United Continental Holdings, Inc.
Form 10-K
February 20, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

OR

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

Commission File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No
001-06033	**United Continental Holdings, Inc.** **233 South Wacker Drive** **Chicago, Illinois 60606** **(872) 825-4000**	Delaware	36-2675207
001-10323	**United Airlines, Inc.** **233 South Wacker Drive** **Chicago, Illinois 60606** **(872) 825-4000**	Delaware	74-2099724

Securities registered pursuant to Section 12(b) of the Act:

	Title of Each Class	Name of Each Exchange on Which Registered
United Continental Holdings, Inc.	Common Stock, $0.01 par value	New York Stock Exchange
United Airlines, Inc.	None	None

Securities registered pursuant to Section 12(g) of the Act:

United Continental Holdings, Inc.	None
United Airlines, Inc.	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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 x	No ¨
United Airlines, Inc.	Yes x	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 x	No ¨
United Airlines, Inc.	Yes x	No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

United Continental Holdings, Inc.	x
United Airlines, Inc.	x

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

United Continental Holdings, Inc.	Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
United Airlines, Inc.	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨

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

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

The aggregate market value of voting stock held by non-affiliates of United Continental Holdings, Inc. was $11,107,386,154 as of June 30, 2013. There is no market for United Airlines, Inc. common stock.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of February 14, 2014.

United Continental Holdings, Inc.	371,556,314 shares of common stock ($0.01 par value)
United Airlines, Inc.	1,000 (100% owned by United Continental Holdings, Inc.)

This combined Form 10-K is separately filed by United Continental Holdings, Inc. and United Airlines, Inc.

OMISSION OF CERTAIN INFORMATION

United Airlines, Inc. meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format allowed under that General Instruction.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12 and 13 of Part III of this Form 10-K are incorporated by reference for United Continental Holdings, Inc. from its definitive proxy statement for its 2014 Annual Meeting of Stockholders.

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United Continental Holdings, Inc. and Subsidiary Companies

United Airlines, Inc. and Subsidiary Companies

Annual Report on Form 10-K

For the Year Ended December 31, 2013

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This Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the Company s expectations and beliefs concerning future events, based on information available to the Company on the date of the filing of this Form 10-K, and are subject to various risks and uncertainties. Factors that could cause actual results to differ materially from those referenced in the forward-looking statements are listed in Part I, Item 1A, Risk Factors and in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. The Company disclaims any intent or obligation to update or revise any of the forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise, except as required by applicable law.

PART I

ITEM 1. BUSINESS.

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). 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.

UAL was incorporated under the laws of the State of Delaware on December 30, 1968. Our world headquarters is located at 233 South Wacker Drive, Chicago, Illinois 60606 (telephone number (872) 825-4000).

The Company s website is www.unitedcontinentalholdings.com. The information contained on or connected to the Company s website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the U.S. Securities and Exchange Commission (SEC). Through this website, the Company s filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are accessible without charge as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Such filings are also available on the SEC s website at www.sec.gov.

On May 2, 2010, UAL Corporation, Continental Airlines, Inc. (together with its consolidated subsidiaries, Continental) and JT Merger Sub Inc., a wholly-owned subsidiary of UAL Corporation, entered into an Agreement and Plan of Merger. On October 1, 2010, JT Merger Sub Inc. merged with and into Continental, with Continental surviving as a wholly-owned subsidiary of UAL Corporation (the Merger). Upon closing of the Merger, UAL Corporation became the parent company of both United Air Lines, Inc. and Continental and UAL Corporation s name was changed to United Continental Holdings, Inc. On March 31, 2013, the Company merged United Air Lines, Inc. into Continental to form one legal entity, and Continental s name was changed to United Airlines, Inc. The financial statements of United Air Lines, Inc. and Continental are now combined at their historical cost for all periods presented beginning on October 1, 2010, the date on which Continental became a wholly-owned subsidiary of UAL.

Operations

Network. The Company transports people and cargo through its mainline operations, which use jet aircraft with at least 118 seats, and its regional operations. See Part I, Item 2, Properties, for a description of the Company s mainline and regional aircraft.

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With key global air rights in the United States, Asia-Pacific, Europe, Middle East, Africa, and Latin America, UAL has the world s most comprehensive global route network. UAL, through United and its regional carriers, operates an average of more than 5,300 flights a day to more than 360 airports across six continents from the Company s hubs at Newark Liberty International Airport (Newark Liberty), Chicago O Hare International Airport (Chicago O Hare), Denver International Airport (Denver), George Bush Intercontinental Airport (Houston Bush), Hopkins International Airport (Cleveland), Los Angeles International Airport (LAX), A.B. Won Pat International Airport (Guam), San Francisco International Airport (SFO) and Washington Dulles International Airport (Washington Dulles). In February 2014, the Company announced that it would be reducing its flying from Cleveland in stages beginning in April 2014. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, 2014 Outlook of this report for additional information on Cleveland.

All of the Company s domestic hubs are located in large business and population centers, contributing to a large amount of origin and destination traffic. The hub and spoke system allows us to transport passengers between a large number of destinations with substantially more frequent service than if each route were served directly. The hub system also allows us to add service to a new destination from a large number of cities using only one or a limited number of aircraft. As discussed under *Alliances* below, United is a member of Star Alliance, the world s largest airline network.

Regional. The Company has contractual relationships with various regional carriers to provide regional jet and turboprop service branded as United Express. These regional operations are an extension of the Company s mainline network. This regional service complements our operations by carrying traffic that connects to our mainline service and allows flights to smaller cities that cannot be provided economically with mainline aircraft. Chautauqua Airlines, Republic Airlines, CommutAir Airlines, ExpressJet Airlines, GoJet Airlines, Mesa Airlines, Shuttle America, SkyWest Airlines (SkyWest) and Trans States Airlines (Trans States) are all regional carriers, which operate most of their capacity contracted to United under capacity purchase agreements (CPAs) with United. Under these CPAs, the Company pays the regional carriers contractually-agreed fees (carrier-controlled costs) for operating these flights plus a variable reimbursement (incentive payment for superior operational performance) based on agreed performance metrics. The fees for carrier-controlled costs are based on specific rates for various operating expenses of the regional carriers, such as crew expenses, maintenance and aircraft ownership, some of which are multiplied by specific operating statistics (e.g., block hours, departures) while others are fixed monthly amounts. Under these CPAs, the Company is responsible for all fuel costs incurred as well as landing fees, facilities rent and other costs, which are passed through by the regional carrier to the Company without any markup. In return, the regional carriers operate this capacity exclusively for United, on schedules determined by the Company. The Company also determines pricing and revenue management, assumes the inventory and distribution risk for the available seats, and permits mileage accrual and redemption for regional flights through its MileagePlus loyalty program.

While the regional carriers operating under CPAs comprise more than 95% of all regional flights, the Company also has prorate agreements with Hyannis Air Service, Inc. (Cape Air), Silver Airways (Silver), SkyWest and Trans States. Under these commercial flying agreements, the Company and its regional carriers agree to divide revenue collected from each passenger according to a formula, while both the Company and its regional carriers are individually responsible for their own costs of operations. Unlike CPAs, under a prorate agreement, the regional carrier retains the control and risk of scheduling, and in most cases, market selection, local seat pricing and inventory for its flights, although the Company and its regional carriers may coordinate schedules to maximize connections.

Financial information on the Company s operating revenues by geographic regions, as reported to the U.S. Department of Transportation (the DOT), can be found in Note 18 to the financial statements included in Part II, Item 8 of this report.

Alliances. United has a number of strategic bilateral and multilateral alliances with other airlines, including marketing alliances and joint ventures, which enhance travel options for customers by providing greater time of day coverage to common destinations, additional mileage accrual and redemption opportunities, and expanded global network access. These marketing alliances typically include one or more of the following features: loyalty program reciprocity; codesharing of flight operations (whereby seats on one carrier s selected flights can be marketed under the brand name of another carrier); coordination of reservations, ticketing, passenger check-in, baggage handling, airport lounge access and flight schedules, and other resource-sharing activities that include joint sales and marketing.

