

UAL CORP /DE/  
Form 424B5  
October 05, 2009  
Table of Contents

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*The information in this preliminary prospectus supplement is not complete and may be changed. We may not deliver these securities until a prospectus supplement is delivered in final form. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.*

PROSPECTUS SUPPLEMENT (Subject to Completion, dated October 5, 2009)

(To Prospectus dated June 19, 2007)

**\$659,107,000**

## ***United Air Lines, Inc.***

***2009-1 Pass Through Trust***

***PASS THROUGH CERTIFICATES, SERIES 2009-1***

*This prospectus supplement relates to new pass through certificates to be issued by a pass through trust to be formed by United. Each certificate will represent an interest in the pass through trust. The certificates do not represent interests in or obligations of United or any of its affiliates.*

*The proceeds from the sale of the certificates will initially be held in escrow. The pass through trust will use the escrowed funds to acquire equipment notes. The equipment notes will be issued by United to finance sixteen (16) Airbus aircraft and fifteen (15) Boeing aircraft owned by United. Payments on the equipment notes held in the pass through trust will be passed through to the certificateholders.*

*Interest on the equipment notes held in the pass through trust will be payable on May 1 and November 1 of each year, beginning on May 1, 2010. Principal paid on the equipment notes will be payable on May 1 and November 1 in scheduled years, beginning on May 1, 2010.*

*Distributions on the certificates will be subject to certain subordination provisions as described herein.*

*Morgan Stanley Bank, N.A. will provide a liquidity facility for the certificates. The liquidity facility is expected to provide an amount sufficient to pay up to three semiannual interest payments on the certificates.*

*The payment obligations of United under the equipment notes will be fully and unconditionally guaranteed by UAL.*

***Investing in the pass through certificates involves risks. See RISK FACTORS beginning on page S-13.***

Face			
Amount	Stated Interest Rate	Final Expected Distribution Date	Price to Public <sup>(1)</sup>
\$659,107,000	%	November 1, 2016	100%

(1) Plus accrued interest, if any, from the date of issuance.

*The underwriters will purchase all of the certificates if any are purchased. The aggregate proceeds from the sale of the certificates will be \$659,107,000. United will pay the underwriters a commission of \$ . The underwriters expect to deliver the certificates to purchasers on October , 2009. The certificates will not be listed on any national securities exchange.*

*The Securities and Exchange Commission (the SEC ) and state securities regulators have not approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

*Joint Bookrunners*

***J.P. MORGAN***

***MORGAN STANLEY***

*Co-Manager*

***Goldman, Sachs & Co.***

*October , 2009*

**Table of Contents**

**TABLE OF CONTENTS**

**Prospectus Supplement**

	<b>Page</b>
<u>Presentation of Information</u>	S-iii
<u>Summary</u>	S-1
<u>Risk Factors</u>	S-13
<u>Use of Proceeds</u>	S-17
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	S-18
<u>Business</u>	S-73
<u>Description of the Certificates</u>	S-85
<u>Description of the Deposit Agreement</u>	S-101
<u>Description of the Escrow Agreement</u>	S-103
<u>Description of the Liquidity Facility</u>	S-104
<u>Description of the Intercreditor Agreement</u>	S-110
<u>Description of the Aircraft and the Appraisals</u>	S-116
<u>Description of the Equipment Notes</u>	S-119
<u>Possible Issuance of Additional Certificates</u>	S-128
<u>Certain United States Federal Income Tax Considerations</u>	S-129
<u>Certain Delaware Taxes</u>	S-134
<u>Certain ERISA Considerations</u>	S-135
<u>Underwriting</u>	S-137
<u>Notice to Canadian Residents</u>	S-139
<u>Legal Matters</u>	S-140
<u>Structuring Advisor</u>	S-140
<u>Experts</u>	S-140
<u>Incorporation of Certain Documents by Reference</u>	S-141
<u>Appendix I Glossary</u>	I-1
<u>Appendix II Appraisals</u>	II-1
<u>Appendix III Loan to Value Ratio Tables</u>	III-1

**Table of Contents**

**TABLE OF CONTENTS**

**Prospectus**

<u>About This Prospectus</u>	1
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	1
<u>Where You Can Find More Information</u>	2
<u>Incorporation of Certain Documents By Reference</u>	3
<u>Ratio of Earnings to Fixed Charges</u>	4
<u>Legal Matters</u>	5
<u>Experts</u>	5

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. This document may be used only where it is legal to sell these securities. You should not assume that the information in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement. Also, you should not assume that there has been no change in the affairs of United or UAL since the date of this prospectus supplement.

S-ii

## Table of Contents

### PRESENTATION OF INFORMATION

These offering materials consist of two documents: (1) this prospectus supplement, which describes the terms of the certificates that we are currently offering and (2) the accompanying prospectus, which provides general information about us and our certificates, some of which may not apply to the certificates that we are currently offering. **The information in this prospectus supplement replaces any inconsistent information included in the accompanying prospectus.**

We have given certain terms specific meanings for purposes of this prospectus supplement. The Glossary attached as Appendix I to this prospectus supplement defines each of these terms.

