

CONTINENTAL AIRLINES INC /DE/
Form 10-Q
July 26, 2011
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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 June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission	Exact Name of Registrant	State of	I.R.S. Employer
File Number	as Specified in its Charter, Principal Office Address	Incorporation	Identification No

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001-06033	<p style="text-align: center;">and Telephone Number</p> <p>United Continental Holdings, Inc. 77 W. Wacker</p> <p>Drive, Chicago,</p> <p>Illinois 60601 (312) 997-8000</p>	Delaware	36-2675207
001-11355	<p>United Air Lines, Inc. 77 W. Wacker</p> <p>Drive, Chicago,</p> <p>Illinois 60601 (312) 997-8000</p>	Delaware	36-2675206
001-10323	<p>Continental Airlines, Inc. 1600 Smith Street,</p> <p>Dept HQSEO,</p> <p>Houston, Texas</p> <p>77002 (713) 324-2950</p>	Delaware	74-2099724

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

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

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

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

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

United Continental

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

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

United Continental Holdings, Inc. Yes No

United Air Lines, Inc. Yes No

Continental Airlines, Inc. Yes No

The number of shares outstanding of each of the issuer's classes of common stock as of July 15, 2011 is shown below:

United Continental Holdings, Inc.	330,773,503 shares of common stock (\$0.01 par value)
United Air Lines, Inc.	205 (100% owned by United Continental Holdings, Inc.)

Continental Airlines, Inc.	There is no market for United Air Lines, Inc. common stock. 1,000 (100% owned by United Continental Holdings, Inc.)
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There is no market for Continental Airlines, Inc. common stock.

OMISSION OF CERTAIN INFORMATION

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

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(In millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating revenue:				
Passenger:				
Mainline	\$ 6,864	\$ 3,532	12,627	\$ 6,401
Regional	1,742	962	3,166	1,750
Total passenger revenue	8,606	4,494	15,793	8,151
Cargo	316	190	599	347
Special revenue item (Note 1)	107		107	
Other operating revenue	780	477	1,512	904
	9,809	5,161	18,011	9,402
Operating expenses:				
Aircraft fuel	3,227	1,486	5,899	2,693
Salaries and related costs	1,916	1,061	3,722	2,051
Regional capacity purchase	615	405	1,188	793
Landing fees and other rent	502	271	975	528
Aircraft maintenance materials and outside repairs	444	245	883	467
Depreciation and amortization	385	223	773	444
Distribution expenses	375	198	725	370
Aircraft rent	252	81	505	162
Special charges (Note 10)	146	106	223	124
Other operating expenses	1,139	644	2,276	1,253
	9,001	4,720	17,169	8,885
Operating income	808	441	842	517
Nonoperating income (expense):				
Interest expense	(250)	(178)	(504)	(363)
Interest income	5	2	9	3
Interest capitalized	8	3	14	5
Miscellaneous, net	(29)	3	(30)	28
	(266)	(170)	(511)	(327)
Income before income taxes	542	271	331	190
Income tax expense (benefit)	4	(2)	6	(1)
Net income	\$ 538	\$ 273	\$ 325	\$ 191

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Earnings per share, basic	\$ 1.63	\$ 1.62	\$ 0.98	\$ 1.14
Earnings per share, diluted	\$ 1.39	\$ 1.29	\$ 0.88	\$ 0.96

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

(In millions, except shares)

	(Unaudited) June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,519	\$ 8,069
Short-term investments	1,060	611
Total unrestricted cash, cash equivalents and short-term investments	8,579	8,680
Restricted cash	46	37
Receivables, less allowance for doubtful accounts (2011 \$6; 2010 \$6)	1,863	1,613
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2011 \$74; 2010 \$64)	508	466
Deferred income taxes	622	591
Prepaid expenses and other	773	658
	12,391	12,045
Operating property and equipment:		
Owned		
Flight equipment	15,618	15,181
Other property and equipment	2,993	2,890
	18,611	18,071
Less accumulated depreciation and amortization	(3,421)	(2,858)
	15,190	15,213
Purchase deposits for flight equipment	304	230
Capital leases		
Flight equipment	1,474	1,741
Other property and equipment	221	217
	1,695	1,958
Less accumulated amortization	(499)	(456)
	1,196	1,502
	16,690	16,945
Other assets:		
Goodwill	4,523	4,523
Intangibles, less accumulated amortization (2011 \$587; 2010 \$504)	4,815	4,917
Restricted cash, cash equivalents and investments	358	350
Investments	101	103
Other, net	816	715
	10,613	10,608

\$ 39,694 \$ 39,598

(continued on next page)

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

(In millions, except shares)