United is a member of Star Alliance, a global integrated airline network co-founded by United in 1997 and the largest and most comprehensive airline alliance in the world. As of January 1, 2014, Star Alliance carriers served 1,328 airports in 195 countries with over 21,900 daily flights. Current Star Alliance members, in addition to United, are Adria Airways, Aegean Airlines, Air Canada, Air China, Air New Zealand, All Nippon Airways (ANA), Asiana Airlines, Austrian Airlines, Avianca, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, SAS Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAM Airlines (TAM), TAP Portugal, THAI Airways International, Turkish Airlines and US Airways. On December 9, 2013, US Airways and American Airlines closed their merger transaction and, as a result, we anticipate US Airways will exit Star Alliance on March 30, 2014. LATAM Airlines Group, the parent company of TAM following TAM s merger with LAN Airlines, announced that TAM would exit Star Alliance at a future date, expected in early 2014. In addition, in late 2013, Star Alliance announced it would recommence integration activities with Air India following the cessation of such activities in July 2011. A joining date for Air India has yet to be determined.

United has a variety of bilateral commercial alliance agreements and obligations with Star Alliance members, addressing, among other things, reciprocal earning, redemption of frequent flyer miles and access to airport lounges and, with certain Star Alliance members, codesharing of flight operations. In addition to the alliance agreements with Star Alliance members, United currently maintains independent marketing alliance agreements with other air carriers currently unaffiliated with a global alliance, including Aeromar, Aer Lingus, Cape Air, Great Lakes Airlines, Silver, Hawaiian Airlines, Island Air, and Jet Airways. United also offers a train-to-plane alliance with Amtrak from Newark Liberty to select regional destinations.

United also participates in joint ventures, one with Air Canada and the Lufthansa Group (which includes Lufthansa and its affiliates Austrian Airlines, Brussels Airlines and SWISS) covering transatlantic routes, and another with ANA covering certain transpacific routes. These joint ventures enable the participating carriers to integrate the services they provide in the respective regions, capturing revenue synergies and delivering highly competitive flight schedules, fares and services. The European Commission conducted a standard review of the competitive effects of United s transatlantic joint venture and closed its review in May 2013.

Loyalty Program. United s MileagePlus program builds customer loyalty by offering awards and services to program participants. Members in this program earn mileage credit for flights on United, United Express, airlines in Star Alliance and certain other airlines that participate in the program. Members can also earn miles by purchasing the goods and services of our network of non-airline partners, such as credit card issuers, retail merchants, hotels and car rental companies. Members can redeem mileage credits for free (other than taxes and government imposed fees), discounted or upgraded travel and non-travel awards.

Under the Company s Consolidated Amended and Restated Co-Branded Card Marketing Services Agreement (the Co-Brand Agreement) with Chase Bank USA, N.A. (Chase), loyalty program members accrue frequent flyer miles for making purchases using co-branded credit cards issued by Chase. The Co-Brand Agreement provides for joint marketing of the Company s credit card program and provides Chase with other benefits such as permission to market to the Company s customer database.

Five million and 4.7 million MileagePlus flight awards were used on United in 2013 and 2012, respectively. These awards represented 7.7% and 7.1% of United s total revenue passenger miles in 2013 and 2012, respectively. Total miles redeemed for flights on United in 2013, including class-of-service upgrades, represented approximately 80% of the total miles redeemed.

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In addition, excluding miles redeemed for flights on United, MileagePlus members redeemed miles for approximately two million other awards in 2013 as compared to 1.6 million in 2012. These awards include United Club memberships, car and hotel awards, merchandise and flights on other air carriers.

Fuel. Aircraft fuel has been the Company s single largest operating expense for the last several years. The table below summarizes UAL s aircraft fuel consumption and expense during the last three years.

Year	Gallons Consumed (in millions)	Fuel Expense (in millions)	Average Price Per Gallon	Percentage of Total Operating Expense (a)
2013	3,947	$ 12,345	$ 3.13	34%
2012	4,016	$ 13,138	$ 3.27	37%
2011	4,038	$ 12,375	$ 3.06	36%

(a) Calculation excludes special charges identified in Note 17 to the financial statements included in Part II, Item 8 of this report.

The availability and price of aircraft fuel significantly affect the Company s operations, results of operations, financial position and liquidity. To provide adequate supplies of fuel, the Company routinely enters into short-term and long-term purchase contracts and has some ability to store fuel close to its major hub locations. To protect against increases in the prices of aircraft fuel, the Company routinely hedges a portion of its future fuel requirements. The Company generally uses commonly used financial hedge instruments based on aircraft fuel or closely related commodities including diesel fuel and crude oil.

Third-Party Business. United generates third-party business revenue that includes fuel sales, catering, ground handling, maintenance services and frequent flyer award non-air redemptions, and third-party business revenue is recorded in Other operating revenue. The Company has a contract to sell aircraft fuel to a third party that results in revenue and expense, which is unrelated to the operation of the airline. United also incurs third-party business expenses, such as maintenance, ground handling and catering services for third parties, fuel sales and non-air mileage redemptions, and those third-party business expenses are recorded in Other operating expenses.

Distribution Channels. The majority of the Company s airline seat inventory continues to be distributed through the traditional channels of travel agencies and global distribution systems (GDS). The use of the Company s direct sales website, united.com, the Company s mobile applications and alternative distribution systems, provides the Company with an opportunity to de-commoditize its services, better control its content, make more targeted offerings, better retain its customers, enhance its brand and lower its ticket distribution costs. To encourage customer use of lower-cost channels and capitalize on these cost-saving opportunities, the Company will continue to expand the capabilities of its website and mobile applications and explore alternative distribution channels.

Industry Conditions

Domestic Competition. The domestic airline industry is highly competitive and dynamic. Currently, any U.S. carrier deemed fit by the DOT is free to operate scheduled passenger service between any two points within the United States. The Company s competitors consist primarily of other airlines and, to a lesser extent, other forms of transportation. Competition can be direct, in the form of another carrier flying the exact non-stop route, or indirect, where a carrier serves the same two cities non-stop from an alternative airport in that city or via an itinerary requiring a connection at another airport.

Air carriers cost structures are not uniform and there are numerous factors influencing cost structure. Carriers with lower costs may deliver lower fares to passengers, which could have a potential negative impact on the Company s revenues. In addition, future airline mergers, acquisitions or reorganizations pursuant to Chapter 11 of the United States Bankruptcy Code may enable airlines to improve their revenue and cost performance relative to peers and thus enhance their competitive position within the industry.

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Decisions on domestic pricing are based on intense competitive pressure exerted on the Company by other U.S. airlines. In order to remain competitive and maintain passenger traffic levels, we often find it necessary to match competitors discounted fares. Since we compete in a dynamic marketplace, attempts to generate additional revenue through increased fares oftentimes fail.

International Competition. Internationally, the Company competes not only with U.S. airlines, but also with foreign carriers. International competition has increased and may increase in the future as a result of airline mergers and acquisitions, joint ventures, alliances, restructurings, liberalization of aviation bilateral agreements and new or increased service by competitors. Competition on international routes is subject to varying degrees of governmental regulation. The Company s ability to compete successfully with non-U.S. carriers on international routes depends in part on its ability to generate traffic to and from the entire United States via its integrated domestic route network and its ability to overcome business and operational challenges across its network worldwide. Foreign carriers currently are prohibited by U.S. law from carrying local passengers between two points in the United States and the Company experiences comparable restrictions in foreign countries except where fifth freedom rights have been negotiated between the U.S. government and other countries. In addition, in the absence of open skies and fifth freedom rights, U.S. carriers are constrained from carrying passengers to points beyond designated international gateway cities due to limitations in air service agreements and restrictions imposed unilaterally by foreign governments. To compensate partially for these structural limitations, U.S. and foreign carriers have entered into alliances, joint ventures and marketing arrangements that enable these carriers to exchange traffic between each other s flights and route networks. See *Alliances,* above, for further information.

Seasonality. The air travel business is subject to seasonal fluctuations. Historically, demand for air travel is higher in the second and third quarters, driving higher revenues, than in the first and fourth quarters, which are periods of lower travel demand.