At varying places in this prospectus supplement and the accompanying prospectus, we refer you to other sections of the documents for additional information by indicating the caption heading of the other sections. The page on which each principal caption included in this prospectus supplement and the accompanying prospectus can be found is listed in the table of contents on the preceding page. All cross references in this prospectus supplement are to captions contained in this prospectus supplement and not in the accompanying prospectus, unless otherwise stated.

Certain statements contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus are forward-looking and thus reflect United Air Lines, Inc.'s and UAL Corporation's (together with their respective consolidated subsidiaries, United and UAL, respectively) 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 intended to identify forward-looking statements.

Additionally, forward-looking statements include statements that do not relate solely to historical facts, such as statements which identify uncertainties or trends, discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus are based upon information available to us on the date such statements are made. 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.

UAL's and United's actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: our ability to comply with the terms of our amended credit facility and other financing arrangements; the costs and availability of financing; our ability to maintain adequate liquidity; our ability to execute our operational plans; our ability to control our costs, including realizing benefits from our resource optimization efforts and cost reduction initiatives; our ability to utilize our net operating losses; our ability to attract and retain customers; demand for transportation in the markets in which we operate; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact the economic recession has on customer travel patterns; the increasing reliance on enhanced video-conferencing and other technology as a means of conducting virtual meetings; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aviation fuel and refining capacity in relevant markets); our ability to cost-effectively hedge against increases in the price of aviation 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 we have alliances or partnerships to provide the services contemplated by our respective arrangements with such carriers; the costs and availability of aviation and other insurance; the costs associated with security measures and practices; industry consolidation; competitive pressures on pricing and on demand; capacity decisions of United and/or our competitors; U.S. or foreign governmental legislation, regulation and other actions (including open skies agreements); labor costs; our ability to maintain satisfactory labor relations and the results of the collective bargaining agreement process with our union groups; any disruptions to

**Table of Contents**

operations due to any potential actions by our labor groups; weather conditions; and other risks and uncertainties, including those set forth in the SEC reports incorporated by reference in the accompanying prospectus or as stated or incorporated by reference in this prospectus supplement under the caption RISK FACTORS. Consequently, forward-looking statements should not be regarded as representations or warranties by UAL or United that such matters will be realized.

S-iv

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**Table of Contents**

**SUMMARY**

*The following summary is qualified in its entirety by reference to the more detailed information and consolidated financial statements appearing elsewhere in this prospectus supplement and the accompanying prospectus, as well as the materials filed with the SEC, that are considered to be part of this prospectus supplement and the accompanying prospectus.*

**United Airlines**

UAL is a holding company and its principal, wholly-owned subsidiary is United. We sometimes use the words *we*, *our*, *the Company* and *us* in this prospectus supplement for disclosures that relate to both UAL and United, together with its consolidated subsidiaries. United's operations consist primarily of the transportation of persons, property, and mail throughout the United States and abroad. United provides these services through full-sized jet aircraft (which we refer to as its *Mainline* operations), as well as smaller aircraft in its regional operations conducted under contract by *United Express*® carriers.

United is one of the largest passenger airlines in the world. United offers nearly 3,300 flights a day to more than 200 destinations through its *Mainline* and *United Express*® services, based on its flight schedule from July 2009 to July 2010. United offers nearly 1,200 average daily *Mainline* departures to more than 120 destinations in 27 countries and two U.S. territories. United provides regional service, connecting primarily via United's domestic hubs, through marketing relationships with *United Express*® carriers, which provide more than 2,000 average daily departures to approximately 175 destinations. United serves virtually every major market around the world, either directly or through its participation in the *Star Alliance*®, the world's largest airline network.

United and UAL were incorporated under the laws of the State of Delaware on December 30, 1968. United's and UAL's corporate headquarters is located at 77 West Wacker Drive, Chicago, Illinois 60601. The mailing address is P.O. Box 66919, Chicago, Illinois 60666 (telephone number (312) 997-8000).

**Recent Developments**

On October 1, 2009, UAL announced that it had agreed to sell 19 million shares of its common stock at a public offering price of \$7.24 per share. The Company has also granted the underwriters an option to purchase an additional 2.85 million shares of its common stock on the same terms and conditions to cover over-allotments, if any. On the same date, UAL also announced the pricing of \$300 million aggregate principal amount of convertible senior notes due 2029. The Company has granted the underwriters an option to purchase an additional \$45 million aggregate principal amount of convertible senior notes on the same terms and conditions to cover over-allotments, if any. The convertible senior notes will pay interest semi-annually at an annual rate of 6.0%.

The Company estimates that the net proceeds from both offerings will be approximately \$424 million after deducting estimated offering expenses. The Company intends to use the net proceeds for general corporate purposes.

