Mainline | \$ 5,831 | \$ 5,577 |
| Passenger Regional | 1,343 | 1,413 |
| Total passenger revenue | 7,174 | 6,990 |
| Cargo | 220 | 194 |
| Other operating revenue | 1,026 | 1,011 |
| Total operating revenue | 8,420 | 8,195 |
| Operating expense: | | |
| Salaries and related costs | 2,661 | 2,490 |
| Aircraft fuel | 1,560 | 1,218 |
| Landing fees and other rent | 544 | 525 |
| Regional capacity purchase | 536 | 522 |
| Depreciation and amortization | 518 | 479 |
| Aircraft maintenance materials and outside repairs | 454 | 402 |
| Distribution expenses | 307 | 303 |
| Aircraft rent | 179 | 178 |
| Special charges (Note 10) | 51 | 190 |
| Other operating expenses | 1,332 | 1,238 |
| Total operating expense | 8,142 | 7,545 |
| Operating income | 278 | 650 |
| Nonoperating income (expense): | | |
| Interest expense | (150) | (159) |
| Interest capitalized | 23 | 14 |
| Interest income | 11 | 8 |
| Miscellaneous, net (Note 10) | (16) | (18) |
| Total nonoperating expense, net | (132) | (155) |
| Income before income taxes | 146 | 495 |
| Income tax expense | 49 | 181 |
| Net income | \$ 97 | \$ 314 |

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

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

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2017 | 2016 |
| Net income | \$ 97 | \$ 314 |
| Other comprehensive income (loss), net change related to: | | |
| Fuel derivative financial instruments, net of taxes | 1 | 78 |
| Employee benefit plans, net of taxes | (8) | (24) |
| Total other comprehensive income (loss), net | (7) | 54 |
| Total comprehensive income, net | \$ 90 | \$ 368 |

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) March 31, 2017 | December 31, 2016 |
|--|---|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,158 | \$ 2,173 |
| Short-term investments | 2,215 | 2,249 |
| Receivables, less allowance for doubtful accounts (2017 \$10; 2016 \$10) | 1,429 | 1,176 |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2017 \$314; 2016 \$295) | 900 | 873 |
| Prepaid expenses and other | 1,017 | 832 |
| Total current assets | 7,719 | 7,303 |
| Operating property and equipment: | | |
| Owned | | |
| Flight equipment | 27,187 | 25,873 |
| Other property and equipment | 5,887 | 5,652 |
| Total owned property and equipment | 33,074 | 31,525 |
| Less Accumulated depreciation and amortization | (10,403) | (9,975) |
| Total owned property and equipment, net | 22,671 | 21,550 |
| Purchase deposits for flight equipment | 922 | 1,059 |
| Capital leases | | |
| Flight equipment | 1,247 | 1,319 |
| Other property and equipment | 342 | 331 |
| Total capital leases | 1,589 | 1,650 |
| Less Accumulated amortization | (941) | (941) |
| Total capital leases, net | 648 | 709 |
| Total operating property and equipment, net | 24,241 | 23,318 |
| Other assets: | | |
| Goodwill | 4,523 | 4,523 |
| Intangibles, less accumulated amortization (2017 \$1,254; 2016 \$1,234) | 3,612 | 3,632 |
| Deferred income taxes | 555 | 612 |
| Restricted cash | 129 | 124 |
| Other, net | 616 | 579 |

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| | | | | |
|--------------------|--|-----------|----|--------|
| Total other assets | | 9,435 | | 9,470 |
| Total assets | | \$ 41,395 | \$ | 40,091 |

(continued on next page)

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

| | (Unaudited) March 31, 2017 | December 31, 2016 |
|--|---|--------------------------|
| LIABILITIES AND STOCKHOLDER S EQUITY | | |
| Current liabilities: | | |
| Advance ticket sales | \$ 5,001 | \$ 3,730 |
| Accounts payable | 2,141 | 2,144 |
| Frequent flyer deferred revenue | 2,120 | 2,135 |
| Accrued salaries and benefits | 1,569 | 2,307 |
| Current maturities of long-term debt | 716 | 849 |
| Current maturities of capital leases | 113 | 116 |
| Other | 1,007 | 1,009 |
| Total current liabilities | 12,667 | 12,290 |
| Long-term debt | | |
| Long-term debt | 11,178 | 9,918 |
| Long-term obligations under capital leases | 836 | 822 |
| Other liabilities and deferred credits: | | |
| Frequent flyer deferred revenue | 2,806 | 2,748 |
| Postretirement benefit liability | 1,608 | 1,581 |
| Pension liability | 1,851 | 1,892 |
| Advanced purchase of miles | 326 | 430 |
| Lease fair value adjustment, net | 256 | 277 |
| Other | 1,473 | 1,527 |
| Total other liabilities and deferred credits | 8,320 | 8,455 |
| 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 March 31, 2017 and December 31, 2016 | | |
| Additional capital invested | 3,271 | 3,573 |
| Retained earnings | 6,048 | 5,937 |
| Accumulated other comprehensive loss | (836) | (829) |
| Receivable from related parties | (89) | (75) |
| Total stockholder s equity | 8,394 | 8,606 |
| Total liabilities and stockholder s equity | \$ 41,395 | \$ 40,091 |

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)**

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities: | | |
| Net cash provided by operating activities | \$ 535 | \$ 1,195 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (691) | (816) |
| Purchases of short-term investments and other investments | (774) | (638) |
| Proceeds from sale of short-term and other investments | 810 | 653 |
| Proceeds from sale of property and equipment | 4 | 17 |
| Investment in and loans to affiliates | | (40) |
| Other | 8 | 1 |
| Net cash used in investing activities | (643) | (823) |
| Cash Flows from Financing Activities: | | |
| Dividend to UAL | (258) | (1,392) |
| Payments of long-term debt | (315) | (227) |
| Proceeds from issuance of long-term debt | 755 | 42 |
| Principal payments under capital leases | (31) | (34) |
| Other, net | (53) | 2 |
| Net cash provided (used) in financing activities | 98 | (1,609) |
| Net decrease in cash, cash equivalents and restricted cash | (10) | (1,237) |
| Cash, cash equivalents and restricted cash at beginning of the period | 2,297 | 3,206 |
| Cash, cash equivalents and restricted cash at end of the period (a) | \$ 2,287 | \$ 1,969 |

Investing and Financing Activities Not Affecting Cash:

| | | |
|--|--------|-------|
| Property and equipment acquired through the issuance of debt | \$ 711 | \$ 59 |
| Airport construction financing | 21 | 9 |
| Operating lease conversions to capital lease | | 7 |

(a) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the consolidated balance sheet:

Reconciliation of cash, cash equivalents and restricted cash:

| | | |
|--|----------|----------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,158 | \$ 1,789 |
| Restricted cash included in Prepaid expenses and other | | 18 |
| Other assets: | | |
| Restricted cash | 129 | 162 |

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| | | | | |
|--|----|-------|----|-------|
| Total cash, cash equivalents and restricted cash | \$ | 2,287 | \$ | 1,969 |
|--|----|-------|----|-------|

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, 2016. 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. The Company will use the full-retrospective approach in adopting this standard on January 1, 2018. 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 airline change fees which were previously recognized when received will likely be recognized when transportation is provided. The Company is evaluating other possible impacts from the new standard 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 January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Overall* (Subtopic 825-10) (ASU 2016-01). This standard makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. It is effective for interim and annual periods beginning after December 15, 2017. Based on its portfolio of investments as of March 31, 2017, the Company does not expect the adoption of ASU 2016-01 to have a material impact on its consolidated financial statements.

