TRI VALLEY CORP
Form 10-Q
May 10, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006 Commission File No. 001-31852

Tri-Valley Corporation

(Exact name of registrant as specified in its charter)

Delaware **84-0617433**

(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

4550 California Avenue, Suite 600, Bakersfield, California 93309

(Address of principal executive offices)

(661) 864-0500

(Registrant's telephone number, including area code)

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.
Yes x No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes x No o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The number of shares of Registrant's common stock outstanding at April 28, 2006, was 23,188,351.

TRI-VALLEY CORPORATION

INDEX

		Page
PART I -	FINANCIAL INFORMATION	3
Item 1.	Consolidated Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	12

Item 4.	Controls and Procedures	13
PART II -	OTHER INFORMATION	14
Item 1-A	Risk Factors	14
Item 2.	Unregistered Sales of Equity Securities	14
Item 6.	Exhibits	14
SIGNATURES		14

2

Part I - FINANCIAL INFORMATION

Item 1. **Unaudited Consolidated Financial Statements**

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, ___2006___ (Unaudited)	December 31, ___2005___ (Audited)
Current assets		
Cash	$ 4,936,443	$ 4,876,921
Accounts receivable, trade	157,944	273,409
Advance receivable	594,746	158,460
Prepaid expenses	42,529	42,529
Total current assets	5,731,662	5,351,319
Property and equipment, net		
Proved properties	986,172	1,146,103
Unproved properties	2,787,607	3,009,564
Other property and equipment	9,603,873	9,480,314
Total property and equipment, net	13,377,652	13,635,981
Other assets		
Deposits	1,502,004	316,614
Investments in partnerships	17,400	17,400
Goodwill	212,414	212,414
Other	142,844	205,002
Total other assets	1,874,662	751,430
Total assets	**$ 20,983,976**	**$ 19,738,730**

The accompanying notes are an integral part of these condensed financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

		March 31, ___2006___ (Unaudited)		December 31, ___2005___ (Audited)
Current liabilities				
Notes payable	$	1,104,917	$	966,649
Accounts payable and accrued expenses		1,604,091		1,190,604
Advances from Great Valley Drilling, LLC		748,000		-
Amounts payable to joint venture participants		379,128		161,747
Advances from joint venture participants, net		5,428,197		5,318,645
Total current liabilities		9,264,333		7,637,645
Non-Current Liabilities				
Due to joint ventures		257,506		201,748
Asset Retirement Obligation		93,897		92,108
Long-term portion of notes payable		5,103,495		4,234,509
Total non-current liabilities		5,454,898		4,528,365
Total liabilities		14,719,231		12,166,010
Stockholders' equity				
Common stock, $.001 par value; 100,000,000 shares authorized; 23,163,351 and 22,806,176 issued and outstanding at March 31, 2006, and December 31, 2005, respectively		23,163		22,806
Less: common stock in treasury, at cost, 100,025 shares		(13,370)		(13,370)
Capital in excess of par value		27,357,250		25,629,775
Additional paid in capital - stock options		52,060		-
Accumulated deficit		(21,154,358)		(18,066,491)
Total stockholders' equity		6,264,745		7,572,720
Total liabilities and stockholder's equity	**$**	**20,983,976**	**$**	**19,738,730**

The accompanying notes are an integral part of these condensed financial statements.

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended March 31	
	2006	2005
Revenues		
Sale of oil and gas	$ 318,722	$ 169,126
Other income	44,186	9,649
Interest income	6,857	23,333
Total Revenues	369,765	202,108
Cost and Expenses		
Oil and gas lease expense	57,414	20,215
Mining exploration expenses	1,196,490	2,198,246
	42,561	192,407

Drilling and development				
Depletion, depreciation and amortization		275,049		19,376
Interest		181,581		347
Impairment loss		458,564		-
General administrative		1,222,213		1,146,628
Total Cost and Expenses		3,433,872		3,577,219
Net Income (Loss)	$	(3,064,107)	$	(3,375,111)
Basic Earnings per common share	$	(.13)	$	(.15)
Weighted average number of shares outstanding		22,938,902		22,123,363
Diluted Earnings per common equivalent share	$	(.12)	$	(.15)
Diluted average number of shares outstanding		25,660,058		22,123,363

The accompanying notes are an integral part of these condensed financial statements.

5

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended March 31,	
	2006	2005
Cash Flows from Operating Activities		
Net profit/(loss)	$ (3,064,107)	$ (3,375,111)
Adjustments to reconcile net income to net cash used from operating activities:		
Depreciation, depletion and amortization	275,049	19,376
Non cash mining exploration expense	-	2,010,000
Impairment, dry hole and other disposals of property	458,564	-
Changes in operating capital:		
Prepaids-(increase)decrease	-	10,027
Deposits-(increase) decrease	(13,232)	(257,159)

Accounts receivable-(increase)decrease	(320,821)	(71,204)
Trade accounts payable-increase(decrease)	368,087	10,566
Advances from Great Valley Drilling, LLC-increase(decrease)	748,000	-
Accounts payable to joint venture		
participants and related parties-increase(decrease)	273,139	58,723
Advances from joint venture		
Participants-increase(decrease)	109,552	6,052,185
Net Cash Provided/(Used) by Operating Activities	(1,165,769)	4,457,403
Cash Flows from Investing Activities		
Note receivable	-	(1,100,000)
Capital expenditures	(499,044)	(906,832)
Net cash provided by (used in) Investing Activities	(499,044)	(2,006,832)
Cash Flows from Financing Activities		
Proceeds from long-term debt	1,268,755	-

Principal payments on long-term debt		(214,312)		(1,958)
Net proceeds from additional paid in capital - stock options		52,060		
Proceeds from issuance of common stock		617,832		1,114,350
Net Cash Provided/(Used) by Financing Activities		1,724,335		1,112,392
Net Increase in Cash and Cash Equivalents		59,522		3,562,963
Cash and Cash Equivalents at Beginning of Period		4,876,921		11,812,920
Cash and Cash Equivalents at End of Period	$	4,936,443	$	15,375,883
Supplemental Information:				
Cash paid for interest	$	155,841	$	347
Cash paid for taxes	$	-	$	-

The accompanying notes are an integral part of these condensed financial statements.

TRI-VALLEY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

March 31, 2006 and 2005

(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business
Tri-Valley Corporation ("TVC" or the Company), a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing petroleum and metal and mineral properties and interests therein. Tri-Valley has five subsidiaries and three operating segments or business lines.

· Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities. TVOG derives the majority of its revenue from oil and gas drilling and development. TVOG primarily generates its own exploration prospects from its internal database, and also screens prospects from other geologists and companies. TVOG generates these geological "plays" within a certain geographic area of mutual interest. The prospect is then presented to potential co-ventures. The company deals with both accredited individual investors and energy industry companies. TVOG serves as the operator of these co-ventures. TVOG operates both the oil and gas production segment and the drilling and development segment of our business lines.

· Select Resources Corporation ("Select") was created in late 2004 to manage, grow and operate Tri-Valley's mineral interests. Select operates the Minerals segment of our business lines both through a joint venture, Tri-Western Resources, LLC and itself.

· Great Valley Production Services, Inc., was formed in February 2006 and subsequently converted to an LLC in April 2006 to operate oil production rigs, primarily for TVOG.

· Great Valley Drilling Company, LLC was formed in March 2006 to operate oil drilling rigs, primarily for TVOG.

· Tri-Valley Power Corporation is inactive at the present time.

Basis of Presentation

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the three-month period ended March 31, 2006, are not necessarily indicative of the results to be expected for the full year.

The accompanying consolidated financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles in the United States of America; and, therefore, should be read in conjunction with our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2006, for the year ended December 31, 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Tri-Valley Oil & Gas Co., and Select Resources, Inc. and Tri-Valley Power Corporation, since their inception. Great Valley Drilling Company, LLC and Great Valley Productions Services, LLC are also included. Because the Company is the principal beneficiary of a mining venture, it has also consolidated a 50% owned joint venture, Tri-Western Resources, LLC. Other partnerships in which the Company has an operating or nonoperating interest in which the Company is not the primary beneficiary and owns less than 51%, are proportionately combined. These include Opus I, Martins-Severin, Martins-Severin Deep, and Tri-Valley Exploration 1971-1 partnerships. All material intra and intercompany accounts and transactions have been eliminated in combination and consolidation.

NOTE 2 - PER SHARE COMPUTATIONS

Per share computations are based upon the weighted-average number of common shares outstanding during each year. Common stock equivalents are not included in the computations since their effect would be anti-dilutive.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" (Statement 123R), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Statement 123R requires a public company to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award, with limited exceptions. That cost will be recognized over the period during which the employee is required to provide service in exchange for the award, which is typically the vesting period. Statement 123R eliminates the alternative to use Opinion 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued.

The Company adopted FASB Statement No. 123(Revised), “Share-Based Payment,” as of January 1, 2006 using the "modified prospective" method permitted by the Statement. The modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123R that remain unvested on the effective date.

Prior to adoption of Statement 123R, Tri-Valley accounted for share-based payments to employees under Statement 123 using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The adoption of Statement 123R's fair-value method will impact Tri-Valley's results of operations, although the future impact of adoption of Statement 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. The expense for the first quarter of 2006 is $52,060.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” SFAS 150 addresses certain financial instruments that, under previous guidance, could be accounted for as equity, but now must be classified as liabilities in statements of financial position. These financial instruments include: (1) mandatorily redeemable financial instruments, (2) obligations to repurchase the issuer’s equity shares by transferring assets, and (3) obligations to issue a variable number of shares. With limited exceptions, SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect that the adoption of SFAS 150 will have a material impact on its results of operations and financial position.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143," (FIN 47) which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We adopted FIN 47 as of December 31, 2005. We do not expect the adoption of FIN 47 to have a material impact on our consolidated results of operations and financial condition.

NOTE 4 - NOTES PAYABLE

In the quarter ended March 31, 2006 Tri-Valley issued three promissory notes. Two of these notes were to Ed Moss, Trustee, Moss Family Trust. One of these notes is for $618,000. and the other for $257,500. They are secured by 100,000 shares and 40,000 shares of Tri-Valley unregistered, restricted common stock, respectively. The terms on both notes are an interest rate of 12.0% per annum, amortized over five years with monthly payments of $13,747.07 and $5,727.95, respectively. The adequacy of the collateral coverage is reviewed at the end of each loan year and if the stock price does not support the unpaid balance, additional stock is required to be pledged. The purpose of the notes was to assure timely funds to hold, acquire and refurbish production rigs while more complete capital was being raised.

The third promissory note was issued to F. Lynn Blystone and Patricia L. Blystone in the amount of $150,000. Mr. Blystone is the President and Chief Executive Officer of Tri-Valley Corporation. The note is to be paid on an interest only basis of 1.0% per month and to be paid in full on or before March 21, 2007. The note is secured by a six percent (6%) overriding royalty interest in the Temblor Valley production. The purpose was to fund requirement for expanded bonding with the California Division of Oil, Gas and Geothermal Resources due to acquisition of more wells by the Company while additional capital was being raised

NOTE 5 - CHANGES IN SECURITIES

During the first quarter of 2006, we issued the following shares of common stock. All of these securities were issued pursuant to privately negotiated transactions in reliance on the exemption contained in Section 4(2) of the Securities Act.

- Two employees exercised employee stock options issued in previous years to purchase 152,000 shares of common stock totaling $159,000.

- 140,000 common shares were pledged as security on two notes payable.

- One private individual purchased 25,000 shares at $8.00 per share for a total of $200,000.

- Another private individual purchased 7,500 shares at $8.00 per share for a total of $60,000.

- Another private individual purchased 2,000 shares at $8.00 per share for a total of $16,000.

- Another private individual purchased 10,000 shares at $8.00 per share for a total of $80,000.

- Another private individual purchased 1,875 shares at $8.00 per share for a total of $15,000.