	(Unaudited) June 30, 2011	December 31, 2010
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Advance ticket sales	\$ 4,497	\$ 2,998
Frequent flyer deferred revenue	2,491	2,582
Accounts payable	1,999	1,805
Accrued salaries and benefits	1,229	1,470
Current maturities of long-term debt	1,389	2,411
Current maturities of capital leases	138	252
Other	1,019	1,127
	12,762	12,645
Long-term debt	11,101	11,434
Long-term obligations under capital leases	970	1,036
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	3,355	3,491
Postretirement benefit liability	2,383	2,344
Pension liability	1,458	1,473
Advanced purchase of miles	1,545	1,159
Deferred income taxes	1,618	1,585
Lease fair value adjustment, net	1,246	1,371
Other	1,314	1,333
	12,919	12,756
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 330,766,357 and 327,922,565 shares at June 30, 2011 and December 31, 2010, respectively	3	3
Additional capital invested	7,106	7,071
Accumulated deficit	(5,378)	(5,703)
Stock held in treasury, at cost	(31)	(31)
Accumulated other comprehensive income	242	387
	1,942	1,727
	\$ 39,694	\$ 39,598

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 325	\$ 191
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	773	444
Amortization of debt and lease fair value adjustment	(119)	8
Special items, non-cash portion (Notes 1 and 10)	(48)	90
Increase in advance ticket sales	1,499	808
Decrease in frequent flyer deferred revenue and advanced purchase of miles	(89)	(60)
Increase in receivables	(387)	(324)
Increase in accounts payable	202	123
Increase in other current assets	(251)	(83)
Increase (decrease) in other accrued liabilities	(224)	90
Net change in fuel hedge cash collateral	(29)	4
Other, net	106	65
Net cash provided by operating activities	1,758	1,356
Cash Flows from Investing Activities:		
Capital expenditures	(350)	(124)
Aircraft purchase deposits paid, net	(70)	(42)
(Increase) decrease in restricted cash	(20)	43
Proceeds from sale of property and equipment	54	25
Purchases of short-term investments, net	(443)	
Other, net		3
Net cash used in investing activities	(829)	(95)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	142	1,995
Payments of long-term debt	(1,477)	(1,274)
Principal payments under capital leases	(176)	(93)
Other, net	32	(25)
Net cash provided by (used in) financing activities	(1,479)	603
Increase (decrease) in cash and cash equivalents during the period	(550)	1,864
Cash and cash equivalents at beginning of the period	8,069	3,042
Cash and cash equivalents at end of the period	\$ 7,519	\$ 4,906
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 97	\$
Reclassification of debt to advanced purchases of miles	(270)	

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Reclassification of debt discount to other assets	60	
8% Contingent Senior Unsecured Notes, net of discount	49	
Interest paid in kind on UAL 6% Senior Notes	18	17
See accompanying Combined Notes to Condensed Consolidated Financial Statements.		

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating revenue:				
Passenger:				
Mainline	\$ 3,745	\$ 3,532	\$ 6,884	\$ 6,401
Regional	1,046	962	1,937	1,750
Total passenger revenue	4,791	4,494	8,821	8,151
Cargo	191	190	358	347
Special revenue item (Note 1)	88		88	
Other operating revenue	500	479	979	908
	5,570	5,163	10,246	9,406
Operating expenses:				
Aircraft fuel	1,833	1,486	3,345	2,693
Salaries and related costs	1,038	1,061	2,025	2,051
Regional capacity purchase	401	405	783	793
Landing fees and other rent	275	271	527	528
Aircraft maintenance materials and outside repairs	290	245	582	467
Depreciation and amortization	229	223	456	444
Distribution expenses	199	198	386	370
Aircraft rent	80	81	161	162
Special charges (Note 10)	90	106	164	124
Other operating expenses	698	644	1,372	1,252
	5,133	4,720	9,801	8,884
Operating income	437	443	445	522
Nonoperating income (expense):				
Interest expense	(159)	(173)	(327)	(353)
Interest income	3	2	5	3
Interest capitalized	3	3	6	5
Miscellaneous, net	(3)	4	(8)	29
	(156)	(164)	(324)	(316)
Income before income taxes	281	279	121	206
Income tax benefit		(2)		(1)
Net income	\$ 281	\$ 281	\$ 121	\$ 207

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

(In millions, except shares)