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. Previously, these differences were generally recorded in additional paid-in capital and thus had no impact on net income. The change in treatment of excess tax benefits and tax deficiencies also impacts the computation of diluted

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earnings per share, and the cash flows associated with those items are classified as operating activities on the condensed statements of consolidated cash flows. Additionally, ASU 2016-09 permits entities 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 allowed under previous standards, or recognized when they occur. The amendments in this update became effective in the first quarter of 2017. The Company adopted this standard on January 1, 2017 and the standard did not have a material impact on its consolidated financial statements.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). The update requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. ASU 2017-07 is effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

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 March 31, | |
|---|---|-------------|
| | 2017 | 2016 |
| Earnings available to common stockholders | \$ 96 | \$ 313 |
| Basic weighted-average shares outstanding | 313.7 | 354.3 |
| Effect of employee stock awards | 0.9 | 0.3 |
| Diluted weighted-average shares outstanding | 314.6 | 354.6 |
| Earnings per share, basic | \$ 0.31 | \$ 0.88 |
| Earnings per share, diluted | \$ 0.31 | \$ 0.88 |

The number of antidilutive securities excluded from the computation of diluted earnings per share amounts was not material.

In the three months ended March 31, 2017, UAL repurchased approximately 5 million shares of UAL common stock in open market transactions for \$0.3 billion. As of March 31, 2017, the Company had approximately \$1.5 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 | Deferred Taxes | | | | | | Total |
|----------------------------------|---|---------------------------------|-----------------------------|--|---------------------------------|--|----------|
| | Pension and Other Postretirement Liabilities | Fuel Derivative Contracts | Investments and Other | Pension and Other Postretirement Liabilities | Fuel Derivative Contracts | | |
| Balance at December 31, 2016 | \$ (854) | \$ (2) | \$ 2 | \$ 24 | \$ 1 | | \$ (829) |
| Changes in value | (26) | | | 10 | | | (16) |
| Amounts reclassified to earnings | 13 | 2 | | (5) | (1) | | 9 |
| Net change | (13) | 2 | | 5 | (1) | | (7) |
| Balance at March 31, 2017 | \$ (867) | \$ | \$ 2 | \$ 29 | \$ | | \$ (836) |
| Balance at December 31, 2015 | \$ (363) | \$ (215) | \$ 3 | \$ (154) | \$ (102) | | \$ (831) |
| Changes in value | (43) | (16) | | 16 | 6 | | (37) |
| Amounts reclassified to earnings | 5 | 138 | | (2) | (50) | | 91 |
| Net change | (38) | 122 | | 14 | (44) | | 54 |
| Balance at March 31, 2016 | \$ (401) | \$ (93) | \$ 3 | \$ (140) | \$ (146) | | \$ (777) |

| Details about AOCI Components | Amount Reclassified from AOCI to Income Three Months Ended | | Affected Line Item in the Statements of Consolidated Operations |
|---|--|-------------------|---|
| | March 31, 2017 | March 31, 2016 | |
| Fuel derivative contracts | | | |
| Reclassifications of losses into earnings | \$ 2 | \$ 138 | Aircraft fuel |
| Pension and other postretirement liabilities | | | |
| Amortization of unrecognized losses and prior service cost (credit) (a) | 13 | 5 | Salaries and related costs |

(a) 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).

NOTE 4 - INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2017 and 2016 was 33.8% and 36.6%, respectively, which represented a blend of federal, state and foreign taxes and included the impact of certain nondeductible items. The effective tax rate for the three months ended March 31, 2017 reflects the impact of discrete events including the recognition of excess tax benefits related to employee stock compensation as a result of the adoption of ASU 2016-09, as well as a change in the mix of domestic and foreign earnings.

Table of Contents**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 March 31, | | Three Months Ended March 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$ 49 | \$ 28 | \$ 2 | \$ 4 |
| Interest cost | 55 | 51 | 17 | 22 |
| Expected return on plan assets | (60) | (54) | | |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 31 | 18 | (18) | (13) |
| Settlement loss | 1 | 1 | | |
| Total | \$ 76 | \$ 44 | \$ 1 | \$ 13 |

During the three months ended March 31, 2017, the Company contributed \$80 million to its U.S. domestic tax-qualified defined benefit pension plans.

Share-Based Compensation. During the three months ended March 31, 2017, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2008 Incentive Compensation Plan. These share-based compensation awards include approximately 1.4 million restricted stock units (RSUs). A majority of the RSUs vest pro-rata, on February 28th of each year, over a three year period from the date of grant. These time-vested RSUs are generally stock-settled for domestic employees and cash-settled for international employees. The cash payments are 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 relative improvement in pre-tax margin for the three years ending December 31, 2019. 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 performance-based RSUs as liability awards.

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

| | Three Months Ended March 31, | |
|---------------------------------------|-------------------------------------|-----------------------------------|
| | 2017 | 2016 |
| Share-based compensation expense | \$ 23 | \$ 10 |
| Unrecognized share-based compensation | March 31, 2017 \$ 127 | December 31, 2016 \$ 65 |

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.

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

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):

| | March 31, 2017 | | | | December 31, 2016 | | | |
|--|----------------|----------|---------|---------|-------------------|----------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 2,164 | \$ 2,164 | \$ | \$ | \$ 2,179 | \$ 2,179 | \$ | \$ |
| Short-term investments: | | | | | | | | |
| Corporate debt | 804 | | 804 | | 835 | | 835 | |
| Asset-backed securities | 757 | | 757 | | 792 | | 792 | |
| Certificates of deposit placed through an account registry service (CDARS) | 224 | | 224 | | 246 | | 246 | |
| U.S. government and agency notes | 101 | | 101 | | 140 | | 140 | |
| Other fixed-income securities | 146 | | 146 | | 54 | | 54 | |
| Other investments measured at NAV | 183 | | | | 182 | | | |
| Restricted cash | 129 | 129 | | | 124 | 124 | | |
| Enhanced equipment trust certificates (EETC) | 22 | | | 22 | 23 | | | 23 |

Available-for-sale investment maturities - The short-term investments shown in the table above are classified as available-for-sale. As of March 31, 2017, asset-backed securities have remaining maturities of less than one year to approximately 19 years, corporate debt securities have remaining maturities of less than one year to approximately five 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.