**Table of Contents****Summary of Terms of Pass Through Certificates**

	<b>Certificates</b>
Aggregate Face Amount	\$659,107,000
Interest Rate	%
Ratings:	
Moody's	Ba1
Standard & Poor's	BBB <sup>(1)</sup>
Initial Loan to Aircraft Value Ratio (cumulative) <sup>(2)</sup>	55.8%
Highest Loan to Aircraft Value Ratio (cumulative) <sup>(3)</sup>	55.8%
Expected Principal Distribution Window (in years)	0.5-7.0
Initial Average Life (in years from Issuance Date)	4.2
Regular Distribution Dates	May 1 and November 1
Final Expected Regular Distribution Date <sup>(4)</sup>	November 1, 2016
Final Legal Distribution Date <sup>(5)</sup>	May 1, 2018
Minimum Denomination	\$1,000
Section 1110 Protection	Yes
Liquidity Facility Coverage	3 semiannual interest payments

- (1) UAL and United ratings are currently on Credit Watch negative by Standard & Poor's.
- (2) This percentage is calculated as of May 1, 2010, the first Regular Distribution Date, and assumes that all of the deposits have been used to finance all of the aircraft prior to such date. The initial loan to aircraft value ratio measures the ratio of (a) the aggregate principal amount of the Equipment Notes relating to all aircraft to (b) the aggregate appraised base value of all aircraft (determined based on three appraisals setting forth values as of September 30, 2009, September 29, 2009 and September 28, 2009). These ratios are calculated assuming that the aggregate appraised maintenance adjusted base value of all aircraft is \$1,151,858,272 on the first Regular Distribution Date. The aggregate appraised maintenance adjusted base value is only an estimate and reflects certain assumptions. See DESCRIPTION OF THE AIRCRAFT AND THE APPRAISALS.
- (3) The highest loan to aircraft value ratio is based on the aggregate appraised base value of all aircraft as of a certain future date. See SUMMARY Loan to Aircraft Value Ratios. The aggregate appraised base value is only an estimate and reflects certain assumptions. See DESCRIPTION OF THE AIRCRAFT AND THE APPRAISALS.
- (4) Equipment Notes will mature on or before the Final Expected Regular Distribution Date for the certificates.
- (5) The Final Legal Distribution Date for the certificates is the Final Expected Regular Distribution Date plus eighteen months, which represents the period corresponding to the Liquidity Facility coverage of three semiannual interest payments.



**Table of Contents****Equipment Notes and the Aircraft**

Set forth below is certain information about the Equipment Notes to be held in the pass through trust and the aircraft that will secure such Equipment Notes:

Aircraft Type	Aircraft Registration Number	Manufacturer's Serial Number	Original Delivery Date	Appraised Value <sup>(1)</sup>	Initial Principal Amount of Equipment Notes	Equipment
						Note Final Maturity Date
Airbus A319-131	N831UA	1291	8/10/2000	21,540,000	12,062,000	11/1/2016
Airbus A319-131	N833UA	1401	1/11/2001	22,766,667	12,749,000	11/1/2016
Airbus A319-131	N834UA	1420	2/8/2001	23,043,333	12,904,000	5/1/2013
Airbus A319-131	N835UA	1426	2/12/2001	22,896,667	12,822,000	5/1/2013
Airbus A319-131	N836UA	1460	3/30/2001	22,993,333	12,876,000	5/1/2013
Airbus A319-131	N837UA	1474	4/11/2001	23,070,000	12,919,000	11/1/2013
Airbus A319-131	N838UA	1477	4/17/2001	23,410,000	13,110,000	11/1/2013
Airbus A319-131	N839UA	1507	5/31/2001	23,430,000	13,121,000	11/1/2013
Airbus A319-131	N840UA	1522	6/29/2001	23,510,000	13,166,000	5/1/2014
Airbus A319-131	N841UA	1545	7/20/2001	23,200,000	12,992,000	5/1/2014
Airbus A320-232	N467UA	1359	12/14/2000	23,590,000	13,210,000	11/1/2016
Airbus A320-232	N468UA	1363	12/18/2000	24,030,000	13,457,000	11/1/2016
Airbus A320-232	N469UA	1409	2/28/2001	24,680,000	13,821,000	11/1/2016
Airbus A320-232	N470UA	1427	3/19/2001	25,090,000	14,050,000	11/1/2016
Airbus A320-232	N471UA	1432	3/27/2001	25,040,000	14,022,000	11/1/2016
Airbus A320-232	N472UA	1435	4/3/2001	24,780,000	13,877,000	11/1/2016
Boeing 767-322ER	N664UA	29236	6/29/1998	36,810,000	20,614,000	11/1/2016
Boeing 767-322ER	N667UA	29239	8/31/1998	33,220,000	18,603,000	11/1/2016
Boeing 767-322ER	N669UA	30025	6/28/1999	34,700,000	19,432,000	11/1/2016
Boeing 767-322ER	N670UA	29240	8/31/1999	35,440,000	19,846,000	11/1/2016
Boeing 767-322ER	N671UA	30026	10/1/1999	37,310,000	20,894,000	11/1/2016
Boeing 767-322ER	N675UA	29243	8/1/2000	41,120,000	23,027,000	11/1/2016
Boeing 767-322ER	N676UA	30028	4/23/2001	42,620,000	23,867,000	11/1/2016
Boeing 777-222ER	N794UA	26953	11/18/1997	62,363,333	34,923,000	11/1/2016
Boeing 777-222ER	N795UA	26927	12/9/1997	64,496,667	36,118,000	11/1/2016
Boeing 777-222ER	N204UA	28713	2/3/1999	71,800,000	40,208,000	11/1/2016
Boeing 747-422	N117UA	28810	1/29/1999	64,873,333	36,329,000	11/1/2014
Boeing 747-422	N118UA	28811	2/24/1999	64,836,667	36,309,000	5/1/2015
Boeing 747-422	N122UA	29168	6/14/1999	69,273,333	38,793,000	11/1/2011
Boeing 747-422	N127UA	28813	8/2/1999	67,833,333	37,987,000	11/1/2011
Boeing 747-422	N128UA	30023	5/12/2000	73,213,333	40,999,000	11/1/2012
				<b>1,176,980,000</b>	<b>659,107,000</b>	