	(Unaudited) June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,107	\$ 4,665
Short-term investments	155	
Total unrestricted cash, cash equivalents and short-term investments	4,262	4,665
Restricted cash	46	37
Receivables, net of allowance for doubtful accounts (2011 \$5; 2010 \$5)	1,103	1,004
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2011 \$67; 2010 \$61)	243	321
Receivables from related parties	193	135
Deferred income taxes	350	373
Prepaid expenses and other	513	366
	6,710	6,901
Operating property and equipment:		
Owned		
Flight equipment	9,021	8,718
Other property and equipment	2,161	2,086
	11,182	10,804
Less accumulated depreciation and amortization	(3,032)	(2,717)
	8,150	8,087
Purchase deposits for flight equipment	54	51
Capital leases		
Flight equipment	1,474	1,741
Other property and equipment	52	49
	1,526	1,790
Less accumulated amortization	(489)	(453)
	1,037	1,337
	9,241	9,475
Other assets:		
Intangibles, less accumulated amortization (2011 \$503; 2010 \$473)	2,313	2,343
Restricted cash	198	190
Investments	96	97
Other, net	602	622
	3,209	3,252

\$ 19,160 \$ 19,628

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(In millions, except shares)

	(Unaudited) June 30, 2011	December 31, 2010
LIABILITIES AND STOCKHOLDER S DEFICIT		
Current liabilities:		
Advance ticket sales	\$ 2,451	\$ 1,536
Frequent flyer deferred revenue	1,540	1,703
Accounts payable	1,161	907
Accrued salaries and benefits	772	938
Current maturities of long-term debt	635	1,546
Current maturities of capital leases	135	249
Related party payables	61	63
Other	751	950
	7,506	7,892
Long-term debt	5,468	5,480
Long-term obligations under capital leases	792	858
Other liabilities and deferred credits:		
Frequent flyer deferred revenue	2,184	2,321
Postretirement benefit liability	2,121	2,091
Pension liability	100	101
Advanced purchase of miles	1,275	1,159
Deferred income taxes	708	731
Other	956	972
	7,344	7,375
Commitments and contingencies		
Stockholder s deficit:		
Common stock at par, \$5 par value; authorized 1,000 shares; outstanding 205 shares at both June 30, 2011 and December 31, 2010		
Additional capital invested	3,428	3,421
Accumulated deficit	(5,368)	(5,489)
Accumulated other comprehensive income (loss)	(10)	91
	(1,950)	(1,977)
	\$ 19,160	\$ 19,628

See accompanying Combined Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 121	\$ 207
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	456	444
Amortization of debt and lease fair value adjustment	8	8
Special items, non-cash portion (Notes 1 and 10)	(28)	90
Increase in advance ticket sales	915	808
Decrease in frequent flyer deferred revenue and advanced purchase of miles	(180)	(60)
Increase in receivables	(257)	(324)
Increase in accounts payable	251	123
Increase in other current assets	(77)	(100)
Increase (decrease) in other accrued liabilities	(231)	88
Net change in fuel hedge cash collateral	(29)	4
Other, net	93	64
Net cash provided by operating activities	1,042	1,352
Cash Flows from Investing Activities:		
Capital expenditures	(222)	(124)
Purchases of short-term investments, net	(153)	
Aircraft purchase deposits paid, net	(3)	(42)
(Increase) decrease in restricted cash	(20)	43
Proceeds from sale of property and equipment	1	25
Other, net		3
Net cash used in investing activities	(397)	(95)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt		1,995
Payments of long-term debt	(1,037)	(1,273)
Principal payments under capital leases	(175)	(93)
Other, net	9	(22)
Net cash provided by (used in) financing activities	(1,203)	607
Increase (decrease) in cash and cash equivalents during the period	(558)	1,864
Cash and cash equivalents at beginning of the period	4,665	3,036
Cash and cash equivalents at end of the period	\$ 4,107	\$ 4,900
Investing and Financing Activities Not Affecting Cash:		
8% Contingent Senior Unsecured Notes, net of discount	\$ 49	\$
Interest paid in kind on UAL 6% Senior Notes	18	17

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

(In millions, except per share amounts)

	Successor Three Months Ended June 30, 2011	Predecessor Three Months Ended June 30, 2010	Successor Six Months Ended June 30, 2011	Predecessor Six Months Ended June 30, 2010
Operating revenue:				
Passenger:				
Mainline	\$ 3,118	\$ 2,635	\$ 5,741	\$ 4,892
Regional	696	616	1,229	1,117
Total passenger revenue	3,814	3,251	6,970	6,009
Cargo	126	111	241	213
Special revenue item (Note 1)	19		19	
Other operating revenue	325	329	612	632
	4,284	3,691	7,842	6,854
Operating expenses:				
Aircraft fuel	1,394	992	2,554	1,865
Salaries and related costs	864	822	1,669	1,618
Regional capacity purchase	214	205	406	402
Landing fees and other rent	228	215	448	428
Aircraft maintenance materials and outside repairs	154	131	303	273
Depreciation and amortization	156	122	317	256
Distribution expenses	177	161	340	306
Aircraft rent	173	230		