Restricted Cash - Restricted cash primarily includes cash collateral associated with workers' compensation obligations and collateral for letters of credit.

Investments presented in the table 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 | | | | | | | |
|----------------|-----------------|--|----------|----------|-----------|-------------------|----------|----------|---------|
| | | March 31, 2017 | | | | December 31, 2016 | | | |
| | | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Long-term debt | \$ 11,894 | \$ 12,321 | \$ 9,040 | \$ 3,281 | \$ 10,767 | \$ 11,055 | \$ 8,184 | \$ 2,871 | |

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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</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, or (c) broker quotes obtained by third-party valuation services. |
| <i>Restricted cash</i> | |
| <i>Debt</i> | Fair values were based on either market prices or the discounted amount of future cash flows using our current incremental rate of borrowing for similar liabilities. |
| <i>Other investments measured at NAV</i> | 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. |

NOTE 7 - HEDGING ACTIVITIES

Fuel Derivatives

As of March 31, 2017, the Company did not have any fuel hedging contracts outstanding to hedge its fuel consumption. The last of the Company's fuel hedge derivatives designated for cash flow hedge accounting expired in December 2016. The Company's current strategy is to not enter into transactions to hedge its fuel consumption, although the Company regularly reviews its strategy based on market conditions and other factors.

The following table presents 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 March 31, | | Loss Reclassified from AOCI into Fuel Expense (a) Three Months Ended March 31, | |
|----------------|--|-------------|---|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Fuel contracts | \$ | \$ (16) | \$ (2) | \$ (138) |

(a) The 2017 loss reclassified from AOCI into fuel expense represents hedge losses on December 2016 settled trades, but for which the associated fuel purchased in December was not consumed until January 2017.

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

Commitments. As of March 31, 2017, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing), Airbus S.A.S. (Airbus), and Embraer S.A. (Embraer) presented in the table below:

| Aircraft Type | Number of Firm Commitments (a) |
|----------------------|--------------------------------|
| Airbus A350 | 35 |
| Boeing 737NG/737 MAX | 165 |
| Boeing 777-300ER | 6 |
| Boeing 787 | 19 |
| Embraer E175 | 24 |

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

The aircraft listed in the table above are scheduled for delivery through 2027. To the extent the Company and the aircraft manufacturers with whom the Company has existing orders for new aircraft agree to modify the contracts governing those orders, the amount and timing of the Company's future capital commitments could change. For the remainder of 2017, United expects to take delivery of four Boeing 737NG aircraft, one Boeing 787-9 aircraft, six Boeing 777-300ER aircraft, and 24 Embraer E175. Additionally, the Company also currently expects to take delivery of five used Airbus A319s in 2017. During the three months ended March 31, 2017, the Company also purchased 12 Boeing 737NG aircraft which were previously leased by United.

The table below summarizes United's commitments as of March 31, 2017, which primarily relate to the acquisition of aircraft and related spare engines, aircraft improvements and include other capital purchase commitments. 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 nine months of 2017 | \$ 2.9 |
| 2018 | 2.8 |
| 2019 | 3.5 |
| 2020 | 3.1 |
| 2021 | 2.2 |
| After 2021 | 8.7 |
| | \$ 23.2 |

As of March 31, 2017, United had \$555 million in financing available through EETC transactions for the financing of all of its aircraft deliveries scheduled for the 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.

Regional CPAs. In February 2017, United entered into a five-year capacity purchase agreement (CPA) with Air Wisconsin Airlines for regional service under the United Express brand commencing no later than February 2018. Air Wisconsin will operate no less than 50 and up to 65 CRJ 200s.

The table below summarizes the Company's future payments through the end of the terms of our CPAs, excluding variable pass-through costs such as fuel and landing fees, among others.

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| | (in billions) |
|--------------------------|---------------|
| Last nine months of 2017 | \$ 1.3 |
| 2018 | 1.9 |
| 2019 | 1.4 |
| 2020 | 1.1 |
| 2021 | 1.0 |
| After 2021 | 4.0 |
| | \$ 10.7 |

Guarantees. As of March 31, 2017, 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 straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with approximately \$421 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 reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate (LIBOR), for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject, in most cases, to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. At March 31, 2017, the Company had \$3.0 billion of floating rate debt and \$83 million of fixed rate debt, with remaining terms of up to 12 years, that are subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 12 years and an aggregate balance of \$3.0 billion, the Company bears the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

As of March 31, 2017, United is the guarantor of \$166 million of aircraft mortgage debt issued by one of United's regional carriers. The aircraft mortgage debt is subject to similar increased cost provisions as described above for the Company's debt and the Company would potentially be responsible for those costs under the guarantees.

Labor Negotiations. As of March 31, 2017, United had approximately 88,400 active employees, of whom approximately 80% were represented by various U.S. labor organizations.

NOTE 9 - DEBT

As of March 31, 2017, a substantial portion of the Company's assets, principally aircraft, route authorities, airport slots and loyalty program intangible assets, was pledged under various loan and other agreements. As of March 31, 2017, UAL and United were in compliance with their debt covenants.

2017 Credit and Guaranty Agreement. On March 29, 2017, United and UAL, as borrower and guarantor, respectively, entered into an Amended and Restated Credit and Guaranty Agreement (the 2017 Credit Agreement). The 2017 Credit Agreement consists of a \$1.5 billion term loan due April 1, 2024, which (i) was used to retire the entire principal balance of the term loans under the credit and guaranty agreement, dated March 27, 2013 (as amended, the 2013 Credit Agreement), and (ii) increased the term loan balance by approximately \$440 million, and a \$2.0 billion revolving credit facility available for drawing until April 1, 2022, which increased the available capacity under the revolving credit facility of the 2013 Credit Agreement. As of March 31, 2017, United had its entire capacity of \$2.0 billion available under the revolving credit facility. The obligations of United under the 2017 Credit Agreement are secured by liens on certain international route authorities, certain take-off and landing rights and related assets of United.