- (1) The appraised value of each aircraft provided above is based on the lesser of the average and the median appraised maintenance adjusted base values (as defined in the appraisal letters) of such aircraft as appraised by three independent appraisal and consulting firms, Aircraft Information Services, Inc. ( AISI ), BK Associates, Inc. ( BK ) and Morten Beyer & Agnew, Inc. ( MBA ) as of September 30, 2009, September 29, 2009 and September 28, 2009, respectively. The appraisers based the appraisals on varying assumptions and methodologies. An appraisal is only an estimate of value and you should not rely on any appraisal as an estimate of realizable value.

**Table of Contents****Loan To Aircraft Value Ratios**

The following table provides loan to aircraft value ratios ( LTV ratios ) for the certificates as of May 1, 2010, the first Regular Distribution Date, and as of each Regular Distribution Date thereafter. The table is not a forecast or prediction of expected or likely LTV ratios but a mathematical calculation based on one set of assumptions.

We compiled the following table on an aggregate basis. However, the Equipment Notes issued under an Indenture are cross-collateralized by all of the Aircraft. See DESCRIPTION OF THE EQUIPMENT NOTES Security. The relevant LTV ratios in a default situation for the Equipment Notes issued under a particular Indenture would depend on various factors, including the extent to which the debtor or trustee in bankruptcy agrees to perform United's obligations under the Indentures. Therefore, the following LTV ratios are presented for illustrative purposes only.

<b>Date</b>	<b>Assumed Aggregate Aircraft Value<sup>(1)(2)</sup></b>	<b>Outstanding Pool Balance of Certificates<sup>(3)</sup></b>	<b>LTV Ratios<sup>(4)</sup></b>
May 1, 2010	1,151,858,272	642,315,518	55.8%
November 1, 2010	1,126,736,544	622,399,059	55.2%
May 1, 2011	1,101,614,817	599,207,723	54.4%
November 1, 2011	951,268,445	506,099,427	53.2%
May 1, 2012	929,117,223	479,858,446	51.6%
November 1, 2012	842,968,332	419,036,218	49.7%
May 1, 2013	762,144,063	361,081,718	47.4%
November 1, 2013	682,995,289	304,865,812	44.6%
May 1, 2014	625,326,772	259,365,132	41.5%
November 1, 2014	555,000,125	210,273,806	37.9%
May 1, 2015	487,969,358	165,218,231	33.9%
November 1, 2015	471,104,187	138,416,684	29.4%
May 1, 2016	453,327,737	110,829,109	24.4%
November 1, 2016			

- (1) In calculating the assumed aggregate aircraft values above, we assumed that all Aircraft will be financed under this Offering prior to May 1, 2010 and that the initial appraised base value of each aircraft declines by approximately 3% of the initial appraised base value each year for the first 15 years after the year of delivery of the aircraft by the manufacturer, by approximately 4% each year thereafter for the next five years and by approximately 5% each year after that. Other rates or methods of depreciation may result in materially different LTV ratios. We cannot assure you that the depreciation rate and method assumed for purposes of the table are the ones most likely to occur nor can we predict the actual future value of any aircraft.
- (2) The Equipment Notes for certain Aircraft will mature prior to the Final Expected Regular Distribution Date. So long as no default in the payment of principal or interest or certain other amounts or other event of default has occurred and is continuing under any Indenture, Aircraft will cease to be included in the collateral pool upon payment in full of the outstanding principal balance of the related Equipment Notes.
- (3) In calculating the outstanding Pool Balance of the certificates, we have assumed that the Trust will acquire the Equipment Notes for all of the Aircraft.
- (4) The LTV ratios were obtained for each Regular Distribution Date by dividing (i) the expected outstanding pool balance of the certificates after giving effect to the distributions expected to be made on such date by (ii) the assumed aggregate value of all the aircraft that are expected to have outstanding Equipment Notes related thereto on such date based on the assumptions described above.

**Table of Contents**

**Cash Flow/Structure Chart**

The following diagram illustrates the structure of the offering of the certificates and cash flows.

- (1) Each aircraft will be subject to a separate indenture with a separate loan trustee.
- (2) The initial amount of the Liquidity Facility will cover up to three successive semiannual interest payments with respect to the certificates, except that the Liquidity Facility will not cover interest on the Deposits.
- (3) The proceeds of the offering of the certificates will initially be held in escrow and deposited with the Depositary. The Depositary will hold such funds as interest-bearing deposits. The Trust will withdraw funds from the Deposits to purchase Equipment Notes from time to time as each Aircraft is financed. The Liquidity Facility will not cover interest on the Deposits. If any funds remain as Deposits with respect to the Trust at the Deposit Period Termination Date, those funds will be withdrawn by the Escrow Agent and distributed to the holders of the certificates, together with accrued and unpaid interest thereon, but without any premium. No interest will accrue with respect to the Deposits after they have been fully withdrawn.