- Another private individual purchased 2,250 shares at $8.00 per share for a total of $18,000.

- Another private individual purchased 1,000 shares at $8.00 per share for a total of $8,000.

- Another private individual purchased 500 shares at $8.00 per share for a total of $4,000.

- Another private individual purchased 800 shares at $8.00 per share for a total of $6,400.

- Another private individual purchased 500 shares at $8.00 per share for a total of $4,000.

- Another private individual purchased 1,000 shares at $8.00 per share for a total of $8,000.

- Another private individual purchased 1,000 shares at $8.00 per share for a total of $8,000.

- Another private individual purchased 1,000 shares at $8.00 per share for a total of $8,000.

- Another private individual purchased 625 shares at $8.00 per share for a total of $5,000.

- Another private individual purchased 3,000 shares at $8.00 per share for a total of $24,000.

· Another private individual purchased 1,000 shares at $8.00 per share for a total of $8,000.

· Another private individual purchased 500 shares at $8.00 per share for a total of $4,000.

· Another private individual purchased 1,500 shares at $8.00 per share for a total of $12,000.

· Another private individual purchased 1,500 shares at $8.00 per share for a total of $12,000.

· Another private individual purchased 1,500 shares at $8.00 per share for a total of $12,000.

· Another private individual purchased 625 shares at $8.00 per share for a total of $5,000.

· Another private individual purchased 500 shares at $8.00 per share for a total of $4,000.

· During the year the common stock issuance cost amounted to approximately $680,400.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Review

Notice Regarding Forward-Looking Statements

This report contains forward-looking statements. The words, "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "could," "may," "foresee," and similar expressions are intended to identify forward-looking statements. These statements include information

regarding expected development of Tri-Valley's business, lending activities, relationship with customers, and development in the oil and gas industry. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated.

Petroleum Activities

The petroleum activities during the first quarter of 2006, were all activities of planning and positioning for execution of future operations. As of December 31, 2005, Tri-Valley closed on its Temblor Valley Purchase consisting of 57-wells in South Belridge and Edison Fields in Kern County, California. The quarter was consumed transferring all the normal and governmental paperwork over to Tri-Valley, while simultaneously planning the start of reworking and returning 25-wells to production during the second quarter and the planning of drilling several core wells to evaluate the optimum approach for development. The same activities occurred on the Pleasant Valley Project and the Moffat Ranch Project. The Moffat Ranch Project efforts were restricted because of limited availability of downhole equipment and limited availability of a drilling rig and production/ workover rigs. Drilling on both the Moffat Ranch and Pleasant Valley Projects is expected to occur during the second quarter.

To help solve the existing industry wide equipment shortage problem, Tri-Valley took delivery of its first two production/workover rigs through its Great Valley Production Services, LLC subsidiary. Rig #103 is a 103-foot high “double” with a 212,000-pound pulling capacity. Rig #60 is a 60-foot high, “single” with a 120,000-pound pulling capacity. All of the associated equipment is assembled to work these rigs and one crew has been assembled in May to commence rework on the Temblor Project and Rig #103 and is scheduled to start drilling 4,000 foot core wells.

A third rig, Rig #105, a 105-foot high “double” with a 250,000-pound pulling capacity, was in the process of being remanufactured during the last portion of the first quarter. Delivery is expected to occur in the second quarter. Two more rigs, Rigs #96A & #96B, were also purchased for remanufacturing to be put into the fleet upon their completion toward the end of 2006. Because these rigs all have the newest engines and other improvements including digital controls, they are actually better than when new.

Tri-Valley also exercised an option to purchase an existing drilling rig currently owned by Equipment 2000 with headquarters in Fallon, Nevada. The rig is capable of drilling to 8,000 feet with 4-1/2” drill pipe and approximately 10,000 feet with 3-1/2” drill pipe. The transaction is expected to be finalized once the rig has fulfilled its current obligations, which is expected to occur approximately June 2006. This drilling rig will be operated under a newly created subsidiary, Great Valley Drilling Co., LLC. The current owner of Equipment 2000 will become the General Manager of Great Valley Drilling Co., LLC and all crews and personnel will be transferring over to Great Valley Drilling Co., LLC. In addition to Tri-Valley’s own

inventory of prospects to be drilled (the rig is also certified for California operation) Nevada is becoming of increasing interest for exploration due to the large number of structural traps catalogued. Tri-Valley believes there is more than ample projects for the rig and crews.

The tactical reason for purchasing the rig fleet is to enable Tri-Valley to work on its growing inventory of wells and drill new ones as needed rather than be delayed for months or even a year because of unavailability of contractor supplied rigs. The strategic reason is that as other property owners experience delays in timely service of their wells and production begins to decline they will tend to want to sell and the only logical bidders will be the few companies like Tri-Valley with the equipment to service additional properties..

Mining Activities

Precious Metals

Mineral exploration programs in the first quarter consisted largely of completion of the 2005 work programs and compilation of the results in annual reports on three properties: Richardson and Shorty Creek in Alaska, and Typhoon in Yukon Territory, Canada.

The 2005 Richardson program included extensive compilation and reprocessing of existing public and private data for the entire property, and soil sampling and drilling on the Democrat Prospect within the Richardson Property. All activities on the property were completed by the end of the fourth quarter. Results of the soil sampling program completed in the third quarter resulted in the drilling of an eight-hole, diamond drilling program totaling 3,052 feet, testing altered quartz-feldspar-porphyry (“QFP”) hosted gold targets over a segment of the Richardson lineament, including the bottom of the Democrat Mine pit area. QFP is the main host for gold mineralization at this area of the property. Two holes tested the Camp Pit area, five holes were drilled in the Democrat Mine area and one hole in the Democrat Pup area. The drilling was completed by mid-December. In the first quarter of 2006, assays of the drilling were completed resulting in seven of the eight holes in gold mineralization, with the best hole, RI05-03 intersecting the grades of 1.5 ppm Au (1.5 gram) with 1.3 opt Ag over a 38 foot interval (20.0 feet to 58.0 feet). High values include 3.0 ppm Au over a 3 foot interval (33.0 feet to 36.0 feet) and 4.5 opt Ag over a 6 foot interval (52.0 feet to 58.0 feet), and hole RI05-03 cut the highest silver grade encountered at 17.9 opt Ag over a 3 foot interval (168.5 feet to 171.5 feet). All five holes in the Democrat Mine area ended in altered and mineralized QFP indicating a much larger intrusive system. Additional work completed in the first quarter consisted of the compilation and assessment of the geochemical, geophysical and drilling data and the completion of the 2005 annual report on the property.

The Shorty Creek and Typhoon programs consisted of the final assessment of the data collected in the third and fourth quarters of 2005 and the completion of the annual reports on those properties.

Industrial Minerals

At Shorty Creek, Select Resources completed a top-of-bedrock soil auger geochemical sampling program covering a 2.3 square kilometer portion of the property defined as anomalous by past exploration. A total of 566 soil samples were collected on a 50-meter by 100-meter grid. Highly anomalous concentration of gold, copper, silver and other indicator elements were found.

The area of anomalous soil geochemistry is essentially coincident with one of the prominent aeromagnetic highs. On satellite imagery, the area also appears as a distinct vegetation anomaly. This anomaly - the Hill 1835 Anomaly - covers one of four very prominent magnetic highs within the claim area. Scattered reconnaissance rock chip and stream sediment geochemical samples from the other areas indicate that they too are geochemical anomalies. Because

of these features, the Hill 1835 Anomaly is a prominent target for further exploration at Shorty Creek, as well as the other three magnetic highs within the claim area.

Ian Chapman joined Select Resources as Vice-President in charge of Industrial Mineral operations, and Executive Director of the Tri-Western Resources, LLC, joint venture (50% owned and managed by Select Resources).

During the first quarter, Tri-Western Resources went into limited production of cinders from its Boron facilities. Cinders are used as road treatment material for winter weather conditions and as decorative stone products. In addition, the boron basalt plant was completed and was awaiting its final air permits (awarded in April 2006) prior to the initiation of production from the facility. During this period the boron facility passed its Mine Safety and Health Administration (MSHA) inspection, required for the commencement of operations. Basalt production is expected to begin in the second quarter of 2006. Revenue generation has begun in the second quarter.

Limited work associated with permitting activities was undertaken on the Monarch calcium carbonate property in California, a Tri-Western Resources project, during the first quarter of 2006 is expected to increasingly relieve the necessity of subsidy by Select Resources with profitable operation being attained in the second half of fiscal 2006.

No work was undertaken on the Admiral Calder calcium carbonate mine in Alaska (100% owned and managed by Select Resources) during the first quarter of 2006.

Results of Operations

For the quarter ended March 31, 2006, revenue was $369,765, compared to $202,108 in the first quarter of 2005. We had an operating loss of about $3.064 million in the first quarter of 2006, compared to a loss of $3.375 million in the first quarter of 2005. Non-cash amounts included in the loss for the first quarter is depreciation, depletion and amortization of $275,049 and impairment write-off of $458,564.

The Company's revenues from the sale of oil and gas increased from $169,126 in the first quarter of 2005 to $318,722 in the first quarter of 2006. This increase was due to acquisitions of oil producing properties and price increases.

Other income increased from $9,649 in the first quarter of 2005 to $44,186 in the first quarter of 2006, this was due to the increase in the overhead we charged for the producing wells due to the increase in the number of the producing wells we service. Interest income decreased from $23,333 in the first quarter of 2005 to $6,857 in the same period of 2006. This was due to we had less cash at the first quarter of 2006 compared to the same period of 2005. Oil and gas lease expense increased from $20,215 in the first quarter of 2005 to $57,414 in the same period of 2006 because of the new producing wells we acquired at the end of 2005 caused our Lease operating expenses to increase. Drilling and development expenses decreased from $192,407 in the first quarter of 2005 to $42,561 in the first quarter of 2006 because of the decrease in drilling activities. Depletion, depreciation and amortization increased from

$19,376 in the first quarter of 2005 to $275,049 in the same period of 2006 due to the increase in the property and equipment value.

Costs and expenses were approximately $3.4 million (4%) less in the first quarter of 2006 than in the same period in 2005. We spent $1,196,490 on mining exploration in the first quarter of 2006 which was $1.02 million dollars less than the same period in 2005. These are primarily expenses to support the industrial minerals joint venture to attain production/revenue status which is now the case. The reduction was due to decreased expenditures in acquiring royalty interests in gold mining interests We also recognized impairment losses of $458,564, primarily on the write-off of our Webb #1 Blowout and the write-off of the Tracy Subthrust. During our regular evaluation of our prospects, we determined that these properties are no longer viable.

General and administrative costs totaled $1,222,213 a increased by $75,585 or 7% from the first quarter in 2005 due to general price increases and the continuing support of the industrial minerals joint venture to achieve production/revenue status which now the case. With the advent of production both from oilfield development and the industrial minerals joint venture, the Company looks to greatly reduce its operating loss in the second half of 2006.

Capital Resources and Liquidity

In 2002 through 2005, our drilling activities have been largely funded by selling interests in our OPUS I drilling partnership. We do not borrow to fund drilling activities. Our continued drilling activity relies on our ability to raise money for projects through drilling partnerships or other joint ventures.

Current assets were about $5.7 million at March 31, 2006, up slightly from $5.3 million at year end 2005. Cash on hand was nearly the same at approximately $4.9 million at March 31 and December 31.

Current liabilities rose to about $8.5 million at March 31, 2006, from $7.6 million at year end 2005.due to an increase of about $140,000 in notes payable and an increase of about $0.4 million in accounts payable and accrued expenses. Amounts payable to joint venture participants also increase by about $218,000.

Operating Activities

We had a negative cash flow of $1,913,769 for the three months ended March 31, 2006 compared to a positive cash flow of $4,457,403 for the same period in 2005, negative cash flow in the current period is due mainly to our loss from operations. Our loss from operations was approximately $3.064 million for the three months ended March 31, 2006 compared to $3.375 million for the same period in 2005.