Industry Regulation

Domestic Regulation

General. All carriers engaged in air transportation in the United States are subject to regulation by the DOT. Absent an exemption, no air carrier may provide air transportation of passengers or property without first being issued a DOT certificate of public convenience and necessity. The DOT also grants international route authority, approves international codeshare arrangements, and regulates methods of competition. The DOT regulates consumer protection and maintains jurisdiction over advertising, denied boarding compensation, tarmac delays, baggage liability and other areas, and may add additional expensive regulatory burdens in the future. The DOT s series of rules to enhance airline passenger protections have required U.S. air carriers to adopt contingency plans and procedures for tarmac delays exceeding three hours for domestic flights and four hours for international flights and to charge the same baggage fee throughout a passenger s entire itinerary (even if on multiple carriers).

Airlines are also regulated by the Federal Aviation Administration (the FAA), an agency within the DOT, primarily in the areas of flight safety, air carrier operations, and aircraft maintenance and airworthiness. The FAA issues air carrier operating certificates and aircraft airworthiness certificates, prescribes maintenance procedures, oversees airport operations, and regulates pilot and other employee training. The 2011 FAA final rule amending existing flight, duty and rest regulations applicable to U.S. air carriers under Part 117 of the Federal Aviation Regulations, which took effect on January 4, 2014, mandates extensive changes to the way the Company schedules crews and deploys aircraft. From time to time, the FAA issues directives that require air carriers to inspect or modify aircraft and other equipment, potentially causing the Company to incur substantial, unplanned expenses. The airline industry is also subject to numerous other federal laws and regulations. The U.S. Department of Homeland Security has jurisdiction over virtually every aspect of civil aviation security. Beginning in March 2014, the Occupation Safety and Health Administration (OSHA) will extend its regulatory programs for hazard communication, hearing conservation and blood borne pathogens to areas of cabin crewmember safety and health. The Antitrust Division of the U.S. Department of Justice (DOJ) has jurisdiction

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over certain airline competition matters. The U.S. Postal Service has authority over certain aspects of the transportation of mail by airlines. Labor relations in the airline industry are generally governed by the Railway Labor Act (RLA), a federal statute. The Company is also subject to investigation inquiries by the DOT, FAA, DOJ and other U.S. and international regulatory bodies.

Airport Access. Access to landing and take-off rights, or slots, at several major U.S. airports and many foreign airports served by the Company are, or recently have been, subject to government regulation. Federally mandated domestic slot restrictions currently apply at Reagan National Airport in Washington D.C., John F. Kennedy International Airport (JFK), LaGuardia Airport (LaGuardia) and Newark Liberty. In addition, to address concerns about airport congestion, the FAA has designated certain airports, including Newark Liberty, JFK, and LaGuardia as high density traffic airports and has imposed operating restrictions at these three airports, which may include capacity reductions. Additional restrictions on airline routes and takeoff and landing slots at these and other airports may be proposed in the future that could affect the Company s rights of ownership and transfer.

Legislation. The airline industry is subject to legislative activity that may have an impact on operations and costs. In addition to significant federal, state and local taxes and fees that the Company is currently subject to, proposed taxes and fees are currently pending that may increase the Company s operating costs if imposed on the Company. Congress may pass legislation that could increase labor and operating costs. The Airline Safety and Federal Aviation Extension Act of 2010 and the FAA Modernization and Reform Act of 2012 have increased regulation and are likely to cause increased costs in the areas of airline safety, pilot training, and consumer protection. Climate change legislation is also likely to be a significant area of legislative and regulatory focus and could adversely impact the Company s costs. See *Environmental Regulation*, below.

Finally, aviation security continues to be the subject of frequent legislative and regulatory action, requiring changes to the Company s security processes, frequently increasing the cost of its security procedures, and adversely affecting its operations.

International Regulation

General. International air transportation is subject to extensive government regulation. In connection with the Company s international services, the Company is regulated by both the U.S. government and the governments of the foreign countries the Company serves. In addition, the availability of international routes to U.S. carriers is regulated by aviation agreements between the U.S. and foreign governments, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments.

Legislation. Foreign countries are increasingly enacting passenger protection laws, rules and regulations that meet or exceed U.S. requirements. In cases where this activity exceeds U.S. requirements, additional burden and liability may be placed on the Company. The European Union (EU) requires compensation to passengers under many circumstances for canceled and delayed flights, in addition to denied boarding compensation. Similar regulations in other countries require passenger compensation and subject the Company to enforcement penalties in addition to changes in operating procedures.

Airport Access. Historically, access to foreign markets has been tightly controlled through bilateral agreements between the U.S. and each foreign country involved. These agreements regulate the markets served, the number of carriers allowed to serve each market and the frequency of carriers flights. Since the early 1990s, the U.S. has pursued a policy of open skies (meaning all U.S.-flag carriers have access to the destination), under which the U.S. government has negotiated a number of bilateral agreements allowing unrestricted access between U.S. and foreign markets. Currently, there are more than 100 open skies agreements in effect. However, many of the airports that the Company serves in Europe, Asia and Latin America maintain slot controls. A large number of these are restrictive due to congestion at these airports. London Heathrow International Airport, Frankfurt Rhein-Main Airport, Shanghai Pudong International Airport, Beijing Capital International Airport, Sao Paulo Guarulhos International Airport and Tokyo Haneda International Airport are among the most restrictive foreign airports due to capacity limitations. As an example, under the 2010 United States-Japan open skies agreement, only four slot pairs are available in Haneda to U.S. air carriers at this time, none of which is held by the Company.

The Company s ability to serve some foreign markets and expand into certain others is limited by the absence of aviation agreements between the U.S. government and the relevant foreign governments. Shifts in U.S. or foreign government aviation policies may lead to the alteration or termination of air service agreements. Depending on the nature of any such change, the value of the Company s international route authorities and slot rights may be materially enhanced or diminished.

Environmental Regulation

General. The airline industry is subject to increasingly stringent federal, state, local and international environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, safe drinking water, aircraft noise, and the management of hazardous substances, oils and waste materials. Areas of either proposed regulations or implementation of new regulations include regulations surrounding climate change (discussed further below), State of California regulations regarding air emissions from ground support equipment, and a federal rule-making seeking to regulate airport fuel hydrant systems under the underground storage tank regulations.

Climate Change. There are certain laws and regulations relating to climate change that apply to the Company, including the European Union s Emissions Trading Scheme (EU ETS), environmental taxes for certain international flights (including Germany s departure ticket tax), greenhouse gas reporting requirements, and the State of California s cap and trade regulations (that impact United s San Francisco maintenance center). In addition, there are land-based planning laws that could apply to airport expansion projects, requiring a review of carbon emissions, and could affect airlines in certain circumstances.

The 2009 EU directive to include aviation carbon emissions from flights to and from the EU in the EU ETS has been the subject of significant international dispute among countries, including the United States. In response to the directive, the European Union Emissions Trading Scheme Prohibition Act of 2011 directed the DOT to seek an international solution regarding aviation carbon emissions through the International Civil Aviation Organization (ICAO), and if necessary, to prohibit U.S. airlines from participation in the EU ETS and hold the airlines harmless from the scheme. In April 2013, to give ICAO an opportunity to reach international agreement, the EU approved a one year stay such that the requirements of the EU ETS would apply only to intra-EU flights.

In October 2013, ICAO adopted a resolution establishing the path for development of a global market-based measure to regulate international aviation carbon emissions for final approval by ICAO in 2016. The cost to the Company of any such global measure is not known at this time. The same resolution requires that any individual country or region that regulates carbon emissions from international aviation seek agreement through multi-lateral negotiations. Also in October 2013, the EU proposed changes to the EU ETS, contrary to the ICAO resolution, that regulate a portion of carbon emissions from international flights arriving in or departing from an EU airport. The precise cost to the Company should these proposed changes to the EU ETS be finalized is difficult to calculate due to a number of variables including the undetermined methodology for calculating the portion of emissions to be regulated, the Company s future carbon emissions, the price of carbon credits that the Company would purchase under the EU ETS, and whether the DOT would take action under the European Union Emissions Trading Scheme Prohibition Act of 2011. The Company is taking various actions to reduce its carbon emissions through fleet renewal, aircraft retrofits and actions that are establishing the foundation for the commercialization of aviation alternative fuels.