S-5

Pass Through Trust                      United and Wilmington Trust Company, as Pass Through Trustee, will form a pass through trust (the "Trust") under a pass through trust supplement to a basic Pass Through Trust Agreement between United and the Pass Through Trustee.

**Certificates Offered** The Certificates will represent 100% of the fractional undivided interest in the Trust. No other certificates will be issued by United on the Issuance Date. However, Additional Certificates may be issued in the future. See **POSSIBLE ISSUANCE OF ADDITIONAL CERTIFICATES**.

Use of Proceeds	The proceeds from the sale of the Certificates will initially be held in escrow and deposited with the Depositary. The Trust will withdraw funds from the escrow to acquire Equipment Notes as the Aircraft are financed. The Equipment Notes will be full recourse obligations of United.
United will issue the Equipment Notes under a separate Indenture for each aircraft. United will use the proceeds from the issuance of the Equipment Notes to refinance the existing debt on certain aircraft and for general corporate purposes.	

Subordination Agent, Pass Through Trustee, Escrow Agent, Paying Agent and Loan Trustee     Wilmington Trust Company.

Liquidity Provider **Morgan Stanley Bank, N.A.**

Depository	JPMorgan Chase Bank, N.A.
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**Trust Property**

The property of the Trust will include:

### The Equipment Notes.

All rights of the Trust under the Intercreditor Agreement described below (including all monies receivable pursuant to such rights).

All rights of the Trust to acquire the Equipment Notes under the Participation Agreements.

All monies receivable under the Liquidity Facility.

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Funds from time to time deposited with the Pass Through Trustee in accounts for the Trust.

### UAL Guarantee

UAL will unconditionally guarantee the payment obligations of United under each Equipment Note issued by United pursuant to a guarantee agreement (the UAL Guarantee ).

S-6

## **Table of Contents**

Regular Distribution Dates	May 1 and November 1, commencing on May 1, 2010.
Record Dates	The 15th day preceding each distribution date.
Distributions	<p>The Pass Through Trustee will distribute all payments of principal, Make-Whole Amount, if any, and interest received on the Equipment Notes held in the Trust to the holders of the Certificates. Distributions will be subject to the subordination provisions applicable to the Certificates.</p> <p>Subject to the subordination provisions applicable to the Certificates, the Pass Through Trustee will distribute scheduled payments of principal and interest made on the Equipment Notes held by the Trust on the applicable Regular Distribution Dates. Subject to the subordination provisions applicable to the Certificates, the Pass Through Trustee will distribute payments of principal, Make-Whole Amount, if any, and interest made on any Equipment Notes resulting from any early redemption of any Equipment Notes on a Special Distribution Date after not less than 15 days' notice to the holders of the Certificates.</p>
Control of Loan Trustee	<p>The holders of at least a majority of the outstanding principal amount of Equipment Notes issued under each Indenture will be entitled to direct the Loan Trustee under such Indenture in taking action as long as no Indenture Event of Default is continuing thereunder. If an Indenture Event of Default is continuing, subject to certain conditions, the Controlling Party will direct the Loan Trustee under such Indenture (including in exercising remedies, such as accelerating such Equipment Notes or foreclosing the lien on the aircraft securing such Equipment Notes).</p>
The Controlling Party will be:	<p>The Pass Through Trustee.</p> <p>Under certain circumstances, and notwithstanding the foregoing, the Liquidity Provider.</p>
Limitation on Sale of Aircraft or Equipment Notes	<p>In exercising remedies, during the period ending on the date occurring nine months after the earlier of: (1) the acceleration of the Equipment Notes issued under any Indenture and (2) the occurrence of a United Bankruptcy Event the Controlling Party may not, without the consent of the Trustee and, if any Additional Certificates are outstanding, the Additional Trustee, direct the Subordination Agent or Loan Trustee, as applicable, to sell such Equipment Notes or the aircraft subject to the lien of that Indenture if the net proceeds from such sale would be less than (x) in the case of such aircraft, 75%, or (y) in the case of such Equipment Notes, 85% of the Appraised Current Market Value of such aircraft.</p>