The largest component of positive cash flow in the first quarter of 2005 was receipt of advances of more than $6 million from joint venture participants for future drilling operations, which far exceeded advances received in the first quarter of 2006. These do not contribute to operating revenues at the time received but are held in cash until expended in drilling and operations. We cannot predict the levels at which we will continue to receive funds for additional drilling, and in the past we have experienced wide swings in receipt of these funds from quarter to quarter. We do not commit to drilling activities unless and until we have sufficient advances in hand to fund a particular project.

Investing Activities

Cash used in investing activities was $499,044 for the first three months of 2006. $348,360 was used towards the purchase of the new rigs for Great Valley Production, $38,564 was invested in buildings and equipment for Select Resources and the reminder was for the acquisitions of prospects for Tri-Valley Oil and Gas.

Financing Activities

Net cash provided by financing activities was $2,340,569 for the first quarter. We received $486,066 from sales of restricted shares of common stock in privately negotiated transactions including the exercise of stock options by employees. We received $748,000 from the sale of membership units in the Great Valley Drilling Company, LLC. We received $1,268,755 in proceeds from issuance of long-term debt and used $214,312 to pay down principal on long-term debt. We expect to use these funds for working capital. We have not planned any private placement of equity securities for the remainder of 2006, but we may continue to receive funds from privately negotiated transactions. We do not have a targeted or budgeted amount of equity financing activities. In the first quarter of 2005, the net cash provided by financing activities was $1,112,302 from sales of restricted shares of common stock in privately negotiated transactions.

Liquidity

During 2006, we expect to expend approximately $10 million on drilling activities. Funds for these activities will be provided by sales of partnership interests in the Opus I drilling partnership. If the sales of partnership interests are not adequate, our drilling activities will be scaled back to an appropriate level to fund the adjusted balance of our drilling activities for 2006. We have not yet planned our proposed prospect drilling and development activities for 2007.

In 2006, we expect expenditures of approximately $0.6 million on mining activities, primarily continuing lease obligations in Alaska and $1.4 million in connection with improving the production capacity of Tri-Western Resources' boron mine in California. Production has begun on a limited basis. The last half of 2006 should see increased production which should produce positive cash flow. We had spent approximately $1.2 million on mining lease and exploration expense in the first quarter of the year and expect approximately another $1 million in development expenses in the remainder of the year (in addition to operating expenses), after production at the boron mine begins, to improve our production capacity.

New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates

New Accounting Pronouncements

See note 3 to our interim financial statements.

Significant Accounting Policies

See note 2 to our consolidated financial statements in our Form 10-K.

Critical Accounting Estimates

See note 2 to our consolidated financial statements in our Form 10-K

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Tri-Valley Corporation does not engage in hedging activities and does not use commodity futures or forward contracts in its cash management functions.

Item 4. Controls and Procedures

Disclosure Controls

As of March 31, 2006, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures are based on the definition of disclosure controls and procedures in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934. Based on that evaluation, our management, including the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2006.

Management, including our CEO and CFO, do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. In designing and evaluating our control system, management recognized that any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any that may affect our operations have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

During the first quarter of 2006, there were no material changes in the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities

During the first quarter of 2006, the Company issued 65,175 shares of restricted common stock to various private investors at current prices totaling $542,049.

Both of these transactions were conducted in reliance on the exemption from registration requirements of the Securities Act of 1933 contained in Section 4(2) of that Act.

Also during the first quarter of 2006, $850,000 in membership units of Great Valley Drilling Company, LLC were sold.

Item 6. Exhibits

Item	Description
10.1	Note to F. Lynn Blystone and Patricia L. Blystone
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	18 U.S.C. Section 1350 Certification
32.2	18 U.S.C. Section 1350 Certification

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRI-VALLEY CORPORATION

May 10, 2006 *\/s/ F. Lynn Blystone*

F. Lynn Blystone

President and Chief Executive Officer

May 10, 2006 /s/ *Arthur M. Evans*

Arthur M. Evans

Chief Financial Officer

Exhibit 10.1

Promissory Note

On this date of March 21, 2006, in return for valuable consideration received, the undersigned borrower promises to pay to F. Lynn Blystone and Patricia L Blystone, the sum of $150,000.00 Dollars, together with interest thereon at the rate of one percent (1.0%) per month.

Terms of Repayment: This loan shall be repaid under the following terms: The loan amount will be paid on an interest only basis at the rate of one percent (1.0%) per month beginning with the first payment due April 21. The loan to be paid in full on March 21, 2007 or before.

Place of Payment - all payments due under this note shall be made at 4550 California Ave, Suite 600, Bakersfield, CA 93309 or at such other place as the holder of this Note may designate in writing.

Prepayment - This Note may be prepaid in whole or in part at any time without premium or penalty. All prepayments shall first be applied to interest, and then to principal payments in the order of their maturity.

Security - This note will be secured by a six percent (6%) overriding royalty interest in the Temblor Valley production (also know as Brea)

Default - Each of the following events will be an "Event of Default" for the purposes of this Note. An Event of Default will be deemed to continue until waived by Notice by the Payee to the Maker or remedied by action of the Maker.

Payment Default. The Maker defaults in the payment when due of any Principal Amount or Interest (a "Payment Default").

Insolvency Default. The Maker: (i) discontinues the conduct of its business; (ii) applies for or consents to the imposition of any Insolvency Relief; (iii) voluntarily commences or consents to the commencement of an Insolvency Proceeding; (iv) files an answer admitting the material allegations of any involuntary commencement of an Insolvency Proceeding; (v) makes a general assignment for the benefit of its creditors; (vi) is unable or admits in writing its inability to pay its debts as they become due; or (vii) becomes the subject of an Insolvency Order which it does not contest in good faith within three Business Days of its entry, and if so contested, the Insolvency Order is not dismissed within 60 days of its entry ("Insolvency Default").

Representations and Warranties Default. Maker will be in default if any of the representations and warranties made herein are false.

Performance Default. Maker will be in default if Maker fails to perform any material terms or covenants hereunder.

Fraudulent Conveyance Default. The Maker: (i) conceals, removes or permits to be concealed or removed all or any part of its property with the intent to hinder, delay or defraud any of its creditors; (ii) makes or permits any conveyance of its material properties that would be deemed fraudulent to creditors under any Insolvency Law or other applicable law; or (iii) has, while it is insolvent, caused or permitted any of its creditors to obtain a Lien on any of its property by legal proceedings or otherwise which is not vacated within 30 days.

Judgments. A final, nonappealable judgment or judgments is or are entered against the Maker in the aggregate amount of $100,000 or more on a claim or claims not covered by insurance.

Default in Other Obligations. A default is made under any loan extended to Maker under any Indebtedness and such default results in the acceleration of the payment of any principal amount due pursuant to such loan in excess of $10,000 and such acceleration is not cured or withdrawn, or all amounts owing pursuant to such loan are not paid in full, within ten (10) days after the date of such acceleration.

Payment of Dividends to Shareholders. Maker defaults if it pays cash dividends to any shareholder while the Note remains outstanding.

Remedies and Acceleration

(a)Remedies. Upon the occurrence of an Event of Default, the Payee will have (i) all rights and remedies granted to it under this Note and will have the right to receive six percent (6%) of the production from Temblor Valley (also know as Brea) until all principal and interest (at one percent (1%) on unpaid balance per month) is paid, at which time the six percent (6%) overriding royalty will revert to Tri-Valley Oil and Gas. All of these rights and remedies and the exercise of them will be cumulative. No exercise of any rights and remedies will be deemed to be exclusive or constitute an election of remedies.

(b) Acceleration of Payment. If an Insolvency Default occurs, payment of this Note will be Accelerated automatically and without Notice. Upon the occurrence and during the continuation of any other Event of Default, the Payee may, in the sole exercise of its discretion, elect to cause payment of this Note to be Accelerated by giving Notice of its election to the Maker. Once payment of this Note has been Accelerated, the Acceleration may be revoked only by the Payee, in the sole exercise of its discretion, by giving Notice of revocation to the Maker.

(c)Waiver of Default. No Default or Event of Default may be waived or will be deemed to have been waived except by an express Notice by the Payee to the Maker, and any waiver will be applicable only to the specific Defaults or Events of Default expressly identified in the Notice and will not be deemed to apply to any other or subsequent Default or Event of Default. The Payee may grant or withhold any waiver in the sole exercise of its discretion, and may condition any waiver upon the payment by the Maker of a premium, the grant of security interest or the acceptance of other terms and conditions under this Note. No course of dealing by the Payee, or the failure, forbearance or delay by the Payee in exercising any of its rights or remedies under this Note will operate as a waiver of any Default or Event of Default or of any right of the Payee under this Note.

(d) Attorneys' Fees. Upon the occurrence of an Event of Default, all legal expenses incurred by Payee in pursuing remedies under this Note will be the responsibility of Maker.

(e) Cure. In the Event of Default, the Maker shall have thirty (30) days to cure without any of the above remedies being enacted. If no cure is made, then the Payee is free to pursue the above remedies and the Maker will cooperate in achieving those remedies.

Modification - No modification or waiver of any of the terms of this Agreement shall be allowed unless by written agreement signed by both parties. No waiver of any breach or default hereunder shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

Usury - Notwithstanding any provision of this Note to the contrary: (a) in no event will the Interest Rate on this Note be a rate per annum in excess of the maximum interest rate permissible under applicable law (including any applicable interest rate ceiling imposed by United States Small Business Administration regula> 901

Corporate debt

868 868 876 876

Certificates of deposit placed through an account registry service (CDARS)

279 279 256 256

Auction rate securities

16 16 26 26

U.S. government and agency notes

45 45 68 68

Other fixed income securities

255 255 255 255

Enhanced equipment trust certificates (EETC)

27 27 28 28

Fuel derivatives liability, net

(361) (361) (717) (717)

Foreign currency derivatives asset, net

6 6 2 2

Restricted cash

283 283 320 320 **United**

Cash and cash equivalents

$ 2,790 $ 2,790 $ $ $ 1,996 $ 1,996 $ $

Short-term investments:

Asset-backed securities

726 726 901 901

Corporate debt

868 868 876 876

CDARS

279 279 256 256

Auction rate securities

16 16 26 26

U.S. government and agency notes

45 45 68 68

Other fixed income securities

255 255 255 255

EETC

27 27 28 28

Fuel derivatives liability, net

(361) (361) (717) (717)

Foreign currency derivatives asset, net

6 6 2 2

Restricted cash

283 283 320 320

Convertible debt derivative asset

712 712

Convertible debt derivative option liability

(511) (511)

United s debt-related derivatives presented in the tables above related to (a) supplemental indentures that provided that United s convertible debt was convertible into shares of UAL common stock upon the terms and conditions specified in the indentures, and (b) the embedded conversion options in United s convertible debt that were required to be separated and accounted for as though they were free-standing derivatives as a result of the United debt becoming convertible into the common stock of a different reporting entity. The derivatives described above related to the 4.5% Convertible Notes. Gains (losses) on these derivatives were recorded in Nonoperating income (expense): Miscellaneous, net in United s statements of consolidated operations. These derivatives along with their gains (losses) were reported in United s separate financial statements and were eliminated in consolidation for UAL. In January 2015, the holders of substantially all of the remaining $202 million principal amount of the 4.5% Convertible Notes exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock. The derivative assets and liabilities associated with the 4.5% Convertible Notes were settled in connection with the retirement of the related convertible debt, and the final accounting did not materially impact UAL s or United s statements of consolidated operations.

Available-for-sale investment maturities - The short-term investments shown in the table above are classified as available-for-sale. As of June 30, 2015, asset-backed securities have remaining maturities of less than one year to approximately 40 years, corporate debt securities have remaining maturities of less than one year to approximately seven years and CDARS have maturities of less than one year. U.S. government and other securities have maturities of less than one year to approximately three years. The EETC securities mature in 2019.