Borrowings under the 2017 Credit Agreement bear interest at a variable rate equal to LIBOR, subject to a 0% floor, plus a margin of 2.25% per annum, or another rate based on certain market interest rates, plus a margin of 1.25% per annum. The principal amount of the term loan must be repaid in consecutive quarterly installments of 0.25% of the original principal amount thereof, commencing on June 30, 2017, with any unpaid balance due on April 1, 2024. United may prepay all or a portion of the loan from time to time, at par plus accrued and unpaid interest. United pays a commitment fee equal to 0.75% per annum on the undrawn amount available under the revolving credit facility.

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The 2017 Credit Agreement includes covenants that, among other things, require the Company to maintain at least \$2.0 billion of unrestricted liquidity and a minimum ratio of appraised value of collateral to the outstanding obligations under the Credit Agreement of 1.60 to 1.0. The 2017 Credit Agreement contains events of default customary for this type of financing, including a cross default and cross acceleration provision to certain other material indebtedness of the Company. Under the provisions of the 2017 Credit Agreement, UAL's ability to make investments and to pay dividends on, or repurchase, UAL's common stock is restricted.

EETCs. In September 2016 and June 2016, United created EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depository in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depository are not United's assets. Certain details of the pass-through trusts with proceeds received from issuance of debt in 2017 are as follows (in millions, except stated interest rate):

| EETC Date | Class | Principal | Final expected distribution date | Stated interest rate | Total debt recorded as of March 31, 2017 | Proceeds received from issuance of debt during 2017 | Remaining proceeds from issuance of debt to be received in future periods |
|----------------|-------|-----------|----------------------------------|----------------------|--|---|---|
| September 2016 | AA | \$ 637 | October 2028 | 2.875% | \$ 253 | \$ 173 | \$ 384 |
| September 2016 | A | 283 | October 2028 | 3.10% | 112 | 76 | 171 |
| June 2016 | AA | 729 | July 2028 | 3.10% | 729 | 319 | |
| June 2016 | A | 324 | July 2028 | 3.45% | 324 | 142 | |
| | | \$ 1,973 | | | \$ 1,418 | \$ 710 | \$ 555 |

5% Senior Notes due 2024. In January 2017, United issued \$300 million aggregate principal amount of 5% Senior Notes due February 1, 2024 (the "5% Senior Notes due 2024"). These notes are fully and unconditionally guaranteed and recorded by United on its balance sheet as debt. The indenture for the 5% Senior Notes due 2024 requires UAL to offer to repurchase the notes for cash at a purchase price equal to 101% of the principal amount of notes repurchased plus accrued and unpaid interest if certain changes of control of UAL occur.

The table below presents the Company's contractual principal payments at March 31, 2017 under then-outstanding long-term debt agreements in each of the next five calendar years (in millions):

| | |
|--------------------------|-----------|
| Last nine months of 2017 | \$ 537 |
| 2018 | 1,466 |
| 2019 | 1,054 |
| 2020 | 1,058 |
| 2021 | 1,043 |
| After 2021 | 6,873 |
| | \$ 12,031 |

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

For the three months ended March 31, special items consisted of the following (in millions):

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2017 | 2016 |
| Operating: | | |
| Severance and benefit costs | \$ 37 | \$ 8 |
| Labor agreement costs | | 100 |
| Cleveland airport lease restructuring | | 74 |
| (Gains) losses on sale of assets and other special charges | 14 | 8 |
| Special charges | 51 | 190 |
| Nonoperating: | | |
| Foreign currency loss | | 8 |
| Special items before income taxes | 51 | 198 |
| Income tax benefit related to special items | (18) | (72) |
| Total special items, net of tax | \$ 33 | \$ 126 |

During the three months ended March 31, 2017, the Company recorded \$21 million (\$14 million net of taxes) of severance and benefit costs primarily related to a voluntary early-out program for its technicians and related employees represented by the International Brotherhood of Teamsters. In the first quarter of 2017, approximately 1,000 technicians and related employees elected to voluntarily separate from the Company and will receive a severance payment, with a maximum value of \$100,000 per participant, based on years of service, with retirement dates through early 2019. The Company also recorded \$16 million (\$10 million net of taxes) of severance related to its management reorganization initiative.

During the three months ended March 31, 2016, the Company recorded \$8 million (\$5 million net of taxes) of severance and benefit costs primarily related to a voluntary early-out program for its flight attendants.

In April 2016, the fleet service, passenger service, storekeeper and other employees represented by the International Association of Machinists and Aerospace Workers (the IAM) ratified seven new contracts with the Company which extended the contracts through 2021. During the three months ended March 31, 2016, the Company recorded \$100 million (\$64 million net of taxes) of special charges primarily for bonus payments in conjunction with the IAM agreements.

During the three months ended March 31, 2016, the City of Cleveland agreed to amend the Company's lease, which runs through 2029, associated with certain excess airport terminal space (principally Terminal D) and related facilities at Hopkins International Airport. The Company recorded an accrual for remaining payments under the lease for facilities that the Company no longer uses and will continue to incur costs under the lease without economic benefit to the Company. This liability was measured and recorded at its fair value when the Company ceased its right to use such facilities leased to it pursuant to the lease. The Company recorded a net charge of \$74 million (\$47 million net of taxes) related to the amended lease.

During the three months ended March 31, 2017 and 2016, the Company recorded gains and losses on sale of assets and other special charges of \$14 million (\$9 million net of taxes) and \$8 million (\$5 million net of taxes) respectively.

During the three months ended March 31, 2016, the Company recorded \$8 million (\$5 million net of taxes) of losses due to exchange rate changes in Venezuela applicable to funds held in local currency.

Accruals

The accrual balance for severance and benefits was \$28 million as of March 31, 2017, compared to \$29 million as of March 31, 2016. The severance-related accrual as of March 31, 2017 is expected to be mostly paid through 2017. The accrual balance for future lease payments on

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permanently grounded aircraft was \$40 million as of March 31, 2017, compared to \$49 million as of March 31, 2016. The grounded aircraft related accrual as of March 31, 2017 is expected to be mostly paid through 2025. The following is a reconciliation of severance and permanently grounded aircraft accrual activity for the period:

| | Severance and Benefits | Permanently Grounded Aircraft |
|------------------------------|-----------------------------------|--|
| Balance at December 31, 2016 | \$ 14 | \$ 41 |
| Accrual | 37 | |
| Payments | (23) | (1) |
| Balance at March 31, 2017 | \$ 28 | \$ 40 |

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

Overview

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

The Company transports people and cargo through its mainline operations, which utilize jet aircraft with at least 118 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express carriers. The Company serves virtually every major market around the world, either directly or through participation in Star Alliance®, the world's largest airline alliance. UAL, through United and its regional carriers, operates approximately 4,500 flights a day to 337 airports across five continents.