## **Table of Contents**

A319 Airframe Substitution	United shall have the right to substitute an A319 airframe, so long as no Indenture Event of Default has occurred and is continuing, with either an Airbus A319 or an A320 airframe manufactured not more than one year prior to the date of manufacture of the A319 airframe being substituted and with a maintenance adjusted current market value at least equal to the A319 airframe being substituted.
Lease of Aircraft as Exercise of Remedies	In exercising remedies under an Indenture, the Controlling Party or the Instructing Holders, as applicable, may direct the Subordination Agent (to direct the Loan Trustee) or Loan Trustee, as applicable, to lease the aircraft subject to the lien of that Indenture to any person (including United) so long as in doing so the Loan Trustee acts in a commercially reasonable manner within the meaning of the Uniform Commercial Code.
Liquidity Facility	Under the Liquidity Facility the Liquidity Provider will, if necessary, make advances in an aggregate amount that is expected to be sufficient to pay an amount equal to the interest on the certificates on up to three successive semiannual Regular Distribution Dates at the interest rate for the Certificates. Drawings under the Liquidity Facility cannot be used to pay any amount in respect of the Certificates other than interest and will not cover interest payable on amounts held in escrow as Deposits with the Depositary. Upon each drawing under the Liquidity Facility to pay interest, the Subordination Agent must reimburse the Liquidity Provider for the amount of that drawing, together with interest on the drawing. This reimbursement obligation and all interest, fees and other amounts owing to the Liquidity Provider under the Liquidity Facility will rank senior to all of the Certificates in right of payment.
Escrowed Funds	Funds paid to the Escrow Agent will be placed in escrow for the holders of the Certificates and will be deposited with the Depositary and held as deposits pursuant to the Deposit Agreement. The rights of the holders of the Certificates to such escrowed amounts will be evidenced by Escrow Receipts issued to each certificateholder. Funds may be withdrawn by the Escrow Agent at the direction of the Trustee from time to time to purchase Equipment Notes prior to the Deposit Period Termination Date. The deposits cannot be used to pay any other amount in respect of the certificates.
Unused Escrowed Funds	All of the Deposits held in escrow may not be used to purchase Equipment Notes by the Deposit Period Termination Date. This may occur because of issues related to the prepayment of the existing financing or other reasons. If any funds remain as Deposits after the Deposit Period Termination Date or, if earlier, the day after the Escrow Agent receives notice that the Trustee's obligation to purchase Equipment Notes has been fulfilled or terminated, they will be withdrawn by the Escrow Agent and distributed, with accrued and unpaid interest on such unused Deposits, to the holders of the Certificates after at least 15 days' prior written notice.

## Table of Contents

Obligation to Purchase Equipment Notes	The Trustee will enter into a note purchase agreement with United (the Note Purchase Agreement ) pursuant to which the Trustee will agree, subject to no Triggering Event having occurred, to execute a Participation Agreement with respect to each Aircraft upon receipt of a notice from United that it intends to finance such Aircraft. Pursuant to the Participation Agreements, United will enter into a secured debt financing with respect to each Aircraft pursuant to financing agreements in the forms attached to the Note Purchase Agreement and the Trustee will be obligated to purchase the Equipment Notes issued by United with respect to the Aircraft.
Issuances of Additional Class of Certificates	After the Deposit Period Termination Date, an additional single class of pass through certificates of a separate pass through trust may be issued from time to time. These pass through certificates will evidence fractional undivided ownership interests in a new series of subordinated equipment notes with respect to some or all of the Aircraft. The holders of any such additional pass through certificates will have the right to purchase all of the Certificates under certain circumstances after a bankruptcy of United at the outstanding principal balance of the Certificates plus accrued and unpaid interest and other amounts due to Certificateholders, but without a premium. Consummation of any such issuance of additional pass through certificates will be subject to satisfaction of certain conditions, including receipt of confirmation from the Rating Agencies that it will not result in a withdrawal, suspension or downgrading of the Certificates. See POSSIBLE ISSUANCE OF ADDITIONAL CERTIFICATES .
Equipment Notes	
(a) Issuer	United will issue Equipment Notes, which will be acquired by the Trust.
(b) Interest	The Equipment Notes held in the Trust will accrue interest at the Stated Interest Rate. Interest on the Equipment Notes will be payable on May 1 and November 1 of each year, commencing on May 1, 2010. Interest on the Equipment Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months.
(c) Principal	Principal payments on the Equipment Notes are scheduled to be received in specified amounts on May 1 and November 1 in specified years, commencing on May 1, 2010.
(d) Redemption	<i>Mandatory Redemption Aircraft Event of Loss</i> If an Event of Loss occurs with respect to an aircraft, we will redeem all of the Equipment Notes issued for such aircraft under the related Indenture, unless we replace such aircraft. The redemption price will be the unpaid principal amount of the related Equipment Notes, together with accrued interest, without any Make-Whole Amount.



## **Table of Contents**

### *Optional Redemption All Equipment Notes*

At any time prior to maturity, United may redeem all of the Equipment Notes with respect to an Aircraft, provided that all outstanding Equipment Notes with respect to all Aircraft are simultaneously redeemed. The redemption price will be the unpaid principal amount of the Equipment Notes, together with accrued interest, plus Make-Whole Amount, if any.

In the case of an optional redemption of all Equipment Notes, United will pay a make-whole premium (the Make-Whole Amount ) for any such Equipment Note equal to an amount (as determined by an independent investment bank of national standing selected by United) equal to the excess, if any, of (a) the present value of the remaining scheduled payments of principal and interest from the determination date to maturity of such Equipment Note computed by discounting such payments on a semiannual basis on each Payment Date (assuming a 360-day year of twelve 30-day months) using a discount rate equal to the Treasury Yield plus the Make-Whole Spread, over (b) the outstanding principal amount of such Equipment Note plus accrued interest to the date of determination.

The Make-Whole Spread is %.

### *Optional Redemption Boeing 747s*

At any time prior to maturity, United may redeem all of the Equipment Notes related to any Boeing 747. The redemption price will be 103% of the unpaid principal amount of the Equipment Notes relating to such Boeing 747 Aircraft, together with accrued interest, but without Make-Whole Amount, provided that United delivers an officer's certificate stating that such Boeing 747 Aircraft to which the Equipment Notes relate is to be sold or grounded.

(e) Security and Cross-Collateralization United will secure the Equipment Notes issued for each aircraft by a security interest in the aircraft.