Derivative instruments and investments presented in the tables above have the same fair value as their carrying value. The table below presents the carrying values and estimated fair values of financial instruments not presented in the tables above (in millions):

Fair Value of Debt by Fair Value Hierarchy Level

	June 30, 2015					**December 31, 2014**				
	Carrying Amount	**Fair Value**				**Carrying Amount**	**Fair Value**			
		Total	Level 1	Level 2	Level 3		Total	Level 1	Level 2	Level 3
UAL debt	$ 10,985	$ 11,388	$	$ 8,573	$ 2,815	$ 11,434	$ 12,386	$	$ 8,568	$ 3,818
United debt	10,985	11,388		8,573	2,815	11,433	12,386		8,568	3,818

Fair value of the financial instruments included in the tables above was determined as follows:

Description	**Fair Value Methodology**
Cash and cash equivalents	The carrying amounts approximate fair value because of the short-term maturity of these assets.
Short-term investments and Restricted cash	Fair value is based on (a) the trading prices of the investment or similar instruments, (b) an income approach, which uses valuation techniques to convert future amounts into a single present amount based on current market expectations about those future amounts when observable trading prices are not available, (c) internally-developed models of the expected future cash flows related to the securities, or (d) broker quotes obtained by third-party valuation services.
Fuel derivatives	Derivative contracts are privately negotiated contracts and are not exchange traded. Fair value measurements are estimated with option pricing models that employ observable inputs. Inputs to the valuation models include contractual terms, market prices, yield curves, fuel price curves and measures of volatility, among others.
Foreign currency derivatives	Fair value is determined with a formula utilizing observable inputs. Significant inputs to the valuation models include contractual terms, risk-free interest rates and forward exchange rates.
Debt	Fair values were based on either market prices or the discounted amount of future cash flows using our current incremental rate of borrowing for similar liabilities.

NOTE 7 - HEDGING ACTIVITIES

Fuel Derivatives

The Company routinely hedges a portion of its expected aircraft fuel requirements to protect against increases in the price of fuel. The Company may restructure hedges in response to market conditions prior to their original settlement dates which may result in changes in hedge coverage levels and the potential recognition of gains or losses on such hedge contracts. As of June 30, 2015, the Company had hedged approximately 22% and 5% of its projected fuel requirements (442 million gallons and 180 million gallons, respectively) for the remainder of 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of June 30, 2015, the Company had fuel hedges expiring through March 2016.

Upon proper qualification, the Company accounts for certain fuel derivative instruments as cash flow hedges. All derivatives designated as hedges that meet certain requirements are granted hedge accounting treatment. Instruments that qualify for hedge accounting treatment typically include swaps, call options, collars (which consist of a purchased call option and a sold put option) and four-way collars (a collar with a higher strike sold call option and a lower strike purchased put option). Generally, utilizing hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective are recorded in AOCI until the underlying fuel is consumed and recorded in fuel expense. The Company is exposed to the risk that its hedges may not be effective in offsetting changes in the cost of fuel and that its hedges may not continue to qualify for hedge accounting. Hedge ineffectiveness results when the change in the fair value of the cash flow hedge exceeds the change in the value of the Company s expected future cash outlay to purchase fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is classified as Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

The Company also uses certain combinations of derivative contracts that are economic hedges but do not qualify for hedge accounting under GAAP. Additionally, the Company may enter into contracts at different times and later combine those contracts into structures designated for hedge accounting. As with derivatives that qualify for hedge accounting, the economic hedges and individual contracts are part of the Company s program to mitigate the adverse financial impact of potential increases in the price of fuel. The Company records changes in the fair value of these various contracts that are not designated for hedge accounting to Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

If the Company settles a derivative prior to its contractual settlement date, then the cumulative gain or loss recognized in AOCI at the termination date remains in AOCI until the forecasted transaction occurs. In a situation where it becomes probable that a hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. All cash flows associated with purchasing and settling derivatives are classified as operating cash flows in the condensed statements of consolidated cash flows.

The Company records each derivative instrument as a derivative asset or liability (on a gross basis) in its consolidated balance sheets, and, accordingly, records any related collateral on a gross basis. The table below presents the fair value amounts of fuel derivative assets and liabilities and the location of amounts recognized in the Company s financial statements.

The Company s derivatives were reported in its consolidated balance sheets as follows (in millions):

Classification	Balance Sheet Location	June 30, 2015	December 31, 2014
Derivatives designated as cash flow hedges			
Assets:			
Fuel contracts due within one year	Receivables	$ 23	$
Total assets		$ 23	$
Liabilities:			
Fuel contracts due within one year	Fuel derivative instruments	$ 261	$ 450
Fuel contracts with maturities greater than one year	Other liabilities and deferred credits: Other		27
Total liabilities		$ 261	$ 477
Derivatives not designated for hedge accounting			
Assets:			
Fuel contracts due within one year	Receivables	$ 9	$ 6
Fuel contracts with maturities greater than one year	Other assets: Other, net	8	
Total assets		$ 17	$ 6
Liabilities:			
Fuel contracts due within one year	Fuel derivative instruments	$ 140	$ 244
Fuel contracts with maturities greater than one year	Other liabilities and deferred credits: Other		2
Total liabilities		$ 140	$ 246
Total derivatives			
Assets:			
Fuel contracts due within one year	Receivables	$ 32	$ 6
Fuel contracts with maturities greater than one year	Other assets: Other, net	8	
Total assets		$ 40	$ 6
Liabilities:			
Fuel contracts due within one year	Fuel derivative instruments	$ 401	$ 694
Fuel contracts with maturities greater than one year	Other liabilities and deferred credits: Other		29
Total liabilities		$ 401	$ 723

Derivative Credit Risk and Fair Value

The Company is exposed to credit losses in the event of nonperformance by counterparties to its derivative instruments. While the Company records derivative instruments on a gross basis, the Company monitors its net derivative position with each counterparty to monitor credit risk. Based on the fair value of our fuel derivative instruments, our counterparties may require us to post collateral when the price of the underlying commodity decreases, and we may require our counterparties to provide us with collateral when the price of the underlying commodity increases. The Company posted $181 million and $577 million of collateral with fuel derivative counterparties as of June 30, 2015 and December 31, 2014, respectively. The collateral is recorded as Fuel hedge collateral deposits on the Company s balance sheet.

We have master trading agreements with all of our fuel hedging counterparties that allow us to net our fuel hedge derivative positions. We have elected not to net the fair value positions recorded on our consolidated balance sheets. The following table shows the potential net fair value positions (including fuel derivatives and related collateral) had we elected to offset. The table reflects offset at the counterparty level (in millions):

	June 30, 2015	December 31, 2014
Fuel derivative instruments	$ (232)	$ (209)
Other liabilities and deferred credits: Other		(30)
Hedge derivatives liabilities, net	$ (232)	$ (239)

The following tables present the impact of derivative instruments and their location within the Company s unaudited statements of consolidated operations (in millions):

Derivatives designated as cash flow hedges

	Amount of Gain Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended June 30,		Loss Reclassified from AOCI into Fuel Expense Three Months Ended June 30,		Amount of Gain Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Three Months Ended June 30,	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Fuel contracts	$ 29	$ 31	$ (118)	$ (1)	$	$ 5

Derivatives designated as cash flow hedges

	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Six Months Ended June 30,		Loss Reclassified from AOCI into Fuel Expense Six Months Ended June 30,		Amount of Gain Recognized in Nonoperating income (expense): Miscellaneous, net (Ineffective Portion) Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Fuel contracts	$ (46)	$ 21	$ (279)	$ (4)	$	$ 4

Derivatives not designated for hedge accounting

Fuel contracts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Amount of gain (loss) recognized in Nonoperating income (expense): Miscellaneous, net	$ 41	$ 39	$ (2)	$ (1)

Foreign Currency Derivatives

The Company generates revenues and incurs expenses in numerous foreign currencies. Changes in foreign currency exchange rates impact the Company s results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Some of the Company s more significant foreign currency exposures include the Canadian dollar, Chinese renminbi, European euro, British pound and Japanese yen. At times, the Company uses derivative financial instruments, such as options collars and forward contracts, to hedge its exposure to foreign currency. The Company does not enter into derivative instruments for non-risk management purposes. At June 30, 2015, the Company had foreign currency derivative contracts in place to hedge 38% and 22% of its projected European euro denominated net cash inflows for the remainder of 2015 and 2016, respectively, and 11% of its British pound denominated net cash inflows for the remainder of 2015. Net cash relates primarily to passenger ticket sales inflows partially offset by expenses paid in local currencies. At June 30, 2015, the fair value of the Company s foreign currency derivatives was an asset of $6 million.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments. As of June 30, 2015, United had firm commitments and options 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 737NG/737 MAX 9	123
Boeing 777-300ER	10
Boeing 787-8/-9/-10	37
Embraer E175	10

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

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2015, United expects to take delivery of eight Boeing 737NG aircraft and seven Boeing 787-9 aircraft. The 10 Embraer E175 aircraft are all scheduled for delivery through 2016.

As of June 30, 2015, United had financing commitments from banks to fund two Boeing 737-900ER aircraft and four Embraer E175 aircraft. These aircraft were delivered to United during the second quarter of 2015 and the financings were completed in July 2015. In addition, United has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing will be necessary to satisfy the Company s capital commitments for its firm order aircraft and other related capital expenditures. See Note 9 of this report for additional information on aircraft financing.

The table below summarizes United s commitments as of June 30, 2015 (including those assigned from UAL), which primarily relate to the acquisition of aircraft and related spare engines, aircraft improvements and include other commitments primarily to acquire information technology services and assets. Any incremental firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

	(in billions)	
Last six months of 2015	$	1.6
2016		2.5
2017		2.0
2018		2.2
2019		3.0
After 2019		10.6
	$	21.9

In July 2015, the Company exercised its options for five additional Embraer E175 aircraft and all are scheduled for delivery in 2016. The Company is currently negotiating with certain regional carriers to own and/or sublease and operate all the outstanding firm Embraer E175 aircraft on order.

Aircraft Operating Leases

During the second quarter of 2015, the Company reached an agreement with AerCap Holdings N.V., a major aircraft leasing company, to lease used Airbus A319s. Eleven aircraft will be delivered over the next two years beginning in early 2016. In addition, up to 14 more aircraft may be delivered over the next five years subject to certain conditions.

Guarantees. United is the guarantor of approximately $2.0 billion in aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon. These bonds, issued by various airport municipalities, are payable solely from rentals paid under long-term agreements with the respective governing bodies. The leasing arrangements associated with $1.5 billion of these obligations are accounted for as operating leases with the associated expense recorded on a straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with $294 million of these obligations are accounted for as capital leases. All of these bonds are due between 2015 and 2038.

In the Company s financing transactions that include loans, the Company typically agrees to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate, for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. At June 30, 2015, the Company had $2.2 billion of floating rate debt and $130 million of fixed rate debt, with remaining terms of up to 12 years, that are subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 12 years and an aggregate balance of $2.3 billion, the Company bears the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

Labor Negotiations. As of June 30, 2015, United had approximately 84,000 active employees, of whom approximately 80% were represented by various labor organizations. We are in the process of negotiating joint collective bargaining agreements with our technicians and flight attendants.

NOTE 9 - DEBT

As of June 30, 2015, a substantial portion of our assets is pledged as collateral for our debt. These assets principally consist of aircraft, route authorities and loyalty program intangible assets. As of June 30, 2015, the Company was in compliance with its debt covenants.

4.5% Convertible Notes due 2015. At December 31, 2014, the remaining balance of these notes was $202 million. In January 2015, the holders of substantially all of the remaining $202 million principal amount of the 4.5% Convertible Notes exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock.

6% Notes due 2026. In the first quarter of 2015, UAL used cash to repurchase $18 million par value 6% Notes due 2026 (the 2026 Notes) in market transactions. On April 1, 2015, UAL used cash to redeem, at par, the remaining $303 million balance of the 2026 Notes.