First Quarter Financial Highlights

First quarter 2017 net income was \$96 million, or \$0.31 diluted earnings per share, as compared to net income of \$313 million, or diluted earnings per share of \$0.88, in the first quarter of 2016.

Passenger revenue increased 2.6% to \$7.2 billion during the first quarter of 2017 as compared to the first quarter of 2016.

First quarter 2017 aircraft fuel cost increased \$342 million, 28.1% year-over-year.

Unrestricted liquidity at March 31, 2017 was \$6.4 billion, including \$2.0 billion of undrawn commitments under the Company's revolving credit facility.

In the three months ended March 31, 2017, UAL repurchased approximately 5 million shares of its common stock in open market transactions for \$0.3 billion. As of March 31, 2017, the Company had \$1.5 billion remaining to purchase shares under its existing share repurchase authority.

First Quarter Operational Highlights

United achieved 25 zero-cancellation days for mainline operations.

Consolidated traffic increased 2.2% and consolidated capacity increased 2.6% during the first quarter of 2017 as compared to the first quarter of 2016. The Company's load factor for the first quarter of 2017 was 79.6%.

The Company took delivery of two Boeing 787-9 aircraft, six Boeing 777-300ER and one used Airbus A319 aircraft during the first quarter of 2017.

Outlook

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The Company expects full-year 2017 consolidated capacity to increase between 2.5% and 3.5% year-over-year. Domestic capacity is expected to increase between 3.5% and 4.5% year-over-year and international capacity is expected to increase between 1.0% and 2.0% year-over-year.

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As outlined at our November 2016 Investor Day presentation, the Company expects to drive significant incremental value by 2020 relative to 2015. United anticipates capturing this value through a variety of initiatives including a re-fleeting and upgauge program, additional customer choice through segmentation, improvements to the revenue management systems, ongoing sensible cost management, realizing our full network potential through improved schedule quality and enhancements to the MileagePlus program. In addition, the Company will continue to focus on improving reliability while increasing the efficiency of the operation.

The price of jet fuel remains volatile. Based on projected fuel consumption in 2017, a one dollar change in the price of a barrel of crude oil would change the Company's annual fuel expense by approximately \$95 million.

RESULTS OF OPERATIONS

The following discussion provides an analysis of results of operations and reasons for material changes therein for the three months ended March 31, 2017 as compared to the corresponding period in 2016.

First Quarter 2017 Compared to First Quarter 2016

The Company recorded net income of \$96 million in the first quarter of 2017 as compared to net income of \$313 million in the first quarter of 2016. The Company considers a key measure of its performance to be operating income, which was \$278 million for the first quarter of 2017, as compared to \$649 million for the first quarter of 2016, a \$371 million decrease year-over-year. Significant components of the Company's operating results for the three months ended March 31 are as follows (in millions, except percentage changes):

| | 2017 | 2016 | Increase (Decrease) | % Increase (Decrease) |
|----------------------|----------|----------|------------------------|--------------------------|
| Operating revenue | \$ 8,420 | \$ 8,195 | \$ 225 | 2.7 |
| Operating expense | 8,142 | 7,546 | 596 | 7.9 |
| Operating income | 278 | 649 | (371) | (57.2) |
| Nonoperating expense | (133) | (155) | (22) | (14.2) |
| Income tax expense | 49 | 181 | (132) | (72.9) |
| Net income | \$ 96 | \$ 313 | \$ (217) | (69.3) |

Certain consolidated statistical information for the Company's operations for the three months ended March 31 is as follows:

| | 2017 | 2016 | Increase (Decrease) | % Increase (Decrease) |
|--|---------|---------|------------------------|-----------------------------|
| Passengers (thousands) (a) | 33,105 | 32,087 | 1,018 | 3.2 |
| Revenue passenger miles (RPMs) (millions) (b) | 47,611 | 46,582 | 1,029 | 2.2 |
| Available seat miles (ASMs) (millions) (c) | 59,808 | 58,273 | 1,535 | 2.6 |
| Passenger load factor (d) | 79.6 % | 79.9 % | (0.3) pts. | N/A |
| Passenger revenue per available seat mile (PRASM) (cents) | 12.00 | 12.00 | | |
| Average yield per revenue passenger mile (Yield) (cents) (e) | 15.07 | 15.01 | 0.06 | 0.4 |
| Cost per available seat mile (CASM) (cents) | 13.61 | 12.95 | 0.66 | 5.1 |
| Average price per gallon of fuel, including fuel taxes | \$ 1.71 | \$ 1.37 | \$ 0.34 | 24.8 |
| Fuel gallons consumed (millions) | 910 | 890 | 20 | 2.2 |
| Average full-time equivalent employees | 85,200 | 82,500 | 2,700 | 3.3 |

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

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

Table of Contents**Operating Revenue**

The table below shows year-over-year comparisons by type of operating revenue for the three months ended March 31 (in millions, except for percentage changes):

| | 2017 | 2016 | Increase (Decrease) | % Change |
|-------------------------|----------|----------|------------------------|----------|
| Passenger Mainline | \$ 5,831 | \$ 5,577 | \$ 254 | 4.6 |
| Passenger Regional | 1,343 | 1,413 | (70) | (5.0) |
| Total passenger revenue | 7,174 | 6,990 | 184 | 2.6 |
| Cargo | 220 | 194 | 26 | 13.4 |
| Other operating revenue | 1,026 | 1,011 | 15 | 1.5 |
| | \$ 8,420 | \$ 8,195 | \$ 225 | 2.7 |

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

| | Total | | | | | | |
|---------------------------------|----------|----------|---------|--------|--------------|----------|----------|
| | Domestic | Atlantic | Pacific | Latin | Consolidated | Mainline | Regional |
| Increase (decrease) from 2016: | | | | | | | |
| Passenger revenue (in millions) | \$ 126 | \$ 8 | \$ 35 | \$ 15 | \$ 184 | \$ 254 | \$ (70) |
| Passenger revenue | 3.0 % | 0.8 % | 3.7 % | 2.0 % | 2.6 % | 4.6 % | (5.0)% |
| Average fare per passenger | (1.0)% | 4.1 % | 3.3 % | 1.3 % | (0.5)% | (2.2)% | 0.5 % |
| Yield | (0.6)% | 3.7 % | (0.1)% | 2.3 % | 0.4 % | 1.2 % | 0.2 % |
| PRASM | (0.1)% | 2.1 % | (3.5)% | 2.8 % | % | 0.8 % | % |
| Passengers | 4.0 % | (3.2)% | 0.4 % | 0.6 % | 3.2 % | 6.9 % | (5.4)% |
| RPMs (traffic) | 3.6 % | (2.8)% | 3.8 % | (0.3)% | 2.2 % | 3.2 % | (5.2)% |
| ASMs (capacity) | 3.1 % | (1.3)% | 7.4 % | (0.8)% | 2.6 % | 3.7 % | (5.0)% |
| Passenger load factor (points) | 0.4 | (1.1) | (2.8) | 0.4 | (0.3) | (0.4) | (0.1) |

Consolidated passenger revenue in the first quarter of 2017 increased \$184 million, or 2.6% as compared to the year-ago period. First quarter 2017 consolidated PRASM remained flat compared to the first quarter of 2016, as the higher close-in business travel in March 2017 was partially offset by higher capacity growth in the quarter.