In addition, the obligations under each Indenture will be cross-collateralized as each Indenture will secure all amounts owing under all the Indentures. This means that any excess proceeds from the exercise of remedies with respect to an aircraft will be available to cover any shortfalls then due under Equipment Notes then held by the Subordination Agent issued with respect to the other aircraft. In the absence of any such shortfall, excess proceeds, if any, will be held by the relevant Loan Trustee as additional collateral for such other Equipment Notes. Any cash collateral held as a result of the cross-collateralization of the Equipment Notes would not be entitled to the benefits of Section 1110 of the Bankruptcy Code.

The Equipment Notes for some of the Aircraft will mature prior to the Final Expected Regular Distribution Date. So long as no default in the

## Table of Contents

payment of principal or interest or certain other amounts or other event of default has occurred and is continuing under any other Indenture, upon payment in full of the outstanding principal amount of the Equipment Notes for an Aircraft, such Aircraft will be released from the lien of the related Indenture. In addition, if United elects to prepay any 747 Aircraft and so long as no default in the payment of principal or interest or certain other amounts or other event of default has occurred and is continuing under any other Indenture, such 747 Aircraft will be released from the lien of the related Indenture. Once the lien on an Aircraft is released, that Aircraft will no longer secure the amounts owing under any Indenture.

### (f) Cross-Default

Each Indenture will contain a cross-default to each other Indenture. This means an Indenture Event of Default under one Indenture will result in an Indenture Event of Default under each other Indenture and remedies will be exercisable with respect to all Aircraft.

### (g) Section 1110 Protection

Vedder Price P.C., special counsel to United, will provide an opinion to the Trustee that the benefits of Section 1110 of the Bankruptcy Code will be available for each aircraft with respect to all Equipment Notes secured thereby.

### (h) Post-Default Reports

Promptly after the occurrence of a Triggering Event or an Indenture Event of Default resulting from a payment default on any Equipment Note (and on each Regular Distribution Date while such event is continuing), the Subordination Agent will prepare and distribute to the Trustee, Liquidity Provider, Rating Agencies and United a report containing certain information as to each aircraft and its status, the outstanding certificates and Equipment Notes and the Liquidity Facility and other information as described under DESCRIPTION OF THE INTERCREDITOR AGREEMENT Reports.

### Certain United States Federal Income Tax Considerations

The Trust itself should not be subject to federal income tax. Each certificateholder should report on its federal income tax return its pro rata share of the income from the Deposits and income from the Equipment Notes (including amounts paid by the Liquidity Provider), if any, and the other property held by the Trust. See CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS for more detail.

### ERISA Considerations

In general, employee benefit plans subject to Title I of ERISA or Section 4975 of the Code, or entities that may be deemed to hold the assets of those plans, will be eligible to purchase the Certificates, subject to the conditions and circumstances that apply to those plans.

Each person who acquires or accepts a Certificate or an interest therein will be deemed by the acquisition or acceptance to have represented and warranted that either:

- (a) no assets of a plan or an individual retirement account have been used to acquire the Certificate or an interest therein; or

## Table of Contents

- (b) the purchase and holding of the Certificate or an interest therein by that person are exempt from the prohibited transaction restrictions of ERISA and the Code. See ERISA CONSIDERATIONS.

### Ratings of the Certificates

It is a condition to the issuance of the Certificates that Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (Standard & Poor's) and together with Moody's, the Rating Agencies) rate the Certificates not less than the ratings set forth below:

	<b>Standard &amp;</b>
<b>Moody's</b>	<b>Poor's</b>
Bal	BBB

UAL and United ratings are currently on Credit Watch negative by Standard & Poor's. A rating is not a recommendation to purchase, hold or sell Certificates. A rating does not address market price or suitability for a particular investor. We cannot assure you that the Rating Agencies will not lower or withdraw their ratings.

### Threshold Rating for the Depositary

The Depositary must have a short-term unsecured debt rating of at least P-1 from Moody's and a short-term issuer credit rating of at least A-1+ from Standard & Poor's.

### Depositary Rating

The Depositary meets the Depositary Threshold Rating requirement.

### Threshold Rating Requirements for the Liquidity Provider

The Liquidity Provider must have a short-term unsecured debt rating of at least P-1 from Moody's and a short-term issuer credit rating of at least A-1 from Standard & Poor's.

### Liquidity Provider Rating

Morgan Stanley Bank, N.A. meets the Threshold Rating requirement.

## **Table of Contents**

### **RISK FACTORS**

*In addition to the other information included or incorporated by reference in this prospectus supplement, including the matters addressed under PRESENTATION OF INFORMATION in this prospectus supplement and under CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS in the accompanying prospectus, you should carefully consider the following risk factors set forth below before making an investment decision with respect to the pass through certificates offered hereby.*

#### **Risks Related to the Certificates and the Offering**

*Appraisals should not be relied upon as a measure of realizable value of the aircraft.*

Three independent appraisal and consulting firms have prepared appraisals of the aircraft. The appraisal letters are annexed to this prospectus supplement as Appendix II. The appraisals are based on the base value of the aircraft and rely on varying assumptions and methodologies that may differ among the appraisers. Base value is the theoretical value of an aircraft that assumes a balanced market. The appraisals may not reflect current market conditions that could affect the current market value of the aircraft. The appraisers prepared the appraisals without a physical inspection of the aircraft and the aircraft may not be in the condition assumed by the appraisers. Appraisals that are based on other assumptions and methodologies may result in valuations that are materially different from those contained in the appraisals. For a more detailed discussion of the appraisals, see DESCRIPTION OF THE AIRCRAFT AND THE APPRAISALS The Appraisals.