6% Notes due 2028. In the first quarter of 2015, UAL used cash to repurchase $13 million par value 6% Notes due 2028 (the 2028 Notes) in market transactions. On May 1, 2015, UAL used cash to redeem, at par, the remaining $298 million balance of the 2028 Notes.

In the second quarter of 2015, the Company recorded a nonoperating special charge of $128 million for the extinguishment of the 2026 Notes and the 2028 Notes. The nonoperating special charge is related to the write off of unamortized non-cash debt discounts. See Note 10 of this report for additional information.

2013 Credit and Guaranty Agreement. As of June 30, 2015, United had its entire capacity of $1.35 billion available under the revolving credit facility of the Company s Credit and Guaranty Agreement.

EETCs. In August 2014, United created EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depositary in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depositary are not United s assets. Certain details of the pass-through trusts with proceeds received from issuance of debt in 2015 are as follows (in millions, except stated interest rate):

EETC Date	Class	Principal	Final expected distribution date	Stated interest rate	Total debt recorded as of June 30, 2015	Proceeds received from issuance of debt in the six months ended June 30, 2015	Remaining proceeds from issuance of debt to be received in future periods
August 2014	A	$ 823	September 2026	3.75%	$ 823	$ 711	$
August 2014	B	238	September 2022	4.625%	238	206	
		$ 1,061			$ 1,061	$ 917	$

The table below presents contractual principal payments at June 30, 2015 under then-outstanding long-term debt agreements in each of the next five calendar years (in millions):

	UAL and United
Last six months of 2015	$ 585
2016	1,192
2017	775
2018	1,310
2019	1,736
After 2019	5,358
	$ 10,956

NOTE 10 - SPECIAL CHARGES

For the three and six months ended June 30, special charges consisted of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
Operating:	2015	2014	2015	2014
Severance and benefits	$ 25	$ 38	$ 75	$ 52
Integration-related costs	14	17	32	51
Costs associated with permanently grounding Embraer ERJ 135 aircraft		66		66
(Gains) losses on sale of assets and other special charges	16	48	12	52
Special charges	55	169	119	221
Nonoperating:				
Loss on extinguishment of debt and other, net	128		134	21
Income tax benefit				(1)
Total operating and nonoperating special charges, net of income taxes	$ 183	$ 169	$ 253	$ 241

During the three and six months ended June 30, 2015, the Company recorded $25 million and $75 million, respectively, of severance and benefits primarily related to a voluntary early-out program for its flight attendants. In 2014, more than 2,500 flight attendants elected to voluntarily separate from the Company and will receive a severance payment, with a maximum value of $100,000 per participant, based on years of service, with retirement dates through the end of 2015. The Company will record approximately $25 million of additional expense through the remainder of 2015 associated with this program over the remaining required service periods.

Integration-related costs include compensation costs related primarily to systems integration and training for employees.

During the three and six months ended June 30, 2015, the Company recorded $16 million and $12 million, respectively, for the impairment of assets and other special gains and losses.

During the three and six months ended June 30, 2015, the Company recorded $128 million and $134 million, respectively, of losses as part of Nonoperating income (expense): Miscellaneous, net due to the write-off of the unamortized non-cash debt discount related to the extinguishment of the 2026 Notes and the 2028 Notes.

During the six months ended June 30, 2014, the Company recorded $52 million of severance and benefits primarily related to reductions of management and front-line employees, including from Hopkins International Airport (Cleveland), as part of its cost savings initiatives. The Company reduced its average daily departures from Cleveland by over 60 percent during the second quarter of 2014. The Company is currently evaluating its options regarding its long-term contractual commitments at Cleveland. The capacity reductions at Cleveland may result in further special charges, which could be significant, related to our contractual commitments.

During the three months ended June 30, 2014, the Company recorded $66 million for the permanent grounding of 21 of the Company s Embraer ERJ 135 regional aircraft under lease through 2018, which included an accrual for remaining lease payments and an amount for maintenance return conditions. The Company decided to permanently ground these 21 Embraer ERJ 135 aircraft as a result of new Embraer E175 regional jet deliveries, the impact of pilot shortages at regional carriers and fuel prices.

During the six months ended June 30, 2014, the Company recorded $33 million for charges related primarily to the impairment of its flight equipment held for disposal associated with its Boeing 737-300 and 737-500 fleets and incurred losses on sales of aircraft and other assets and other special losses totaling $19 million.

During the three months ended March 31, 2014, the Company recorded $21 million of losses due to exchange rate changes in Venezuela applicable to funds held in local currency.

Accruals

The accrual balance for severance and benefits was $104 million as of June 30, 2015, compared to $82 million as of June 30, 2014. The severance-related accrual as of June 30, 2015 is expected to be mostly paid through 2015. The following is a reconciliation of severance accrual activity for the period:

	Severance and Benefits	
Balance at December 31, 2014	$	109
Accrual		75
Payments		(80)
Balance at June 30, 2015	$	104

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

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

The Company transports people and cargo through its mainline operations, which utilize jet aircraft with at least 118 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express carriers. The Company serves virtually every major market around the world, either directly or through participation in Star Alliance®, the world s largest airline alliance. The Company operates an average of nearly 5,000 flights a day to 362 airports across six continents.

Second Quarter Financial Highlights

Second quarter 2015 net income was $1.2 billion, or $3.14 diluted earnings per share. Second quarter 2015 Non-GAAP net income was $1.3 billion, or $3.31 diluted earnings per share, which excludes $183 million of operating and nonoperating special charges and $116 million of Hedge Program Adjustments, consisting of $26 million of mark-to-market gains recorded in Nonoperating expense from fuel derivative contracts settling in future periods and $90 million of prior period losses recorded in Nonoperating expense on fuel derivative contracts settled in the current period.

Second quarter 2015 aircraft fuel cost decreased 32.1% year-over-year due to a decrease in fuel prices.

Unrestricted liquidity at June 30, 2015 was $6.3 billion, including $1.35 billion of undrawn commitments under the revolving credit facility of the Company s Credit and Guaranty Agreement (the Credit Agreement).

The Company announced a new strategic partnership with Azul Linhas Aereas Brasileiras S.A. (Azul), Brazil s third largest airline, which provides a range of customer benefits including codesharing of flights (subject to government approval), joint loyalty-program

participation and expanded connection opportunities on routes between the U.S. and Brazil, a key market for United, in addition to other points in North and South America.

UAL spent $250 million to repurchase approximately 4.4 million shares of UAL common stock in open market transactions in the second quarter of 2015 under the Company s previously announced share repurchase program. As of June 30, 2015, the Company has $230 million remaining to spend under the $1 billion share repurchase program. On July 21, 2015, UAL s Board of Directors authorized a new $3 billion share repurchase program, which the Company expects to complete by December 31, 2017. See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

Second Quarter Operational Highlights

Consolidated traffic increased 0.7% and consolidated capacity increased 2.3% during the second quarter of 2015 as compared to the second quarter of 2014. The Company s load factor for the second quarter of 2015 was 83.9%.

The Company took delivery of six Boeing 737-900ER aircraft, one Boeing 787-9 aircraft, three used Boeing 737-700 aircraft and nine Embraer E175 aircraft during the second quarter of 2015.

Outlook

The Company expects full-year 2015 consolidated capacity to increase between 1% and 1.5% year-over-year. The Company expects full year 2015 cost per available seat mile (CASM) excluding profit sharing, third-party business expense, fuel and special charges to be flat to up 0.5% year-over-year. We are unable to project CASM on a GAAP basis, as defined below, as the nature and amount of special charges are not determinable at this time.

Since the summer of 2014, the price of jet fuel declined and remains volatile. Based on projected fuel consumption in 2015, a one dollar change in the price of a barrel of crude oil would change the Company s annual fuel expense by approximately $93 million. To protect against increases in the prices of aircraft fuel, the Company routinely hedges a portion of its future fuel requirements.

RESULTS OF OPERATIONS

The following discussion provides an analysis of results of operations and reasons for material changes therein for the three months ended June 30, 2015 as compared to the corresponding period in 2014.

Second Quarter 2015 Compared to Second Quarter 2014

The Company recorded net income of $1.2 billion in the second quarter of 2015 as compared to net income of $789 million in the second quarter of 2014. Excluding operating and nonoperating special charges and with Hedge Program Adjustments, the Company had net income of $1.3 billion in the second quarter of 2015 as compared to net income of $919 million in the second quarter of 2014. See Reconciliation of GAAP to Non-GAAP Financial Measures at the end of this item for additional information related to accounting principles generally accepted in the United States (GAAP) to Non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was $1.4 billion for the second quarter of 2015, as compared to $0.9 billion for the second quarter of 2014, an approximate $0.5 billion improvement year-over-year. Significant components of our operating results for the three months ended June 30 are as follows (in millions, except percentage changes):

	2015	2014	Increase (Decrease)	% Increase (Decrease)
Operating revenue	$ 9,914	$ 10,329	$ (415)	(4.0)
Operating expense	8,469	9,423	(954)	(10.1)
Operating income	1,445	906	539	59.5
Nonoperating expense	(248)	(115)	133	NM
Income tax expense	4	2	2	100.0
Net income	$ 1,193	$ 789	$ 404	51.2

NM - Not meaningful

Certain consolidated statistical information for the Company s operations for the three months ended June 30 is as follows:

	2015	2014	Increase (Decrease)	% Increase (Decrease)
Passengers (thousands) (a)	36,231	35,837	394	1.1
Revenue passenger miles (RPMs) (millions) (b)	54,289	53,900	389	0.7
Available seat miles (ASMs) (millions) (c)	64,685	63,214	1,471	2.3
Passenger load factor (d)	83.9 %	85.3 %	(1.4) pts.	N/A
Passenger revenue per available seat mile (PRASM) (cents)	13.41	14.21	(0.80)	(5.6)
Average yield per revenue passenger mile (cents) (e)	15.98	16.66	(0.68)	(4.1)
CASM (cents)	13.09	14.91	(1.82)	(12.2)
Average price per gallon of fuel, including fuel taxes	$ 2.10	$ 3.09	$ (0.99)	(32.0)
Fuel gallons consumed (millions)	1,004	1,004		
Average full-time equivalent employees	82,300	82,000	300	0.4

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

(b) The number of scheduled miles flown by revenue passengers.

(c) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.

(d) Revenue passenger miles divided by available seat miles.

(e) The average passenger revenue received for each revenue passenger mile flown.

Operating Revenue

The table below shows year-over-year comparisons by type of operating revenue for the three months ended June 30 (in millions, except for percentage changes):

	2015	2014	Increase (Decrease)	% Change
Passenger Mainline	$ 6,961	$ 7,148	$ (187)	(2.6)
Passenger Regional	1,715	1,833	(118)	(6.4)
Total passenger revenue	8,676	8,981	(305)	(3.4)
Cargo	229	232	(3)	(1.3)
Other operating revenue	1,009	1,116	(107)	(9.6)
	$ 9,914	$ 10,329	$ (415)	(4.0)

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

	Domestic	Pacific	Atlantic	Latin	Total Mainline	Regional	Consolidated
Increase (decrease) from 2014 (a):							
Passenger revenue (in millions)	$ 6	$ (82)	$ (75)	$ (36)	$ (187)	$ (118)	$ (305)
Passenger revenue	0.2 %	(6.9)%	(4.4)%	(4.9)%	(2.6)%	(6.4)%	(3.4)%

Average fare per passenger	(5.0)%	(8.7)%	(1.6)%	(8.6)%	(6.6)%	(1.4)%	(4.4)%
Yield	(2.3)%	(9.6)%	(1.7)%	(8.8)%	(4.2)%	(1.1)%	(4.1)%
PRASM	(3.4)%	(8.8)%	(6.4)%	(10.9)%	(5.8)%	(1.7)%	(5.6)%
Average stage length	(2.6)%	3.1 %	1.2 %	1.8 %	(1.6)%	(0.2)%	0.5 %
Passengers	5.4 %	2.0 %	(2.8)%	4.0 %	4.2 %	(5.1)%	1.1 %
RPMs (traffic)	2.5 %	3.0 %	(2.7)%	4.2 %	1.6 %	(5.4)%	0.7 %
ASMs (capacity)	3.7 %	2.2 %	2.1 %	6.7 %	3.4 %	(4.8)%	2.3 %
Passenger load factor (points)	(1.0)	0.7	(4.0)	(1.9)	(1.4)	(0.6)	(1.4)

(a) See Item 6 of the Company s Annual Report on Form 10-K for the year ended December 31, 2014 for the definition of these statistics.