Operating Expenses

The table below includes data related to the Company's operating expenses for the three months ended March 31 (in millions, except for percentage changes):

| | 2017 | 2016 | Increase (Decrease) | % Change |
|--|----------|----------|------------------------|----------|
| Salaries and related costs | \$ 2,661 | \$ 2,490 | \$ 171 | 6.9 |
| Aircraft fuel | 1,560 | 1,218 | 342 | 28.1 |
| Landing fees and other rent | 544 | 525 | 19 | 3.6 |
| Regional capacity purchase | 536 | 522 | 14 | 2.7 |
| Depreciation and amortization | 518 | 479 | 39 | 8.1 |
| Aircraft maintenance materials and outside repairs | 454 | 402 | 52 | 12.9 |

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| | | | | |
|--------------------------|----------|----------|--------|-----|
| Distribution expenses | 307 | 303 | 4 | 1.3 |
| Aircraft rent | 179 | 178 | 1 | 0.6 |
| Special charges | 51 | 190 | (139) | NM |
| Other operating expenses | 1,332 | 1,239 | 93 | 7.5 |
| | \$ 8,142 | \$ 7,546 | \$ 596 | 7.9 |

Salaries and related costs increased \$171 million, or 6.9%, in the first quarter of 2017 as compared to the year-ago period primarily due to higher pay rates and benefit expenses driven by new and extended collective bargaining agreements, and a 3.3% increase in average full-time equivalent employees, partially offset by a decrease in profit sharing expense and other employee incentive programs expense.

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Aircraft fuel expense increased \$342 million, or 28.1%, year-over-year primarily due to a 24.8% increase in the average price per gallon of aircraft fuel in the first quarter of 2017 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the three month period ended March 31, 2017 as compared to the year-ago period:

| | (In millions) | | | Average price per gallon | | |
|--|-----------------|-----------------|-------------|--------------------------|----------------|-------------|
| | 2017 | 2016 | % Change | 2017 | 2016 | % Change |
| Total aircraft fuel purchase cost excluding fuel hedge impacts | \$ 1,558 | \$ 1,080 | 44.3 | \$ 1.71 | \$ 1.21 | 41.3 |
| Hedge losses reported in fuel expense | 2 | 138 | NM | | 0.16 | NM |
| Fuel expense | \$ 1,560 | \$ 1,218 | 28.1 | \$ 1.71 | \$ 1.37 | 24.8 |

Total fuel consumption (gallons)

910 890 2.2

Depreciation and amortization increased \$39 million, or 8.1%, in the first quarter of 2017 as compared to the year-ago period, primarily due to additions of new aircraft, aircraft improvements, accelerated depreciation of assets related to certain fleet types and increases in information technology assets.

Aircraft maintenance materials and outside repairs increased \$52 million, or 12.9%, in the first quarter of 2017 as compared to the year-ago period, primarily due to an increase in airframe maintenance visits.

Other operating expenses increased \$93 million, or 7.5%, in the first quarter of 2017 as compared to the year-ago period primarily due to increases in food and other amenities associated with the Company's customer experience initiatives and increases in other purchased services and technology initiatives' contractor costs.

Details of the Company's special charges include the following for the three months ended March 31 (in millions):

| | 2017 | 2016 |
|--|--------------|---------------|
| Severance and benefit costs | \$ 37 | \$ 8 |
| Labor agreement costs | | 100 |
| Cleveland airport lease restructuring | | 74 |
| (Gains) losses on sale of assets and other special charges | 14 | 8 |
| Special charges | \$ 51 | \$ 190 |

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

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company's nonoperating income (expense) for the three months ended March 31 (in millions, except for percentage changes):

| | 2017 | 2016 | Increase (Decrease) | % Change |
|----------------------|-----------------|-----------------|------------------------|---------------|
| Interest expense | \$ (150) | \$ (159) | \$ (9) | (5.7) |
| Interest capitalized | 23 | 14 | 9 | 64.3 |
| Interest income | 11 | 8 | 3 | 37.5 |
| Miscellaneous, net | (17) | (18) | (1) | (5.6) |
| Total | \$ (133) | \$ (155) | \$ (22) | (14.2) |

Income Taxes. See Note 4 to the financial statements included in Part I, Item 1 of this report for information related to income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Current Liquidity

As of March 31, 2017 and at December 31, 2016, the Company had \$4.4 billion in unrestricted cash, cash equivalents and short-term investments. At March 31, 2017, the Company also had \$129 million of restricted cash and cash equivalents, which is primarily collateral for letters of credit and estimated future workers' compensation claims. As of March 31, 2017, the Company had its entire commitment capacity of \$2 billion under the revolving credit facility of the Company's Amended and Restated Credit and Guaranty Agreement, dated as of March 29, 2017 (the 2017 Credit Agreement) available for borrowings.

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As is the case with many of our principal competitors, we have a high proportion of debt compared to capital and a deficit in working capital. We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities, and pension funding obligations. At March 31, 2017, the Company had approximately \$12.8 billion of debt and capital lease obligations, including \$829 million that will become due in the next 12 months. In addition, we have substantial noncancelable commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of March 31, 2017, our current liabilities exceeded our current assets by approximately \$5 billion. However, approximately \$7 billion of our current liabilities are related to our advance ticket sales and frequent flyer deferred revenue, both of which largely represent revenue to be recognized for travel in the near future and not actual cash outlays. The deficit in working capital does not have an adverse impact to our cash flows, liquidity or operations.

As of March 31, 2017, United had firm commitments and options to purchase aircraft from The Boeing Company (Boeing), Airbus S.A.S. (Airbus) and Embraer S.A. (Embraer) presented in the table below:

| Aircraft Type | Number of Firm Commitments (a) |
|----------------------|--------------------------------|
| Airbus A350 | 35 |
| Boeing 737NG/737 MAX | 165 |
| Boeing 777-300ER | 6 |
| Boeing 787 | 19 |
| Embraer E175 | 24 |

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

The aircraft listed in the table above are scheduled for delivery through 2027. To the extent the Company and the aircraft manufacturers with whom the Company has existing orders for new aircraft agree to modify the contracts governing those orders, the amount and timing of the Company's future capital commitments could change. For the remainder of 2017, United expects to take delivery of four Boeing 737NG aircraft, one Boeing 787-9 aircraft, six Boeing 777-300ER aircraft, and 24 Embraer E175. Additionally, the Company also currently expects to take delivery of five used A319s in 2017. During the three months ended March 31, 2017, the Company also purchased 12 Boeing 737NG aircraft which were previously leased by United.