Other Environmental Matters. Some U.S. and foreign airports have established airport restrictions to limit noise, including restrictions on aircraft types and operating times. In some instances, these restrictions have caused curtailments in services or increased operating costs, and could limit our ability to expand our operations at the affected airports. The Company is engaged in a number of geographic locations where changes to existing noise policies are being considered.

The airline industry is also subject to other environmental laws and regulations that require the Company to remediate soil or groundwater to meet certain objectives and which may require significant expenditures. Under the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, and similar environmental cleanup laws, generators of waste materials and owners or operators of

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facilities can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. The Company also conducts voluntary environmental assessment and remediation actions. Environmental cleanup obligations can arise from, among other circumstances, the operation of aircraft fueling facilities and primarily involve airport sites. Future costs associated with these activities are currently not expected to have a material adverse effect on the Company s business.

Employees

As of December 31, 2013, UAL, including its subsidiaries, had approximately 87,000 employees. Approximately 80% of the Company s employees were represented by various U.S. labor organizations as of December 31, 2013.

Collective bargaining agreements between the Company and its represented employee groups are negotiated under the RLA. Such agreements typically do not contain an expiration date and instead specify an amendable date, upon which the contract is considered open for amendment. The Company continues to integrate its remaining employee groups in connection with the Merger, such process being governed by a combination of the RLA, the McCaskill-Bond Amendment, and where applicable, the existing provisions of United s collective bargaining agreements and union policies.

The following table reflects the Company s represented employee groups, number of employees per represented group, union representation for each of United s employee groups where applicable, amendable date for each employee group s collective bargaining agreement and whether the group is engaged in negotiations for a joint collective bargaining agreement:

Employee Group	Number of Employees (a)	Union	Contract Open for Amendment	Common Union Representation Determined	Joint Negotiations in Progress (b)
Flight Attendants	21,121	Association of Flight Attendants	December 2014/ February 2016	X	X
Passenger Service	14,611	Int l Association of Machinists and Aerospace Workers	January 2017	X	
Fleet Service	12,970	Int l Association of Machinists and Aerospace Workers	January 2017	X	
Pilots	10,553	Air Line Pilots Association, International	February 2017	X	
Technicians and Related	8,703	Int l Brotherhood of Teamsters	December 2012/ June 2013	X	X
Storekeeper Employees	916	Int l Association of Machinists and Aerospace Workers	January 2017	X	
Dispatchers	322	Transport Workers Union/Professional Airline Flight Control Association	January 2014/ January 2010		X
Fleet Tech Instructors		Int l Association of Machinists and Aerospace Workers			
Food Service Employees					
Maintenance Instructors			January 2010/		
Security Officers			May 2014/		
Load Planners	328		January 2017	X	X
Flight Simulator Technicians	93	Int l Brotherhood of Teamsters	December 2012/ June 2013	X	X

(a) The table includes the Company s U.S. based (and Guam) union represented employees only.

(b) The respective amendable dates for those joint negotiations in progress reflect the remaining United, Continental and/or Continental Micronesia, Inc. (CMI) stand-alone agreements.

The Company cannot predict the outcome of negotiations with its unionized employee groups, although significant increases in the pay and benefits resulting from new collective bargaining agreements would have an adverse financial impact on the Company. See Notes 15 and 17 to the financial statements included in Part II, Item 8 of this report for more information on labor negotiations and costs.

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ITEM 1A. RISK FACTORS.

The following risk factors should be read carefully when evaluating the Company s business and the forward-looking statements contained in this report and other statements the Company or its representatives make from time to time. Any of the following risks could materially and adversely affect the Company s business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this report.

Continued periods of historically high fuel prices or significant disruptions in the supply of aircraft fuel could have a material adverse impact on the Company s operating results, financial position and liquidity.

Aircraft fuel has been the Company s single largest operating expense for the last several years. The availability and price of aircraft fuel significantly affect the Company s operations, results of operations, financial position and liquidity. While the Company has been able to obtain adequate supplies of fuel under various supply contracts and has some ability to store fuel close to major hub locations to ensure supply continuity in the short term, the Company cannot predict the continued future availability or price of aircraft fuel.

Continued volatility in fuel prices may negatively impact the Company s liquidity or financial position in the future. Aircraft fuel prices can fluctuate based on a multitude of factors including market expectations of supply and demand balance, inventory levels, geopolitical events, economic growth expectations, fiscal/monetary policies and financial investment flows. The Company may not be able to increase its fares or other fees if fuel prices rise in the future and any such fare or fee increases may not be sustainable in the highly competitive airline industry. In addition, any increases in fares or other fees may not sufficiently offset the full impact of such increases in fuel prices and may also reduce the general demand for air travel.

To protect against increases in the prices of aircraft fuel, the Company routinely hedges a portion of its future fuel requirements. However, the Company s hedging program may not be successful in controlling fuel costs, and price protection provided may be limited due to market conditions and other factors. To the extent that the Company uses hedge contracts that have the potential to create an obligation to pay upon settlement if prices decline significantly, including swaps or sold put options as part of a collar, such hedge contracts may limit the Company s ability to benefit from lower fuel costs in the future. If fuel prices decline significantly from the levels existing at the time we enter into a hedge contract, we may be required to post collateral (margin) with our hedge counterparties beyond certain thresholds. Also, lower fuel prices may result in increased industry capacity and lower fares in general. There can be no assurance that the Company s hedging arrangements will provide any particular level of protection against rises in fuel prices or that its counterparties will be able to perform under the Company s hedging arrangements. Additionally, deterioration in the Company s financial condition could negatively affect its ability to enter into new hedge contracts in the future and may potentially require the Company to post increased amounts of collateral under its fuel hedging agreements.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and regulations promulgated by the Commodity Futures Trading Commission (the CFTC) require centralized clearing for over-the-counter derivatives and record-keeping and reporting requirements that are applicable to the Company s fuel hedge contracts. The UAL Board of Directors (Board of Directors) has approved the Company s election of the CFTC s end-user exception, which permits the Company as a non-financial end user of derivatives to hedge commercial risk and be exempt from the CFTC mandatory clearing requirements. However, several of the Company s hedge counterparties are also subject to these requirements, which may raise the counterparties costs. Those increased costs may in turn be passed on to the Company, resulting in increased transaction costs to execute hedge contracts and lower credit thresholds to post collateral (margin).

See Note 10 to the financial statements included in Part II, Item 8 of this report for additional information on the Company s hedging programs.

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Economic and industry conditions constantly change and unfavorable global economic conditions may have a material adverse effect on the Company s business and results of operations.

The Company s business and results of operations are significantly impacted by general economic and industry conditions. The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the U.S. and global economies. Robust demand for our air transportation services depends largely on favorable economic conditions, including the strength of the domestic and foreign economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit.

Air transportation is often a discretionary purchase that leisure travelers may limit or eliminate during difficult economic times. In addition, during periods of unfavorable economic conditions, business travelers usually reduce the volume of their travel, either due to cost-saving initiatives or as a result of decreased business activity requiring travel. During such periods, the Company s business and results of operations may be adversely affected due to significant declines in industry passenger demand, particularly with respect to the Company s business and premium cabin travelers, and a reduction in fare levels.

Stagnant or weakening global economic conditions either in the United States or in other geographic regions, and any future volatility in U.S. and global financial and credit markets may have a material adverse effect on the Company s revenues, results of operations and liquidity. If such economic conditions were to disrupt capital markets in the future, the Company may be unable to obtain financing on acceptable terms (or at all) to refinance certain maturing debt and to satisfy future capital commitments.

The Company is subject to economic and political instability and other risks of doing business globally.

The Company is a global business with operations outside of the United States from which it derives approximately 40% of its operating revenues, as measured and reported to the DOT. The Company s operations in Asia, Europe, Latin America, Africa and the Middle East are a vital part of its worldwide airline network. Volatile economic, political and market conditions in these international regions may have a negative impact on the Company s operating results and its ability to achieve its business objectives. In addition, significant or volatile changes in exchange rates between the U.S. dollar and other currencies, and the imposition of exchange controls or other currency restrictions, may have a material adverse impact upon the Company s liquidity, revenues, costs and operating results.

Inadequate liquidity or a negative impact on the Company s liquidity from factors beyond the Company s control may have a material adverse effect on the Company s financial position and business.