Consolidated passenger revenue in the second quarter of 2015 decreased 3.4% as compared to the year-ago period due to a decrease in consolidated yield of 4.1% year-over-year. Yields were impacted by a competitive domestic fare environment, unfavorable foreign currency results due to the strengthening of the U.S. dollar and international surcharge declines. The decline in yields was partially offset by a 0.7% and 2.3% year-over-year increase in traffic and capacity, respectively.

Other operating revenue in the second quarter of 2015 decreased $107 million, or 9.6%, as compared to the year-ago period due to a reduction in sales of aircraft fuel to a third party, partially offset by year-over-year increases in MileagePlus activity and ancillary revenue.

Operating Expenses

The table below includes data related to the Company s operating expenses for the three months ended June 30 (in millions, except for percentage changes):

	2015	2014	Increase (Decrease)	% Change
Salaries and related costs	$ 2,454	$ 2,187	$ 267	12.2
Aircraft fuel	2,106	3,101	(995)	(32.1)
Regional capacity purchase	583	591	(8)	(1.4)
Landing fees and other rent	553	567	(14)	(2.5)
Depreciation and amortization	445	417	28	6.7
Aircraft maintenance materials and outside repairs	431	471	(40)	(8.5)
Distribution expenses	348	346	2	0.6
Aircraft rent	194	222	(28)	(12.6)
Special charges	55	169	(114)	NM
Other operating expenses	1,300	1,352	(52)	(3.8)
	$ 8,469	$ 9,423	$ (954)	(10.1)

Salaries and related costs increased $267 million, or 12.2%, in the second quarter of 2015 as compared to the year-ago period primarily due to profit sharing expense as a result of improved profitability, higher pay rates driven by new collective bargaining agreements, an increase in medical and dental costs and an increase in pension expense resulting from changes in actuarial assumptions.

Aircraft fuel expense decreased $1.0 billion, or 32%, year-over-year primarily due to a 32% decrease in the average price per gallon of aircraft fuel in the second quarter of 2015 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the three month period ended June 30, 2015 as compared to the year-ago period:

	(In millions)			Average price per gallon		
	2015	2014	% Change	2015	2014	% Change
Total aircraft fuel purchase cost excluding fuel hedge impacts	$ 1,988	$ 3,100	(35.9)	$ 1.98	$ 3.09	(35.9)
Hedge losses reported in fuel expense	(118)	(1)	NM	(0.12)		NM
Fuel expense as reported	2,106	3,101	(32.1)	2.10	3.09	(32.0)
Cash received (paid) on settled hedges that did not qualify for hedge accounting (a)	(75)	5	NM	(0.07)	0.01	NM
Fuel expense including all gains (losses) from settled hedges	$ 2,181	$ 3,096	(29.6)	$ 2.17	$ 3.08	(29.5)
Total fuel consumption (gallons)	1,004	1,004				

(a) Includes ineffectiveness gains (losses) on settled hedges and gains (losses) on settled hedges that were not designated for hedge accounting. Ineffectiveness gains (losses) and gains (losses) on hedges that do not qualify for hedge accounting are recorded in Nonoperating income (expense): Miscellaneous, net.

Depreciation and amortization increased $28 million, or 6.7%, in the second quarter of 2015 as compared to the year-ago period primarily due to additions in owned property and equipment, specifically related to new aircraft, as well as depreciation related to information technology services and assets.

Aircraft maintenance materials and outside repairs decreased $40 million, or 8.5%, in the second quarter of 2015 as compared to the year-ago period primarily due to a year-over-year decrease in significant aircraft engine and airframe maintenance visits as a result of the cyclical timing of these visits.

Aircraft rent decreased $28 million, or 12.6%, in the second quarter of 2015 as compared to the year-ago period primarily due to lease expirations, the purchase of aircraft that were subject to leases, and lower lease renewal rates for certain aircraft.

Details of the Company s special charges include the following for the three months ended June 30 (in millions):

	2015	2014
Severance and benefits	$ 25	$ 38
Integration-related costs	14	17
Costs associated with permanently grounding Embraer ERJ 135 aircraft		66
(Gains) losses on sale of assets and other special charges	16	48
Special charges	$ 55	$ 169

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

Other operating expenses decreased $52 million, or 3.8%, in the second quarter of 2015 as compared to the year-ago period primarily due to a reduction in sales of aircraft fuel to a third party and the discontinuance of a Transportation Security Administration (TSA) fee, partially offset by increases in purchased services, advertising expense, personnel-related expenses and food and beverage costs.

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company s nonoperating income (expense) for the three months ended June 30 (in millions, except for percentage changes):

	2015	2014	Increase (Decrease)	% Change
Interest expense	$ (167)	$ (186)	$ (19)	(10.2)
Interest capitalized	13	13		
Interest income	6	4	2	50.0
Miscellaneous, net	(100)	54	154	NM
Total	$ (248)	$ (115)	$ 133	NM

Miscellaneous, net included gains of $41 million from derivatives not qualifying for hedge accounting as compared to gains of $39 million in the year-ago period. Foreign currency impacts were losses of approximately $12 million versus gains of approximately $3 million in the second quarters of 2015 and 2014, respectively. Second quarter 2015 Miscellaneous, net includes a $128 million special charge related to the write off of unamortized non-cash debt discounts for the early redemption of the 6% Notes due 2026 and the 6% Notes due 2028.

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

RESULTS OF OPERATIONS

First Six Months 2015 Compared to First Six Months 2014

The Company recorded net income of $1.7 billion in the first six months of 2015 as compared to net income of $180 million in the first six months of 2014. Excluding operating and nonoperating special charges and with Hedge Program Adjustments, the Company had net income of $1.8 billion in the first six months of 2015 as compared to net income of $430 million in the first six months of 2014. See Reconciliation of GAAP to Non-GAAP Financial Measures at the end of this item for additional information related to GAAP to Non-GAAP financial measures. We consider a key measure of our performance to be operating income, which was $2.2 billion for the first six months of 2015, as compared to $0.6 billion for the first six months of 2014, an approximate $1.6 billion improvement year-over-year. Significant components of our operating results for the first six months of 2015 are as follows (in millions, except percentage changes):

	2015	**2014**	**Increase (Decrease)**	**% Increase (Decrease)**
Operating revenue	$ 18,522	$ 19,025	$ (503)	(2.6)
Operating expense	16,336	18,468	(2,132)	(11.5)
Operating income	2,186	557	1,629	NM
Nonoperating expense	(478)	(372)	106	28.5
Income tax expense	7	5	2	40.0
Net income	$ 1,701	$ 180	$ 1,521	NM

NM - Not meaningful

Certain consolidated statistical information for the Company s operations for the six months ended June 30 is as follows:

	2015	**2014**	**Increase (Decrease)**	**% Increase (Decrease)**
Passengers (thousands) (a)	67,753	67,737	16	
RPMs (millions) (b)	100,733	100,283	450	0.4
ASMs (millions) (c)	121,954	120,430	1,524	1.3
Passenger load factor (d)	82.6 %	83.3 %	(0.7) pts.	N/A
PRASM (cents)	13.20	13.59	(0.39)	(2.9)
Average yield per revenue passenger mile (cents) (e)	15.98	16.32	(0.34)	(2.1)
CASM (cents)	13.40	15.34	(1.94)	(12.6)
Average price per gallon of fuel, including fuel taxes	$ 2.09	$ 3.13	$ (1.04)	(33.2)
Fuel gallons consumed (millions)	1,900	1,920	(20)	(1.0)
Average full-time equivalent employees	82,000	82,600	(600)	(0.7)

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

(b) The number of scheduled miles flown by revenue passengers.

(c) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.

(d) Revenue passenger miles divided by available seat miles.

(e) The average passenger revenue received for each revenue passenger mile flown.

Operating Revenue

The table below shows year-over-year comparisons by type of operating revenue for the six months ended June 30 (in millions, except for percentage changes):

	2015	2014	Increase (Decrease)	% Change
Passenger Mainline	$ 12,899	$ 12,996	$ (97)	(0.7)
Passenger Regional	3,197	3,369	(172)	(5.1)
Total passenger revenue	16,096	16,365	(269)	(1.6)
Cargo	471	441	30	6.8
Other operating revenue	1,955	2,219	(264)	(11.9)
	$ 18,522	$ 19,025	$ (503)	(2.6)

The table below presents selected passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes for the six months ended June 30, 2015 compared to the six months ended June 30, 2014:

	Domestic	Pacific	Atlantic	Latin	Total Mainline	Regional	Consolidated
Increase (decrease) from 2014 (a):							
Passenger revenue (in millions)	$ 41	$ (109)	$ (57)	$ 28	$ (97)	$ (172)	$ (269)
Passenger revenue	0.6 %	(4.8)%	(2.0)%	2.0 %	(0.7)%	(5.1)%	(1.6)%
Average fare per passenger	(2.2)%	(5.8)%	1.2 %	(3.7)%	(3.2)%	(0.1)%	(1.7)%
Yield	0.1 %	(8.8)%	0.8 %	(4.9)%	(2.0)%	(0.2)%	(2.1)%
PRASM	(0.7)%	(8.2)%	(1.0)%	(6.4)%	(2.7)%	(0.9)%	(2.9)%
Average stage length	(2.4)%	5.6 %	1.7 %	2.6 %	(0.9)%	0.7 %	0.9 %
Passengers	2.9 %	1.0 %	(3.2)%	5.9 %	2.6 %	(5.0)%	%
RPMs (traffic)	0.5 %	4.4 %	(2.8)%	7.2 %	1.2 %	(4.9)%	0.4 %
ASMs (capacity)	1.4 %	3.7 %	(1.1)%	8.9 %	2.1 %	(4.3)%	1.3 %
Passenger load factor (points)	(0.8)	0.6	(1.4)	(1.3)	(0.7)	(0.6)	(0.7)

(a) See Item 6 of the Company s Annual Report on Form 10-K for the year ended December 31, 2014 for the definition of these statistics.

Consolidated passenger revenue in the first six months of 2015 decreased 1.6% as compared to the year-ago period due to a decrease in consolidated yield of 2.1% year-over-year. Yields were impacted by a competitive domestic fare environment, unfavorable foreign currency results due to the strengthening of the U.S. dollar and international surcharge declines. The decline in yields was partially offset by a 0.4% and 1.3% year-over-year increase in traffic and capacity, respectively.

Other operating revenue in the first six months of 2015 decreased $264 million, or 11.9%, as compared to the year-ago period due to a reduction in sales of aircraft fuel to a third party, partially offset by year-over-year increases in MileagePlus and ancillary revenue.

Operating Expenses

The table below includes data related to the Company s operating expenses for the six months ended June 30 (in millions, except for percentage changes):

	2015	2014	Increase (Decrease)	% Change
Salaries and related costs	$ 4,755	$ 4,340	$ 415	9.6
Aircraft fuel	3,970	6,018	(2,048)	(34.0)
Regional capacity purchase	1,153	1,150	3	0.3
Landing fees and other rent	1,096	1,139	(43)	(3.8)
Depreciation and amortization	874	826	48	5.8
Aircraft maintenance materials and outside repairs	828	929	(101)	(10.9)
Distribution expenses	660	664	(4)	(0.6)
Aircraft rent	395	446	(51)	(11.4)
Special charges	119	221	(102)	NM
Other operating expenses	2,486	2,735	(249)	(9.1)
	$ 16,336	$ 18,468	$ (2,132)	(11.5)

Salaries and related costs increased $415 million, or 9.6%, in the first six months of 2015 as compared to the year-ago period primarily due to profit sharing accruals as a result of improved profitability, higher pay rates driven by new collective bargaining agreements, an increase in medical and dental costs and an increase in pension expense resulting from changes in actuarial assumptions, partially offset by a 0.7% reduction in the number of employees.