As of March 31, 2017, UAL and United have total capital commitments primarily related to the acquisition of aircraft and related spare engines, aircraft improvements and include other capital purchase commitments for approximately \$23.2 billion, of which approximately \$2.9 billion, \$2.8 billion, \$3.5 billion, \$3.1 billion, \$2.2 billion and \$8.7 billion are due in the last nine months of 2017 and for the full year for 2018, 2019, 2020, 2021 and thereafter, respectively. 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.

As of March 31, 2017, United has \$0.6 billion in financing available through enhanced equipment trust certificates (EETC) transactions for the financing of all of its aircraft deliveries scheduled for the first half of 2017. See Note 9 to the financial statements included in Part I, Item 1 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.

As of March 31, 2017, a substantial portion of the Company's assets, principally aircraft, route authorities, airport slots and loyalty program intangible assets, was pledged under various loan and other agreements. We must sustain our profitability and/or access the capital markets to meet our significant long-term debt and capital lease obligations and future commitments for capital expenditures, including the acquisition of aircraft and related spare engines.

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

| | S&P | Moody's | Fitch |
|--------|-----|---------|-------|
| UAL | BB- | Ba2 | BB |
| United | BB- | * | BB |

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

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

Sources and Uses of Cash

Operating Activities. Cash flow provided by operations was \$0.5 billion for the three months ended March 31, 2017 compared to \$1.2 billion in the same period in 2016. Operating income for the first three months of 2017 decreased approximately \$0.4 billion versus the year-ago period. Changes in working capital items included an approximately \$0.2 billion decrease in advanced purchase of miles due to increased utilization of pre-purchased miles.

Investing Activities. Capital expenditures were \$0.7 billion and \$0.8 billion in the three months ended March 31, 2017 and 2016, respectively. Capital expenditures for the three months ended March 31, 2017 were primarily attributable to the purchase of aircraft, facility and fleet-related costs.

Financing Activities. During the three months ended March 31, 2017, the Company made debt and capital lease payments of \$0.3 billion.

On March 29, 2017, United and UAL, as borrower and guarantor, respectively, entered into the 2017 Credit Agreement. The 2017 Credit Agreement consists of a \$1.5 billion term loan due April 1, 2024, which (i) was used to retire the entire principal balance of the term loans under the credit and guaranty agreement, dated March 27, 2013 (as amended, the 2013 Credit Agreement), and (ii) increased the term loan balance by approximately \$440 million, and a \$2.0 billion revolving credit facility available for drawing until April 1, 2022, which increased the available capacity under the revolving credit facility of the 2013 Credit Agreement. As of March 31, 2017, United had its entire capacity of \$2.0 billion available under the revolving credit facility. The obligations of United under the 2017 Credit Agreement are secured by liens on certain international route authorities, certain take-off and landing rights and related assets of United.

Borrowings under the 2017 Credit Agreement bear interest at a variable rate equal to the London Interbank Offered Rate (LIBOR), subject to a 0% floor, plus a margin of 2.25% per annum, or another rate based on certain market interest rates, plus a margin of 1.25% per annum. The principal amount of the term loan must be repaid in consecutive quarterly installments of 0.25% of the original principal amount thereof, commencing on June 30, 2017, with any unpaid balance due on April 1, 2024. United may prepay all or a portion of the loan from time to time, at par plus accrued and unpaid interest. United pays a commitment fee equal to 0.75% per annum on the undrawn amount available under the revolving credit facility.

The 2017 Credit Agreement includes covenants that, among other things, require the Company to maintain at least \$2.0 billion of unrestricted liquidity and a minimum ratio of appraised value of collateral to the outstanding obligations under the Credit Agreement of 1.60 to 1.0. The 2017 Credit Agreement contains events of default customary for this type of financing, including a cross default and cross acceleration provision to certain other material indebtedness of the Company. Under the provisions of the 2017 Credit Agreement, UAL's ability to make investments and to pay dividends on, or repurchase, UAL's common stock is restricted.

In the three months ended March 31, 2017, United received and recorded \$710 million of proceeds as debt from the two EETC pass-through trusts established in 2016. United expects to receive all proceeds from the pass-through trusts by the end of the second quarter of 2017. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information.

In the three months ended March 31, 2017, United received and recorded \$300 million proceeds of the 5% Senior Notes.

Share Repurchase Programs. In the three months ended March 31, 2017, UAL repurchased approximately 5 million shares of UAL common stock in open market transactions, for \$0.3 billion. As of March 31, 2017, the Company had approximately \$1.5 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.

Commitments, Contingencies and Liquidity Matters. As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Annual Report), the Company's liquidity may be adversely impacted by a variety of factors, including, but not limited to, pension funding obligations, reserve requirements associated with credit card processing agreements, guarantees, commitments and contingencies.

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See the 2016 Annual Report and Notes 5, 7, 8 and 9 to the financial statements contained in Part I, Item 1 of this report for additional information.

CRITICAL ACCOUNTING POLICIES

See Critical Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2016 Annual Report and Note 1 to the financial statements contained in Part I, Item 1 of this report for a discussion of the Company's critical accounting policies.

FORWARD-LOOKING INFORMATION

Certain statements throughout Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report are forward-looking and thus reflect our current expectations and beliefs with respect to certain current and future events and anticipated financial and operating performance. Such forward-looking statements are and will be subject to many risks and uncertainties relating to our operations and business environment that may cause actual results to differ materially from any future results expressed or implied in such forward-looking statements. Words such as expects, will, plans, anticipates, indicates, believes, forecast, guidance, outlook, go expressions are intended to identify forward-looking statements.

Additionally, forward-looking statements include statements that do not relate solely to historical facts, such as statements which identify uncertainties or trends, discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except as required by applicable law.