The Company has a significant amount of financial leverage from fixed obligations, including aircraft lease and debt financings, leases of airport property and other facilities, and other material cash obligations. In addition, the Company has substantial non-cancelable commitments for capital expenditures, including the acquisition of new aircraft and related spare engines.

Although the Company s cash flows from operations and its available capital, including the proceeds from financing transactions, have been sufficient to meet these obligations and commitments to date, the Company s future liquidity could be negatively impacted by the risk factors discussed in this Item 1A, including, but not limited to, substantial volatility in the price of fuel, adverse economic conditions, disruptions in the global capital markets and catastrophic external events.

If the Company s liquidity is constrained due to the various risk factors noted in this Item 1A or otherwise, the Company might not be able to timely pay its debts or comply with certain operating and financial covenants under its financing and credit card processing agreements or with other material provisions of its contractual obligations. These covenants require the Company or United, as applicable, to maintain minimum liquidity and/or minimum collateral coverage ratios, depending on the particular agreement. The Company s ability to comply with these covenants may be affected by events beyond its control, including the overall industry revenue environment, the level of fuel costs and the appraised value of certain collateral.

If the Company does not timely pay its debts or comply with such covenants, a variety of adverse consequences could result. These potential adverse consequences include an increase of required reserves under credit card processing agreements, withholding of credit card sale proceeds by its credit card service providers, loss of undrawn lines of credit, occurrence of an event of default under the relevant agreement(s), acceleration of the maturity of debt and/or exercise of other remedies by its creditors and equipment lessors that could result in a material adverse effect on the Company s financial position and results of operations. The Company cannot provide assurance that it would have sufficient liquidity to repay or refinance such debt if it were accelerated. In addition, an event of default or declaration of acceleration under certain of its financing agreements could result in an event of default under certain of the Company s other financing agreements due to cross default and cross acceleration provisions.

Furthermore, constrained liquidity may limit the Company s ability to withstand competitive pressures and limit its flexibility in responding to changing business and economic conditions, including increased competition and demand for new services, placing the Company at a disadvantage when compared to its competitors that have less debt, and making the Company more vulnerable than its competitors who have less debt to a downturn in the business, industry or the economy in general.

The Company s substantial level of indebtedness and non-investment grade credit rating, as well as market conditions and the availability of assets as collateral for loans or other indebtedness, may make it difficult for the Company to raise additional capital to meet its liquidity needs on acceptable terms, or at all.

See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this report for further information regarding the Company s liquidity.

Extensive government regulation could increase the Company s operating costs and restrict its ability to conduct its business.

Airlines are subject to extensive regulatory and legal oversight. Compliance with U.S. and international regulations imposes significant costs and may have adverse effects on the Company. Laws, regulations, taxes and airport rates and charges, both domestically and internationally, have been proposed from time to time that could significantly increase the cost of airline operations or reduce airline revenue. The Company cannot provide any assurance that current laws and regulations, or laws or regulations enacted in the future, will not adversely affect its financial condition or results of operations.

United provides air transportation under certificates of public convenience and necessity issued by the DOT. If the DOT altered, amended, modified, suspended or revoked these certificates, it could have a material adverse effect on the Company s business. The DOT is also responsible for promulgating consumer protection and other regulations such as the rule against lengthy tarmac delays, that will impose significant compliance costs on the Company. The FAA regulates the safety of United s operations. United operates pursuant to an air carrier operating certificate issued by the FAA. On January 4, 2014, the FAA s new and more stringent pilot flight and duty time requirements under Part 117 of the Federal Aviation Regulations took effect, which will disrupt operations and increase costs. In August 2013, the FAA significantly increased the minimum qualifications for air carrier first officers. These new regulations impact the Company and its regional partner flying, as they have caused mainline airlines to hire regional pilots, while simultaneously significantly reducing the pool of new pilots from which regional carriers themselves can hire. Although this is an industry issue, it directly affects the Company and requires it to reduce regional partner flying, as several regional partners are beginning to have difficulty flying their schedules due to reduced new pilot availability. From time to time, the FAA also issues orders, airworthiness directives and other regulations relating to the maintenance and operation of aircraft that require material expenditures or operational restrictions by the Company. These FAA orders and directives could include the temporary grounding of an entire aircraft type if the FAA identifies design, manufacturing, maintenance or other issues requiring immediate corrective action. FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environmental concerns, aircraft operation and safety and increased inspections and maintenance procedures to be conducted on older aircraft. These FAA directives or requirements could have a material adverse effect on the Company. Also, beginning in March 2014, OSHA s regulatory programs for hazard communication, hearing conservation and blood borne pathogens in the areas of cabin crewmember safety and health is expected to expose the Company to increased regulatory requirements in the aircraft cabin, with associated increased costs and the possibility for operational impacts.

In addition, the Company s operations may be adversely impacted due to the existing antiquated air traffic control (ATC) system utilized by the U.S. government. During peak travel periods in certain markets, the current ATC system s inability to handle existing travel demand has led to short-term capacity constraints imposed by government agencies and resulted in delays and disruptions of air traffic. In addition, the current system will not be able to effectively handle projected future air traffic growth. Imposition of these ATC constraints on a long-term basis may have a material adverse effect on our results of operations. Failure to update the ATC system in a timely manner, and the substantial funding requirements of a modernized ATC system that may be imposed on air carriers may have an adverse impact on the Company s financial condition or results of operations.

The airline industry is subject to extensive federal, state and local taxes and fees that increase the cost of the Company s operations. In addition to taxes and fees that the Company is currently subject to, proposed taxes and fees are currently pending and if imposed, would increase the Company s operating expenses. The Bipartisan Budget Act of 2013, signed into law on December 26, 2013, increases the September 11th security fee, effective July 1, 2014. The increase is expected to result in over $3 billion in additional taxation on the industry over the next decade and may result in higher fares and lower demand for air travel.

Access to landing and take-off rights, or slots, at several major U.S. airports and many foreign airports served by the Company are, or recently have been, subject to government regulation. Certain of the Company s major hubs are among increasingly congested airports in the United States and have been or could be the subject of regulatory action that might limit the number of flights and/or increase costs of operations at certain times or throughout the day. The FAA may limit the Company s airport access by limiting the number of departure and arrival slots at high density traffic airports, which could affect the Company s ownership and transfer rights, and local airport authorities may have the ability to control access to certain facilities or the cost of access to its facilities, which could have an adverse effect on the Company s business. The FAA historically has taken actions with respect to airlines slot holdings that airlines have challenged; if the FAA were to take actions that adversely affect the Company s slot holdings, the Company could incur substantial costs to preserve its slots. Further, the Company s operating costs at airports at which it operates, including the Company s major hubs, may increase significantly because of capital improvements at such airports that the Company may be required to fund, directly or indirectly. In some circumstances, such costs could be imposed by the relevant airport authority without the Company s approval and may have a material adverse effect on the Company s financial condition.

The ability of carriers to operate flights on international routes between airports in the United States and other countries may be subject to change. Applicable arrangements between the United States and foreign governments may be amended from time to time, government policies with respect to airport operations may be revised, and the availability of appropriate slots or facilities may change. The Company currently operates a number of flights on international routes under government arrangements, regulations or policies that designate the number of carriers permitted to operate on such routes, the capacity of the carriers providing services on such routes, the airports at which carriers may operate international flights, or the number of carriers allowed access to particular airports. Any further limitations, additions or modifications to such arrangements, regulations or policies could have a material adverse effect on the Company s financial position and results of operations. Additionally, a change in law, regulation or policy for any of the Company s international routes, such as open skies, could have a material adverse impact on the Company s financial position and results of operations and could result in the impairment of material amounts of related tangible and intangible assets. In addition, competition from revenue-sharing joint ventures and other alliance arrangements by and among other airlines could impair the value of the Company s business and assets on the open skies routes. The Company s plans to enter into or expand U.S. antitrust immunized alliances and joint ventures on various international routes are subject to receipt of approvals from applicable U.S. federal authorities and obtaining other applicable foreign government clearances or satisfying the necessary applicable regulatory requirements. There can be no assurance that such approvals and clearances will be granted or will continue in effect upon further regulatory review or that changes in regulatory requirements or standards can be satisfied.