Aircraft fuel expense decreased $2.0 billion, or 34%, year-over-year primarily due to a 33% decrease in the average price per gallon of aircraft fuel, combined with a 1.0% decrease in fuel consumption in the first six months of 2015 compared to the year-ago period. The table below presents the significant changes in aircraft fuel cost per gallon in the six months ended June 30, 2015 as compared to the year-ago period:

	(In millions)			Average price per gallon		
	2015	2014	% Change	2015	2014	% Change
Total aircraft fuel purchase cost excluding fuel hedge impacts	$ 3,691	$ 6,014	(38.6)	$ 1.94	$ 3.13	(38.0)
Hedge losses reported in fuel expense	(279)	(4)	NM	(0.15)		NM
Fuel expense as reported	3,970	6,018	(34.0)	2.09	3.13	(33.2)
Cash received (paid) on settled hedges that did not qualify for hedge accounting (a)	(114)	12	NM	(0.06)		NM
Fuel expense including all gains (losses) from settled hedges	$ 4,084	$ 6,006	(32.0)	$ 2.15	$ 3.13	(31.3)
Total fuel consumption (gallons)	1,900	1,920	(1.0)			

(a) Includes ineffectiveness gains (losses) on settled hedges and gains (losses) on settled hedges that were not designated for hedge accounting. Ineffectiveness gains (losses) and gains (losses) on hedges that do not qualify for hedge accounting are recorded in Nonoperating income (expense): Miscellaneous, net.

Aircraft maintenance materials and outside repairs decreased $101 million, or 10.9%, in the first six months of 2015 as compared to the year-ago period primarily due to a year-over-year decrease in significant aircraft engine and airframe maintenance visits as a result of the cyclical timing of these visits.

Aircraft rent decreased $51 million or 11.4% in the second quarter of 2015 as compared to the year-ago period primarily due to lease expirations, the purchase of aircraft that were subject to leases, and lower lease renewal rates for certain aircraft.

Details of the Company s special charges include the following for the six months ended June 30 (in millions):

	2015	2014
Severance and benefits	$ 75	$ 52
Integration-related costs	32	51
Costs associated with permanently grounding Embraer ERJ 135 aircraft		66
(Gains) losses on sale of assets and other special charges	12	52
Special charges	$ 119	$ 221

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

Other operating expenses decreased $249 million, or 9.1%, in the first six months of 2015 as compared to the year-ago period primarily due to a reduction in sales of aircraft fuel to a third party and the discontinuance of a TSA fee, partially offset by increases in purchased services and personnel-related expenses.

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company s nonoperating income (expense) for the six months ended June 30 (in millions, except for percentage changes):

	2015	2014	Increase (Decrease)	% Change

Interest expense	$ (340)	$ (373)	$ (33)	(8.8)
Interest capitalized	25	27	(2)	(7.4)
Interest income	11	9	2	22.2
Miscellaneous, net	(174)	(35)	139	NM
Total	$ (478)	$ (372)	$ 106	28.5

Miscellaneous, net included losses of $2 million from derivatives not qualifying for hedge accounting as compared to losses of $1 million in the year-ago period. Foreign currency losses were approximately $36 million and $23 million in the first six months of 2015 and 2014, respectively. Miscellaneous, net for the first six months of 2015 includes a $134 million special charge related to the write off of unamortized non-cash debt discounts for the early redemption of the 6% Notes due 2026 and the 6% Notes due 2028.

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

LIQUIDITY AND CAPITAL RESOURCES

Current Liquidity

As of June 30, 2015, the Company had $5.0 billion in unrestricted cash, cash equivalents and short-term investments, as compared to $4.4 billion at December 31, 2014. At June 30, 2015, the Company also had $283 million of restricted cash and cash equivalents, which is primarily collateral for performance bonds, letters of credit, estimated future workers compensation claims and credit card processing agreements. As of June 30, 2015, the Company had its entire commitment capacity of $1.35 billion under the revolving credit facility of the Company s Credit Agreement available for letters of credit or borrowings.

Approximately $80 million of the Company s unrestricted cash balance was held as Venezuelan bolivars as of June 30, 2015, the repatriation of which is limited by local law. The Company is evaluating the impact of recent increases in charges for services in Venezuela and the availability of access to historical exchange rates. Continued increases in charges and lack of available U.S. currency to permit repatriations may have an adverse impact on our business.

As is the case with many of our principal competitors, we have a high proportion of debt compared to capital and a deficit in working capital. We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities, and pension funding obligations. At June 30, 2015, the Company had approximately $11.7 billion of debt and capital lease obligations, including $1.2 billion that will become due in the next 12 months. In addition, we have substantial non-cancelable commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of June 30, 2015, our current liabilities exceeded our current assets by approximately $5.0 billion. However, approximately $7.3 billion of our current liabilities are related to our Advanced ticket sales and Frequent flyer deferred revenue, both of which largely represent revenue to be recognized for travel in the near future and not actual cash outlays. The deficit in working capital does not have an adverse impact to our cash flows, liquidity or operations.

The Company will continue to evaluate opportunities to prepay its debt, including open market repurchases, to reduce its indebtedness and the amount of interest paid on its indebtedness.

As of June 30, 2015, United had firm commitments and options 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 737NG/737 MAX 9	123
Boeing 777-300ER	10
Boeing 787-8/-9/-10	37
Embraer E175	10

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

The aircraft listed in the table above are scheduled for delivery through 2024. For the remainder of 2015, United expects to take delivery of eight Boeing 737NG aircraft and seven Boeing 787-9 aircraft. The 10 Embraer E175 aircraft are all scheduled for delivery through 2016.

As of June 30, 2015, United had financing commitments from banks to fund two Boeing 737-900ER aircraft and four Embraer E175 aircraft. These aircraft were delivered to United during the second quarter of 2015 and the financings were completed in July 2015. In addition, United has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. Financing will be necessary to satisfy the Company s capital commitments for its firm order aircraft and other related capital expenditures. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on aircraft financing.

As of June 30, 2015, UAL and United have total capital commitments primarily related to the acquisition of aircraft and related spare engines, aircraft improvements and acquisition of information technology services and assets of approximately $21.9 billion, of which approximately $1.6 billion, $2.5 billion, $2.0 billion, $2.2 billion, $3.0 billion and $10.6 billion are due in the last six months of 2015 and for the full year for 2016, 2017, 2018, 2019 and thereafter, respectively. Any incremental firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

In July 2015, the Company exercised its options for five additional Embraer E175 aircraft and all are scheduled for delivery in 2016. The Company is currently negotiating with certain regional carriers to own and/or sublease and operate all the outstanding firm Embraer E175 firm aircraft on order.

As of June 30, 2015, a substantial portion of the Company s assets, principally aircraft, route authorities and certain other intangible assets, were pledged under various loan and other agreements. We must sustain our profitability and/or access the capital markets to meet our significant long-term debt and capital lease obligations and future commitments for capital expenditures, including the acquisition of aircraft and related spare engines.

During the second quarter of 2015, the Company reached an agreement with AerCap Holdings N.V., a major aircraft leasing company, to lease used Airbus A319s. Eleven aircraft will be delivered over the next two years beginning in early 2016. In addition, up to 14 more aircraft may be delivered over the next five years subject to certain conditions.

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

	S&P	Moody s	Fitch
UAL	BB-	Ba3	B+
United	BB-	*	B+

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

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

Sources and Uses of Cash

Operating Activities. Cash flow provided by operations for the six months ended June 30, 2015 was $3.6 billion compared to $2.2 billion in the same period in 2014. The $1.4 billion increase is primarily attributable to an increase of $1.5 billion in net income for the six months ended June 30, 2015 as compared to the same period in 2014. Other notable changes in operating cash flows for that period also include a net increase of $682 million in the funding of the Company s defined benefit plans, partially offset by other working capital changes. Additionally, the Company experienced a $396 million reduction in fuel hedge collateral since December 31, 2014, partially offset by a $293 million reduction in the fuel derivative liability over the same period.

Investing Activities. Capital expenditures were $1.3 billion and $953 million in the six months ended June 30, 2015 and 2014, respectively. Capital expenditures for the six months ended June 30, 2015 were primarily attributable to the purchase of aircraft, facility and fleet-related costs. In June 2015, through a wholly-owned subsidiary, we invested $100 million for an ownership stake of approximately five percent in Azul, Brazil s third-largest airline, which provides a range of customer benefits including codesharing of flights (subject to government approval), joint loyalty-program participation and expanded connection opportunities on routes between the U.S. and Brazil, a key market for United, in addition to other points in North and South America.

In addition to capital expenditures during the six months ended June 30, 2015, we acquired 21 aircraft through the issuance of debt. See Financing Activities below for additional information.

Financing Activities. During the six months ended June 30, 2015, the Company made debt and capital lease payments of $1.4 billion.

In January 2015, the holders of substantially all of the remaining $202 million principal amount of United s 4.5% Convertible Notes due 2015 exercised their conversion option resulting in the issuance of 11 million shares of UAL common stock.

In the first quarter of 2015, UAL used cash to repurchase $18 million par value 6% Notes due 2026 (the 2026 Notes) in market transactions. On April 1, 2015, UAL used cash to redeem, at par, the remaining $303 million balance of the 2026 Notes.

In the first quarter of 2015, UAL used cash to repurchase $13 million par value 6% Notes due 2028 (the 2028 Notes) in market transactions. On May 1, 2015, UAL used cash to redeem, at par, the remaining $298 million balance of the 2028 Notes.

In August 2014 United completed an enhanced equipment trust certificate (EETC) offering for a total principal amount of $1.1 billion. United has received and recorded all of the proceeds as debt as of June 30, 2015. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on EETC pass-through trusts.

As of June 30, 2015, United had its entire capacity of $1.35 billion available under the revolving credit facility of the Company s Credit Agreement. See Note 11 in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Annual Report) for additional information on the terms of the Credit Agreement.

The obligations of United under the Credit Agreement are secured by liens on certain international route authorities between certain specified cities, certain take-off and landing rights and related assets of United. Certain covenants in the Credit Agreement and in the Company s indentures are summarized in Note 11 of the 2014 Annual Report.