Our actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: our ability to comply with the terms of our various financing arrangements; the costs and availability of financing; our ability to maintain adequate liquidity; our ability to execute our operational plans and revenue-generating initiatives, including optimizing our revenue; our ability to control our costs, including realizing benefits from our resource optimization efforts, cost reduction initiatives and fleet replacement programs; costs associated with any modification or termination of our aircraft orders; our ability to utilize our net operating losses; our ability to attract and retain customers; potential reputational or other impact from adverse events in our operations; demand for transportation in the markets in which we operate; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact that global economic and political conditions have on customer travel patterns; excessive taxation and the inability to offset future taxable income; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally; our ability to cost-effectively hedge against increases in the price of aircraft fuel if we decide to do so; any potential realized or unrealized gains or losses related to fuel or currency hedging programs; the effects of any hostilities, act of war or terrorist attack; the ability of other air carriers with whom we have alliances or partnerships to provide the services contemplated by the respective arrangements with such carriers; the effects of any technology failures or cybersecurity breaches; disruptions to our regional network; the costs and availability of aviation and other insurance; industry consolidation or changes in airline alliances; the success of our investments in airlines in other parts of the world; competitive pressures on pricing and on demand; our capacity decisions and the capacity decisions of our competitors; U.S. or foreign governmental legislation, regulation and other actions (including Open Skies agreements and environmental regulations); the impact of regulatory, investigative and legal proceedings and legal compliance risks; the impact of any management changes; labor costs; our ability to maintain satisfactory labor relations and the results of any collective bargaining agreement process with our union groups; any disruptions to operations due to any potential actions by our labor groups; weather conditions; and other risks and uncertainties set forth under Part I, Item 1A., Risk Factors of our 2016 Annual Report, as well as other risks and uncertainties set forth from time to time in the reports we file with the U.S. Securities and Exchange Commission (the "SEC").

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in market risk from the information provided in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2016 Annual Report.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Control and Procedures

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted to the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL's and United's disclosure controls and procedures were designed and operating effectively to report the information each company is required to disclose in the reports they file with the SEC on a timely basis. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of UAL and United have concluded that as of March 31, 2017, disclosure controls and procedures of each of UAL and United were effective.

Changes in Internal Control over Financial Reporting during the Quarter Ended March 31, 2017

During the three months ended March 31, 2017, there were no changes in UAL's or United's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, their internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

See Part I, Item 3., Legal Proceedings of the 2016 Annual Report for a description of legal proceedings.

ITEM 1A. RISK FACTORS

See Part I, Item 1A., Risk Factors, of the 2016 Annual Report for a detailed discussion of the risk factors affecting UAL and United.

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

(a) None

(b) None

(c) The following table presents repurchases of UAL common stock made in the first quarter of fiscal year 2017:

| Period | Total number of shares purchased (a)(b) | Average price paid per share (b)(c) | Total number of shares purchased as part of publicly announced plans or programs (a) | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (a) |
|--|---|-------------------------------------|--|--|
| January 1, 2017 through January 31, 2017 | | \$ | | \$ 1,844 |
| February 1, 2017 through February 28, 2017 | | | | 1,844 |
| March 1, 2017 through March 31, 2017 | 4,578,448 | 68.41 | 4,578,448 | 1,531 |
| Total | 4,578,448 | | 4,578,448 | |

(a) In the three months ended March 31, 2017, UAL repurchased approximately 5 million shares of UAL common stock in open market transactions, for \$0.3 billion. In July 2016, UAL's Board of Directors authorized a \$2 billion share repurchase program. As of March 31, 2017, the Company had approximately \$1.5 billion remaining to purchase shares under its share repurchase program. 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.

(b) The table does not include shares withheld from employees to satisfy certain tax obligations due upon the vesting of restricted stock awards and restricted stock units. The United Continental Holdings, Inc. 2008 Incentive Compensation Plan provides for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock. However, this plan does not specify a maximum number of shares that may be withheld for this purpose. A total of 169,556 shares were withheld under this plan in the first quarter of 2017 at an average share price of \$74.28. These shares of common stock withheld to satisfy tax withholding obligations may be deemed to be issuer purchases of shares that are required to be disclosed pursuant to this Item.

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

ITEM 6. EXHIBITS.

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

United Continental Holdings, Inc.
(Registrant)

Date: April 18, 2017

By: /s/ Andrew C. Levy

Andrew C. Levy
Executive Vice President and Chief Financial Officer (principal
financial officer)

Date: April 18, 2017

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller

(principal accounting officer)

United Airlines, Inc.
(Registrant)

Date: April 18, 2017

By: /s/ Andrew C. Levy

Andrew C. Levy
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: April 18, 2017

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller

(principal accounting officer)

Table of Contents**EXHIBIT INDEX**

| Exhibit No. | Registrant | Exhibit |
|--------------------|-------------------|--|
| *4.1 | UAL United | Third Supplemental Indenture, dated as of January 26, 2017, among United Continental Holdings, Inc., United Airlines, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed as Exhibit 4.2 to UAL's Form 8-K filed January 27, 2017, Commission file number 1-6033, and incorporated herein by reference) |
| ^10.1 | UAL United | Amendment No. 3, dated March 14, 2017, to Airbus A350-900XWB Purchase Agreement, dated March 5, 2010, between Airbus S.A.S. and United Airlines, Inc. |
| 10.2 | UAL | Separation Agreement, dated as of February 9, 2017, by and among United Continental Holdings, Inc., United Airlines, Inc. and Julia Haywood |
| 10.3 | UAL | First Amendment to the United Continental Holdings, Inc. 2006 Director Equity Incentive Plan (as amended and restated on February 20, 2014) |
| *10.4 | UAL United | Amended and Restated Credit and Guaranty Agreement, dated as of March 29, 2017, among United Airlines, Inc. as borrower, United Continental Holdings, Inc., as parent and a guarantor, the subsidiaries of UAL from time to time party thereto other than United, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (filed as Exhibit 10.1 to UAL's Form 8-K filed April 3, 2017, Commission file number 1-6033, and incorporated herein by reference) |
| 12.1 | UAL | United Continental Holdings, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges |
| 12.2 | United | United Airlines, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges |
| 31.1 | UAL | Certification of the Principal Executive Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31.2 | UAL | Certification of the Principal Financial Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31.3 | United | Certification of the Principal Executive Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31.4 | United | Certification of the Principal Financial Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002) |
| 32.1 | UAL | Certification of the Chief Executive Officer and Chief Financial Officer of United Continental Holdings, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) |
| 32.2 | United | Certification of the Chief Executive Officer and Chief Financial Officer of United Airlines, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) |
| 101.1 | UAL United | XBRL Instance Document |
| 101.2 | UAL United | XBRL Taxonomy Extension Schema Document |
| 101.3 | UAL United | XBRL Taxonomy Extension Calculation Linkbase Document |

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| | | |
|-------|--------|--|
| 101.4 | UAL | XBRL Taxonomy Extension Definition Linkbase Document |
| | United | |
| 101.5 | UAL | XBRL Taxonomy Extension Labels Linkbase Document |
| | United | |
| 101.6 | UAL | XBRL Taxonomy Extension Presentation Linkbase Document |
| | United | |

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

* Previously filed.