Many aspects of the Company s operations are also subject to increasingly stringent federal, state, local and international laws protecting the environment. Future environmental regulatory developments, such as climate change regulations in the United States and abroad could adversely affect operations and increase operating costs in the airline industry. There are certain climate change laws and regulations that have already gone into effect and that apply to the Company, including the EU ETS (which is subject to international dispute), the State of California s cap and trade regulations, environmental taxes for certain international flights, limited greenhouse gas reporting requirements and land-use planning laws which could apply to airports and could affect airlines in certain circumstances. In addition, there is the potential for additional regulatory actions in regard to the emission of greenhouse gases by the aviation industry. The precise nature of future requirements and their applicability to the Company are difficult to predict, but the financial impact to the Company and the aviation industry would likely be adverse and could be significant.

The Company s business and operations may also be impacted by a lack of funding and, in turn, sequestration procedures at the federal government level. In April 2013, for example, the FAA implemented furloughs of air traffic controllers through its capacity reduction plan, resulting in flight delays throughout the United States, including to the Company s flights, until the U.S. Congress passed a bill suspending such furloughs. Although the U.S. Congress allocated resources under the Bipartisan Budget Act of 2013 that is expected to be in effect for the 2014 and 2015 fiscal years, the risk of future lack of funding and related sequestration obligations by the FAA, the Transportation Security Administration, the U.S. Customs and Border Protection or other federal agencies remains, potentially resulting in a material adverse impact on the Company.

See Part I, Item 1, Business - Industry Regulation, of this report for further information on government regulation impacting the Company.

The Company relies heavily on technology and automated systems to operate its business and any significant failure or disruption of the technology or these systems could materially harm its business.

The Company depends on automated systems and technology to operate its business, including computerized airline reservation systems, flight operations systems, revenue management systems, accounting systems, telecommunication systems and commercial websites, including www.united.com. United s website and other automated systems must be able to accommodate a high volume of traffic, maintain secure information and deliver important flight and schedule information, as well as process critical financial transactions. These systems could suffer substantial or repeated disruptions due to various events, some of which are beyond the Company s control, including natural disasters, power failures, terrorist attacks, equipment or software failures, computer viruses or cyber security attacks. Substantial or repeated systems failures or disruptions, including failures or disruptions related to the Company s complex integration of systems, could reduce the attractiveness of the Company s services versus those of its competitors, materially impair its ability to market its services and operate its flights, result in the unauthorized release of confidential or otherwise protected information, result in increased costs, lost revenue and the loss or compromise of important data, and may adversely affect the Company s business, results of operations and financial condition.

The Company is subject to increasing legislative and regulatory and customer focus on privacy issues and data security.

The Company is subject to increasing legislative and regulatory and customer focus on privacy issues and data security. A number of our commercial partners, including credit card companies, have imposed data security standards that the Company must meet and these standards continue to evolve. The Company will continue its efforts to meet new and increasing privacy and security standards; however, it is possible that certain new standards may be difficult to meet and could increase the Company s costs. Additionally, any compromise of the Company s technology systems could result in the loss, disclosure, misappropriation of or access to customers ,

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employees or business partners information. Any such loss, disclosure, misappropriation or access could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information. Any significant data breach or the Company s failure to comply with applicable U.S. and foreign privacy or data security regulations or security standards imposed by our commercial partners may adversely affect the Company s reputation, business, results of operations and financial condition.

The Company s business relies extensively on third-party service providers. Failure of these parties to perform as expected, or interruptions in the Company s relationships with these providers or their provision of services to the Company, could have an adverse effect on the Company s financial position and results of operations.

The Company has engaged an increasing number of third-party service providers to perform a large number of functions that are integral to its business, including regional operations, operation of customer service call centers, distribution and sale of airline seat inventory, provision of information technology infrastructure and services, provision of aircraft maintenance and repairs, provision of various utilities and performance of aircraft fueling operations, among other vital functions and services. The Company does not directly control these third-party service providers, although it does enter into agreements with many of them that define expected service performance. Any of these third-party service providers, however, may materially fail to meet their service performance commitments to the Company, may suffer disruptions to their systems that could impact their services, or the agreements with such providers may be terminated. For example, flight reservations booked by customers and/or travel agencies via third-party GDSs may be adversely affected by disruptions in the business relationships between the Company and GDS operators. Such disruptions, including a failure to agree upon acceptable contract terms when contracts expire or otherwise become subject to renegotiation, may cause the carriers flight information to be limited or unavailable for display, significantly increase fees for both the Company and GDS users, and impair the Company s relationships with its customers and travel agencies. The failure of any of the Company s third-party service providers to adequately perform their service obligations, or other interruptions of services, may reduce the Company s revenues and increase its expenses or prevent the Company from operating its flights and providing other services to its customers. In addition, the Company s business and financial performance could be materially harmed if its customers believe that its services are unreliable or unsatisfactory.

UAL s obligations for funding United s defined benefit pension plans are affected by factors beyond UAL s control.

The Company maintains two primary defined benefit pension plans, one covering certain pilot employees and another covering certain U.S. non-pilot employees. The timing and amount of UAL s funding requirements under these plans depend upon a number of factors, including labor negotiations with the applicable employee groups and changes to pension plan benefits as well as factors outside of UAL s control, such as the number of applicable retiring employees, asset returns, interest rates and changes in pension laws. Changes to these and other factors that can significantly increase UAL s funding requirements, such as its liquidity requirements, could have a material adverse effect on UAL s financial condition.

Union disputes, employee strikes or slowdowns, and other labor-related disruptions, as well as the integration of United s workforces in connection with the October 1, 2010 Merger, could adversely affect the Company s operations and could result in increased costs that impair its financial performance.

United is a highly unionized company. As of December 31, 2013, the Company and its subsidiaries had approximately 87,000 active employees, of whom approximately 80% were represented by various U.S. labor organizations.

The successful integration of United s workforces in connection with the Merger and achievement of the anticipated benefits of the combined company depend in part on integrating employee groups and maintaining productive employee relations. In order to fully integrate the pre-Merger represented employee groups, the Company must negotiate a joint collective bargaining agreement covering each combined group. The process for integrating the labor groups is governed by a combination of the RLA, the McCaskill-Bond Amendment, and where applicable, the existing provisions of collective bargaining agreements and union policies. A delay in or failure to integrate employee groups presents the potential for increased operating costs and labor disputes that could adversely affect our operations.

The Company can provide no assurance that a successful or timely resolution of labor negotiations for all amendable collective bargaining agreements will be achieved. There is a risk that unions or individual employees might pursue judicial or arbitral claims arising out of changes implemented as a result of the Merger. There is also a possibility that employees or unions could engage in job actions such as slow-downs, work-to-rule campaigns, sick-outs or other actions designed to disrupt the Company s normal operations, in an attempt to pressure the Company in collective bargaining negotiations. Although the RLA makes such actions unlawful until the parties have been lawfully released to self-help, and the Company can seek injunctive relief against premature self-help, such actions can cause significant harm even if ultimately enjoined. In addition, achieving joint collective bargaining agreements with our represented employee groups is likely to increase our labor costs, which increase could be material.

See Notes 15 and 17 to the financial statements included in Part II, Item 8 of this report for more information on labor negotiations and costs.

The airline industry is highly competitive and susceptible to price discounting and changes in capacity, which could have a material adverse effect on the Company.

The U.S. airline industry is characterized by substantial price competition including from low-cost carriers. The significant market presence of low-cost carriers, which engage in substantial price discounting, has diminished the ability of large network carriers to achieve sustained profitability on domestic and international routes.

Airlines also compete for market share by increasing or decreasing their capacity, including route systems and the number of markets served. Several of the Company s domestic and international competitors have increased their international capacity by including service to some destinations that the Company currently serves, causing overlap in destinations served and therefore increasing competition for those destinations. In addition, the Company and certain of its competitors have implemented significant capacity reductions in recent years in response to high and volatile fuel prices and stagnant global economic growth. Further, certain of the Company s competitors may not reduce capacity or may increase capacity, impacting the expected benefit to the Company from capacity reductions. This increased competition in both domestic and international markets may have a material adverse effect on the Company s results of operations, financial condition or liquidity.