Share Repurchase Program. In 2014, UAL s Board of Directors authorized a share repurchase program to acquire up to $1 billion of UAL s common stock. UAL spent $250 million and $450 million to repurchase approximately 4.4 million and 7.3 million shares of UAL common stock in open market transactions in the three and six months ended June 30, 2015, respectively. As of June 30, 2015, the Company has $230 million remaining to spend under the share repurchase program. On July 21, 2015, UAL s Board of Directors authorized a new $3 billion share repurchase program, which the Company expects to complete by December 31, 2017. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2., Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

Commitments, Contingencies and Liquidity Matters

As described in the 2014 Annual Report, the Company s liquidity may be adversely impacted by a variety of factors, including, but not limited to, obligations associated with fuel hedge settlements and related collateral requirements, pension funding obligations, reserve requirements associated with credit card processing agreements, guarantees, commitments and contingencies. See the 2014 Annual Report and Notes 5, 7, 8 and 9 to the financial statements contained in Part I, Item 1 of this report for additional information.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

The Company evaluates its financial performance utilizing various GAAP and Non-GAAP financial measures, including net income/loss and net earnings/loss per share. The Non-GAAP financial measures in this report are presented because they provide management and investors the ability to measure and monitor the Company s performance on a consistent basis. The Company believes that adjusting for operating and nonoperating special charges is useful to investors because they are nonrecurring charges not indicative of UAL s ongoing performance. In addition, the Company believes that reflecting Hedge Program Adjustments is useful because the adjustments allow investors to better understand the cash impact of settled fuel derivative contracts in a given period. Reconciliations of net income and diluted earnings per share to the Non-GAAP financial measures of net income and diluted earnings per share, excluding operating and nonoperating special charges and reflecting Hedge Program Adjustments, for the three and six months ended June 30 are as follows in the tables below (in millions, except per share amounts):

	Three Months Ended June 30,			
	Net Income 2015	Diluted Earnings per Share 2015	Net Income 2014	Diluted Earnings per Share 2014
Net income GAAP	$ 1,193	$ 3.14	$ 789	$ 2.01
Operating and nonoperating special charges, net (a)	183	0.48	169	0.43
Mark-to-market gains from fuel derivative contracts settling in future periods	(26)	(0.07)	(46)	(0.12)
Prior period gains (losses) on fuel derivative contracts settled in the current period	(90)	(0.24)	7	0.02
Net income excluding operating and nonoperating special charges, net and reflecting Hedge Program Adjustments Non-GAAP	$ 1,260	$ 3.31	$ 919	$ 2.34

	Six Months Ended June 30,			
	Net Income 2015	Diluted Earnings per Share 2015	Net Income 2014	Diluted Earnings per Share 2014
Net income GAAP	$ 1,701	$ 4.45	$ 180	$ 0.47
Operating and nonoperating special charges, net (a)	253	0.66	241	0.61
Mark-to-market gains from fuel derivative contracts settling in future periods	(7)	(0.01)	(33)	(0.08)
Prior period gains (losses) on fuel derivative contracts settled in the current period	(105)	(0.28)	42	0.11
Net income excluding operating and nonoperating special charges, net and reflecting Hedge Program Adjustments Non-GAAP	$ 1,842	$ 4.82	$ 430	$ 1.11

(a) See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information related to operating and nonoperating special charges, net.

CRITICAL ACCOUNTING POLICIES

See Critical Accounting Policies in Management s Discussion and Analysis of Financial Condition and Results of Operations in the 2014 Annual Report for a discussion of the Company s critical accounting policies.

FORWARD-LOOKING INFORMATION

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

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

The Company s actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: its ability to comply with the terms of its various financing arrangements; the costs and availability of financing; its ability to maintain adequate liquidity; its ability to execute its operational plans and revenue-generating initiatives, including optimizing its revenue; its ability to control its costs, including realizing benefits from its resource optimization efforts, cost reduction initiatives and fleet replacement programs; its ability to utilize its net operating losses; its ability to attract and retain customers; demand for transportation in the markets in which it operates; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact that global economic conditions have on customer travel patterns; excessive taxation and the inability to offset future taxable income; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally; its ability to cost-effectively hedge against increases in the price of aircraft fuel; any potential realized or unrealized gains or losses related to fuel or currency hedging programs; the effects of any hostilities, act of war or terrorist attack; the ability of other air carriers with whom the Company has alliances or partnerships to provide the services contemplated by the respective arrangements with such carriers; disruptions to its regional network; the costs and availability of aviation and other insurance; industry consolidation or changes in airline alliances; competitive pressures on pricing and on demand; its capacity decisions and the capacity decisions of its competitors; U.S. or foreign governmental legislation, regulation and other actions (including open skies agreements and environmental regulations); the impact of regulatory, investigative and legal proceedings and legal compliance risks; labor costs; its ability to maintain satisfactory labor relations and the results of the collective bargaining agreement process with its union groups; any disruptions to operations due to any potential actions by its labor groups; weather conditions; and other risks and uncertainties set forth under Part I, Item 1A., Risk Factors of the 2014 Annual Report, as well as other risks and uncertainties set forth from time to time in the reports the Company files with the U.S. Securities and Exchange Commission (the SEC).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in market risk from the information provided in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2014 Annual Report except as follows:

Aircraft Fuel. As of June 30, 2015, the Company had hedged approximately 22% and 5% of its projected fuel requirements (442 million gallons and 180 million gallons, respectively) for the remainder of 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of June 30, 2015, the Company had fuel hedges expiring through March 2016.

At June 30, 2015, fuel derivatives were in a net liability position of $361 million. See Note 7 to the financial statements included in Part I, Item 1 of this report for additional information related to fuel hedges.

The fuel derivative portfolio is comprised of many individual derivative contracts (primarily option contracts) on multiple underlying commodities and entered into at various points in time, resulting in a wide range of strike prices with several hedge counterparties. The table below provides a view of the economic impact of the fuel derivative portfolio on the Company s fuel costs given significant moves (up to +/-30%) in market fuel prices from June 30, 2015 (in millions).

Period from July 1, 2015 to December 31, 2016

(In millions, except for change in market fuel prices)

Change in market fuel prices (a)	(Increase) decrease to unhedged fuel cost (b)	Fuel derivative gain (loss) (c)	Net (increase) decrease to fuel cost	Fuel derivative collateral (posted)/received (d)
30%	$ (3,324)	$ 314	$ (3,010)	$
20%	(2,216)	207	(2,009)	(4)
10%	(1,108)	100	(1,008)	(44)
(10)%	1,108	(82)	1,026	(198)
(20)%	2,216	(164)	2,052	(272)
(30)%	3,324	(256)	3,068	(344)

(a) Projected using equal shifts in spot and forward prices for aircraft fuel and crude oil underlying hedge contracts at June 30, 2015 levels.

(b) Projections are based on estimated consumption of 5.9 billion gallons and the June 30, 2015 average forward price of $1.87 per gallon, excluding taxes and other delivery costs.

(c) Change in projected cash gain/(loss) on existing fuel derivatives as of June 30, 2015. Includes all fuel derivatives whether or not the fuel derivatives are designated for hedge accounting.

(d) Projections are based on margin estimates for the entire fuel derivative portfolio as of June 30, 2015, including fuel derivatives settling in 2016.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Control and Procedures

The Company maintains controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted to the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC s rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company s management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL s and United s disclosure controls and procedures were designed and operating effectively to report the information each company is required to disclose in the reports they file with the SEC on a timely basis. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of UAL and United have concluded that as of June 30, 2015, disclosure controls and procedures of each of UAL and United were effective.

Changes in Internal Control over Financial Reporting during the Quarter Ended June 30, 2015

During the three months ended June 30, 2015, there were no changes in UAL s or United s internal control over financial reporting that materially affected, or are reasonably likely to materially affect, their internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Part I, Item 3., Legal Proceedings of the 2014 Annual Report for a description of legal proceedings. The disclosure below includes an update to the legal proceedings disclosures included in the 2014 Annual Report, which is in addition to, and not in lieu of, those disclosures contained in the 2014 Annual Report.

Environmental Proceedings

On January 13, 2014, United received an offer of settlement from the Bay Area Air Quality Management District (District) for three Notices of Violation (NOVs) issued in 2012 and 2013 to United s San Francisco maintenance center (the Maintenance Center). The NOVs relate to the frequency of filter replacement for painting booths and associated recordkeeping at the Maintenance Center. On May 11, 2015, United entered into a settlement agreement with the District to resolve the NOVs. United has paid the civil penalty required by the settlement agreement from a previously accrued reserve for this matter.

Other Proceedings

On June 30, 2015, UAL received a Civil Investigative Demand (CID) from the Antitrust Division of the United States Department of Justice (DOJ) seeking documents and information from the Company in connection with a DOJ investigation related to statements and decisions about airline capacity. We are working with the DOJ to provide the requested documents and information. We are not able to predict what action, if any, might be taken in the future by the DOJ or other governmental authorities as a result of the investigation.

Beginning on July 1, 2015, subsequent to the announcement of the CID, UAL and United were named as defendants in multiple class action lawsuits that asserted claims under the Sherman Antitrust Act, which lawsuits the Company anticipates will be consolidated into multi-district litigation. The complaints generally allege collusion among U.S. airlines on capacity impacting airfares and seek treble damages. The Company intends to vigorously defend against the class action lawsuits.

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

(a) None

(b) None

(c) The following table presents repurchases of UAL common stock made in the second quarter of fiscal year 2015:

Period	Total number of shares purchased (a)	Average price paid per share (b)	Total number of shares purchased as part of publicly announced plans or programs (a)	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (a)
April 1, 2015 through April 30, 2015	1,129,735	$ 61.94	1,129,735	$ 410
May 1, 2015 through May 31, 2015	1,458,667	58.58	1,458,667	325
June 1, 2015 through June 30, 2015	1,764,625	53.54	1,764,625	230
Total	4,353,027		4,353,027	

(a) In 2014, UAL s Board of Directors authorized a share repurchase program to acquire up to $1 billion of UAL s common stock. On July 21, 2015, UAL s Board of Directors authorized a new $3 billion share repurchase program, which the Company expects to complete by December 31, 2017. UAL may repurchase shares through the open market, privately negotiated transactions, block trades, or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of common stock subject to prevailing market conditions, and may discontinue such repurchases at any time.

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

ITEM 6. EXHIBITS.

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

SIGNATURES

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

United Continental Holdings, Inc.
(Registrant)

Date: July 23, 2015

By: /s/ John D. Rainey

John D. Rainey
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: July 23, 2015

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller
(principal accounting officer)

United Airlines, Inc.
(Registrant)

Date: July 23, 2015

By: /s/ John D. Rainey

John D. Rainey
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: July 23, 2015

By: /s/ Chris Kenny

Chris Kenny
Vice President and Controller
(principal accounting officer)

EXHIBIT INDEX

Exhibit No.	Registrant	Exhibit
^10.1	UAL United	Supplemental Agreement No. 63 to Purchase Agreement No. 1951, dated May 26, 2015, between The Boeing Company and United Airlines, Inc.
^10.2	UAL United	Supplemental Agreement No. 64 to Purchase Agreement No. 1951, dated June 12, 2015, between The Boeing Company and United Airlines, Inc.
^10.3	UAL United	Supplemental Agreement No. 11 to Purchase Agreement No. 2484, dated April 30, 2015, between The Boeing Company and United Airlines, Inc.
^10.4	UAL United	Supplemental Agreement No. 03 to Purchase Agreement No. 03776, dated May 26, 2015, between The Boeing Company and United Airlines, Inc.
^10.5	UAL United	Supplemental Agreement No. 04 to Purchase Agreement No. 03776, dated June 12, 2015, between The Boeing Company and United Airlines, Inc.
^10.6	UAL United	Supplemental Agreement No. 07 to Purchase Agreement Number PA-03784, dated May 26, 2015, between The Boeing Company and United Airlines, Inc.
^10.7	UAL United	Supplemental Agreement No. 08 to Purchase Agreement Number PA-03784, dated June 12, 2015, between The Boeing Company and United Airlines, Inc.
^10.8	UAL United	Supplemental Agreement No. 5 to Purchase Agreement No. 3860, dated April 30, 2015, between The Boeing Company and United Airlines, Inc.
12.1	UAL	United Continental Holdings, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges
12.2	United	United Airlines, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges
31.1	UAL	Certification of the Principal Executive Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.2	UAL	Certification of the Principal Financial Officer of United Continental Holdings, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.3	United	Certification of the Principal Executive Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.4	United	Certification of the Principal Financial Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
32.1	UAL	Certification of the Chief Executive Officer and Chief Financial Officer of United Continental Holdings, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
32.2	United	Certification of the Chief Executive Officer and Chief Financial Officer of United Airlines, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
101.1	UAL United	XBRL Instance Document
101.2	UAL	XBRL Taxonomy Extension Schema Document

	United	
101.3	UAL	XBRL Taxonomy Extension Calculation Linkbase Document
	United	
101.4	UAL	XBRL Taxonomy Extension Definition Linkbase Document
	United	
101.5	UAL	XBRL Taxonomy Extension Labels Linkbase Document
	United	
101.6	UAL	XBRL Taxonomy Extension Presentation Linkbase Document
	United	

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