The airline industry may undergo further bankruptcy restructuring, industry consolidation or the creation or modification of alliances or joint ventures, any of which could have a material adverse effect on the Company.

The Company faces and may continue to face strong competition from other carriers due to bankruptcy restructuring, industry consolidation and the creation and modification of alliances and joint ventures. A number of carriers have filed for bankruptcy protection in recent years and other domestic and international carriers could restructure in bankruptcy or threaten to do so in the future to reduce their costs. Carriers operating under bankruptcy protection can operate in a manner that could be adverse to the Company and could emerge from bankruptcy as more vigorous competitors.

Both the U.S. and international airline industries have experienced consolidation through a number of mergers and acquisitions. On December 9, 2013, the same date American Airlines emerged from bankruptcy protection, US Airways and American Airlines closed their merger transaction and, as a result of the merger transaction, the Company anticipates US Airways will exit Star Alliance on March 30, 2014. The Company is also facing stronger competition from expanded airline alliances and joint ventures. Carriers may improve their competitive positions through airline alliances, slot swaps and/or joint ventures. Certain airline joint ventures further competition by allowing airlines to coordinate routes, pool revenues and costs, and enjoy other mutual benefits, achieving many of the benefits of consolidation. Open skies agreements, including the agreements between the United States and the European Union and between the United States and Japan, may also give rise to additional consolidation or better integration opportunities among international carriers.

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There is ongoing speculation that further airline consolidations or reorganizations could occur in the future. The Company routinely engages in analysis and discussions regarding its own strategic position, including alliances, asset acquisitions and divestitures and may have future discussions with other airlines regarding strategic activities. If other airlines participate in such activities, those airlines may significantly improve their cost structures or revenue generation capabilities, thereby potentially making them stronger competitors of the Company and potentially impairing the Company s ability to realize expected benefits from its own strategic relationships.

Increases in insurance costs or reductions in insurance coverage may materially and adversely impact the Company s results of operations and financial condition.

Following the terrorist attacks on September 11, 2001, the Company s insurance costs increased significantly and the availability of third-party war risk (terrorism) insurance decreased significantly. The Company has obtained third-party war risk (terrorism) insurance through a special program administered by the FAA. The FAA s statutory authority to provide war risk insurance to air carriers expires on September 30, 2014. An extension of such authority will require legislation by the U.S. Congress. Should the government discontinue this coverage, obtaining comparable coverage from commercial underwriters could result in substantially higher premiums and more restrictive terms. If the Company is unable to obtain adequate third-party war risk (terrorism) insurance, its business could be materially and adversely affected.

If any of the Company s aircraft were to be involved in an accident or if the Company s property or operations were to be affected by a significant natural catastrophe or other event, the Company could be exposed to significant liability or loss. If the Company is unable to obtain sufficient insurance (including aviation hull and liability insurance and property and business interruption coverage) to cover such liabilities or losses, whether due to insurance market conditions or otherwise, its results of operations and financial condition could be materially and adversely affected.

The Company could experience adverse publicity, harm to its brand, reduced travel demand and potential tort liability as a result of an accident, catastrophe, or incident involving its aircraft, the aircraft of its regional carriers or the aircraft of its codeshare partners, which may result in a material adverse effect on the Company s results of operations or financial position.

An accident, catastrophe, or incident involving an aircraft that the Company operates, or an aircraft that is operated by a codeshare partner or one of the Company s regional carriers, could have a material adverse effect on the Company if such accident, catastrophe, or incident created a public perception that the Company s operations, or the operations of its codeshare partners or regional carriers, are not safe or reliable, or less safe or reliable than other airlines. Such public perception could in turn result in adverse publicity for the Company, cause harm to the Company s brand and reduce travel demand on the Company s flights, or the flights of its codeshare partners or regional carriers.

In addition, any such accident, catastrophe, or incident could expose the Company to significant tort liability. Although the Company currently maintains liability insurance in amounts and of the type the Company believes to be consistent with industry practice to cover damages arising from any such accident or catastrophe, and the Company s codeshare partners and regional carriers carry similar insurance and generally indemnify the Company for their operations, if the Company s liability exceeds the applicable policy limits or the ability of another carrier to indemnify it, the Company could incur substantial losses from an accident, catastrophe or incident which may result in a material adverse effect on the Company s results of operations or financial position.

The Company s results of operations fluctuate due to seasonality and other factors associated with the airline industry.

Due to greater demand for air travel during the spring and summer months, revenues in the airline industry in the second and third quarters of the year are generally stronger than revenues in the first and fourth quarters of the year, which are periods of lower travel demand. The Company s results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal including, among others, the imposition of excise and similar taxes, extreme or severe weather, air traffic control congestion, geological events, natural disasters, changes in the competitive environment due to industry consolidation, general economic conditions and other factors. As a result, the Company s quarterly operating results are not necessarily indicative of operating results for an entire year and historical operating results in a quarterly or annual period are not necessarily indicative of future operating results.

Terrorist attacks or international hostilities, or the fear of terrorist attacks or hostilities, even if not made directly on the airline industry, could negatively affect the Company and the airline industry.

The terrorist attacks on September 11, 2001 involving commercial aircraft severely and adversely impacted the Company s financial condition and results of operations, as well as the prospects for the airline industry. Among the effects experienced from the September 11, 2001 terrorist attacks were substantial flight disruption costs caused by the FAA-imposed temporary grounding of the U.S. airline industry s fleet, significantly increased security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and passenger revenue.

Additional terrorist attacks, even if not made directly on the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights) could materially and adversely affect the Company and the airline industry. Wars and other international hostilities could also have a material adverse impact on the Company s financial condition, liquidity and results of operations. The Company s financial resources may not be sufficient to absorb the adverse effects of any future terrorist attacks or other international hostilities.

An outbreak of a disease or similar public health threat could have a material adverse impact on the Company s business, financial position and results of operations.

An outbreak of a disease or similar public health threat that affects travel demand or travel behavior, or travel restrictions or reduction in the demand for air travel caused by an outbreak of a disease or similar public health threat in the future, could have a material adverse impact on the Company s business, financial condition and results of operations.

The Company may never realize the full value of its intangible assets or its long-lived assets causing it to record impairments that may negatively affect its financial position and results of operations.

In accordance with applicable accounting standards, the Company is required to test its indefinite-lived intangible assets for impairment on an annual basis on October 1 of each year, or more frequently if conditions indicate that an impairment may have occurred. In addition, the Company is required to test certain of its other assets for impairment if conditions indicate that an impairment may have occurred.

The Company may be required to recognize impairments in the future due to, among other factors, extreme fuel price volatility, tight credit markets, a decline in the fair value of certain tangible or intangible assets, unfavorable trends in historical or forecasted results of operations and cash flows and an uncertain economic environment, as well as other uncertainties. The Company can provide no assurance that a material impairment charge of tangible or intangible assets will not occur in a future period. The value of our aircraft could be impacted in future periods by changes in supply and demand for these aircraft. Such changes in supply and demand for certain aircraft types could result from grounding of aircraft by the Company or other carriers. An impairment charge could have a material adverse effect on the Company s financial position and results of operations.

The Company s ability to use its net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be significantly limited due to various circumstances, including certain possible future transactions involving the sale or issuance of UAL common stock, or if taxable income does not reach sufficient levels.

As of December 31, 2013, UAL reported consolidated federal net operating loss (NOL) carryforwards of approximately $11 billion.

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The Company s ability to use its NOL carryforwards may be limited if it experiences an ownership change as defined in Section 382 (Section 382) of the Internal Revenue Code of 1986, as amended. An ownership change generally occurs if certain stockholders increase their aggregate percentage ownership of a corporation s stock by more than 50 percentage points over their lowest percentage ownership at any time during the testing period, which is generally the three-year period preceding any potential ownership change.

There is no assurance that the Company will not experience a future ownership change under Section 382 that may significantly limit or possibly eliminate its ability to use its NOL carryforwards. Potential future transactions involving the sale or issuance of UAL common stock, including the exercise of conversion options under the terms of the Company s convertible debt, repurchase of such debt with UAL common stock, issuance of UAL common stock for cash and the acquisition or disposition of such stock by a stockholder owning 5% or more of UAL common stock, or a combination of such transactions, may increase the possibility that the Company will experience a future ownership change under Section 382.

Under Section 382, a future ownership change would subject the Company to additional annual limitations that apply to the amount of pre-ownership change NOLs that may be used to offset post-ownership change taxable income. This limitation is generally determined by multiplying the value of a corporation s stock immediately before the ownership change by the applicable long-term tax-exempt rate. Any unused annual limitation may, subject to certain limits, be carried over to later years, and the limitation may under certain circumstances be increased by built-in gains in the assets held by such corporation at the time of the ownership change. This limitation could cause the Company s U.S. federal income taxes to be greater, or to be paid earlier, than they otherwise would be, and could cause all or a portion of the Company s NOL carryforwards to expire unused. Similar rules and limitations may apply for state income tax purposes. The Company s ability to use its NOL carryforwards will also depend on the amount of taxable income it generates in future periods. Its NOL carryforwards may expire before the Company can generate sufficient taxable income to use them in full.

UAL s amended and restated certificate of incorporation limits certain transfers of its stock which could have an effect on the market price of UAL common stock.

To reduce the risk of a potential adverse effect on the Company s ability to use its NOL carryforwards for federal income tax purposes, UAL s amended and restated certificate of incorporation contains a 5% ownership limitation. This limitation generally remained effective until February 1, 2014, or until such later date as may be approved by the Board of Directors in its sole discretion. The limitation prohibits (i) an acquisition by a single stockholder of shares that results in that stockholder owning 5% or more of UAL common stock and (ii) any acquisition or disposition of common stock by a stockholder that already owns 5% or more of UAL common stock, unless prior written approval is granted by the Board of Directors. On December 5, 2013, the Board of Directors approved an extension of the 5% ownership limitation through February 1, 2017.

Any transfer of common stock in violation of these restrictions will be void and will be treated as if such transfer never occurred. This provision of UAL s amended and restated certificate of incorporation may impair or prevent a sale of common stock by a stockholder and adversely affect the price at which a stockholder can sell UAL common stock. In addition, this limitation may have the effect of delaying or preventing a change in control of the Company, creating a perception that a change in control cannot occur or otherwise discouraging takeover attempts that some stockholders may consider beneficial, which could also adversely affect the market price of the UAL common stock. The Company cannot predict the effect that this provision in UAL s amended and restated certificate of incorporation may have on the market price of the UAL common stock. For additional information regarding the 5% ownership limitation, please refer to UAL s amended and restated certificate of incorporation available on the Company s website.

Certain provisions of UAL s Governance Documents could discourage or delay changes of control or changes to the Board of Directors.

Certain provisions of UAL s amended and restated certificate of incorporation and amended and restated bylaws (together, the Governance Documents) may make it difficult for stockholders to change the composition of the Board of Directors and may discourage takeover attempts that some of its stockholders may consider beneficial.

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Certain provisions of the Governance Documents may have the effect of delaying or preventing changes in control if the Board of Directors determines that such changes in control are not in the best interests of UAL and its stockholders. These provisions of the Governance Documents are not intended to prevent a takeover, but are intended to protect and maximize the value of UAL s stockholders interests. While these provisions have the effect of encouraging persons seeking to acquire control of UAL to negotiate with the Board of Directors, they could enable the Board of Directors to prevent a transaction that some, or a majority, of its stockholders might believe to be in their best interests or, they could prevent or discourage attempts to remove and replace incumbent directors.

The issuance of additional shares of UAL s capital stock, including the issuance of common stock upon conversion of convertible notes and upon a noteholder s exercise of its option to require UAL to repurchase convertible notes, would cause dilution to the interests of its existing stockholders.

UAL s amended and restated certificate of incorporation authorizes up to one billion shares of common stock. In certain circumstances, UAL can issue shares of common stock without stockholder approval. In addition, the Board of Directors is authorized to issue up to 250 million shares of preferred stock, without par value, without any action on the part of UAL s stockholders. The Board of Directors also has the power, without stockholder approval, to set the terms of any series of shares of preferred stock that may be issued, including voting rights, conversion rights, dividend rights, preferences over UAL s common stock with respect to dividends or if UAL liquidates, dissolves or winds up its business and other terms. If UAL issues preferred stock in the future that has a preference over its common stock with respect to the payment of dividends or upon its liquidation, dissolution or winding up, or if UAL issues preferred stock with voting rights that dilute the voting power of its common stock, the rights of holders of its common stock or the market price of its common stock could be adversely affected.

The Company is also authorized to issue, without stockholder approval, other securities convertible into either preferred stock or, in certain circumstances, common stock. As of December 31, 2013, UAL had approximately $750 million of convertible debt outstanding. Holders of these securities may convert them into shares of UAL common stock according to their terms. In addition, certain of UAL s notes include noteholder early redemption options. If a noteholder exercises such option, UAL may elect to pay the repurchase price in cash, shares of its common stock or a combination thereof. See Note 11 to the financial statements included in Part II, Item 8 of this report for additional information related to these convertible notes. The number of shares issued could be significant and such an issuance could cause significant dilution to the interests of its existing stockholders. In addition, if UAL elects to pay the repurchase price in cash, its liquidity could be adversely affected.

In the future, UAL may decide to raise additional capital through offerings of UAL common stock, securities convertible into UAL common stock, or exercise rights to acquire these securities or its common stock. The issuance of additional shares of common stock, including upon the conversion or repurchase of convertible debt, could result in significant dilution of existing stockholders equity interests in UAL. Issuances of substantial amounts of its common stock, or the perception that such issuances could occur, may adversely affect prevailing market prices for UAL s common stock and UAL cannot predict the effect this dilution may have on the price of its common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.
Fleet

Including aircraft operating by United s regional carriers, United operated 1,265 aircraft as of December 31, 2013. UAL s combined fleet as of December 31, 2013 is presented in the table below:

Aircraft Type	Total	Owned	Leased	Seats in Standard Configuration	Average Age (In Years)
Mainline:					
747-400	23	15	8	374	18.4
777-200ER	55	38	17	267-269	13.8
777-200	19	18	1	266-348	16.9
787-8	8	8		219	0.9
767-400ER	16	14	2	242	12.3
767-300ER	35	19	16	183-214	18.5
757-300	21	9	12	213	11.3
757-200	110	49	61	142-182	19.9
737-900ER	76	76		167	2.8
737-900	12	8	4	167	12.3
737-800	130	57	73	152-160	10.9
737-700	36	12	24	118-124	15.0
A320-200	97	51	46	138-150	15.5
A319-100	55	41	14	120-128	14.0
Total mainline	693	415	278		13.5

Aircraft Type	Total	Owned	Leased	Capacity Purchase	Seats in Standard Configuration
Regional:					
Q400	28			28	71
E-170	38			38	70
CRJ700	115			115	66-70 (a)
CRJ200	75			75	50
ERJ-145 (XR/LR/ER)	277	16	223	38	50
Q300	5			5	50
ERJ-135	9		9		37
Q200	16			16	37
EMB 120	9			9	30
Total regional	572	16	232	324	
Total	1,265	431	510	324	

(a) In August 2013, the Company modified the seats in standard configuration for the CRJ700 to have 70 seats. The Company will complete this process in the first half 2014.

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In addition to the aircraft operating in scheduled service presented in the tables above, United owns or leases the following aircraft listed below as of December 31, 2013:

- One owned Boeing 747-400 operating in charter service;
- Two owned Boeing 767-200s that are in process of being sold in 2014 and one leased Boeing 767-200 which is being subleased to another airline;
- Two owned and five leased Boeing 757-200s, including two owned aircraft which have been sold, one leased aircraft which has been returned to the lessor subsequent to December 31, 2013, and four leased aircraft in storage;
- Three Airbus A330s, which are subleased to another airline; and
- 21 leased ERJ-135s in storage.

Firm Order and Option Aircraft

As of December 31, 2013, United had firm commitments to purchase aircraft from The Boeing Company (Boeing), Embraer S.A. (Embraer) and Airbus S.A.S. (Airbus) presented in the table below:

Aircraft Type	Number of Firm Commitments (a)
Airbus A350-1000	35
Boeing 737-900ER	