An appraisal is only an estimate of value. It does not necessarily indicate the price at which an aircraft may be purchased or sold in the market. An appraisal should not be relied on as a measure of realizable value. The proceeds realized on a sale of any aircraft may be less than its appraised value. In particular, the appraisals of the aircraft are estimates of the values of the aircraft assuming the aircraft are in a certain condition, which may not be the case. If the Loan Trustee exercised remedies under one or more Indentures, the value of the related aircraft will depend on various factors, including:

market and economic conditions;

the supply of similar aircraft;

the availability of buyers;

the condition of the aircraft; and

whether the aircraft are sold separately or as a block.

Accordingly, we cannot assure you that the proceeds realized on any exercise of remedies would be sufficient to satisfy in full payments due on the Equipment Notes for any aircraft or the full amount of distributions expected to be paid on the Certificates.

*Failure to perform maintenance responsibilities may deteriorate the value of the aircraft.*

To the extent described in the Indentures, we will be responsible for the maintenance, service, repair and overhaul of the aircraft. If we fail to perform adequately these responsibilities, the value of the aircraft may be reduced. In addition, the value of the aircraft may deteriorate even if we fulfill our maintenance responsibilities. As a result, it is possible that upon a liquidation, there will be less proceeds than anticipated to repay the holders of Equipment Notes. See DESCRIPTION OF THE EQUIPMENT NOTES Certain Provisions of the Indentures.

*Inadequate levels of insurance may result in insufficient proceeds to repay holders of related Equipment Notes.*

To the extent described in the Indentures, we must maintain public liability, property damage and all-risk aircraft hull insurance on the aircraft. If we fail to maintain adequate levels of insurance, the proceeds which could be obtained upon an Event of Loss of an aircraft may be

insufficient to repay the holders of the related

S-13

## **Table of Contents**

Equipment Notes. See DESCRIPTION OF THE EQUIPMENT NOTES Certain Provisions of the Indentures Insurance.

### ***It may be difficult and expensive to exercise repossession rights with respect to an aircraft.***

There will be no general geographic restrictions on our ability to operate the aircraft. Although we do not currently intend to do so, we may register the aircraft in specified foreign jurisdictions and/or lease the aircraft. It may be difficult, time-consuming and expensive for a Loan Trustee to exercise repossession rights if an aircraft is located outside the United States, is registered in a foreign jurisdiction or is leased to a foreign or domestic operator. Additional difficulties may exist if a lessee is the subject of a bankruptcy, insolvency or similar event.

In addition, some jurisdictions may allow for other liens or other third party rights to have priority over a Loan Trustee's security interest in an aircraft. As a result, the benefits of the related Loan Trustee's security interest in an aircraft may be less than they would be if the aircraft were located or registered in the United States.

Upon repossession of an aircraft, the aircraft may need to be stored and insured. The costs of storage and insurance can be significant and the incurrence of such costs could result in fewer proceeds to repay the holders of the Equipment Notes.

### ***Payments to certificateholders will be subordinated to certain amounts payable to other parties.***

Under the Intercreditor Agreement, the Liquidity Provider will receive payment of all amounts owed to it, including reimbursement of drawings made to pay interest on the Certificates, before the holders of the Certificates receive any funds. In addition, the Subordination Agent and the Pass Through Trustee will receive some payments before the holders of the Certificates receive distributions.

### ***The exercise of remedies will be controlled by the Controlling Party.***

If an event of default under an Indenture is continuing, subject to specified conditions, the Controlling Party may direct the Loan Trustee under the related Indenture to exercise remedies under the Indenture, including accelerating the applicable Equipment Notes or foreclosing the lien on the aircraft securing such Equipment Notes. See DESCRIPTION OF THE CERTIFICATES Indenture Events of Default and Certain Rights Upon An Indenture Event of Default.

The Controlling Party will be:

The Trustee.

Under specified circumstances, and notwithstanding the foregoing, the Liquidity Provider.

As a result of the foregoing, if the Trustee is not the Controlling Party with respect to an Indenture, the certificateholders will have no rights to participate in directing the exercise of remedies under such Indenture.

### ***The proceeds from the disposition of any aircraft or Equipment Notes may not be sufficient to pay all amounts distributable to the holders of Certificates.***

The market for any aircraft or Equipment Notes, as the case may be, during any event of default under an Indenture may be very limited, and we cannot assure you as to the price at which they could be sold.

Certificateholders will receive a smaller amount of principal distributions than anticipated and will not have any claim for the shortfall against us (except in the second bullet point below), any Loan Trustee or any Trustee if the Controlling Party takes the following actions:

It sells any Equipment Notes for less than their outstanding principal amount; or

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It sells any aircraft for less than the outstanding principal amount of the related Equipment Notes.

S-14

## **Table of Contents**

The Equipment Notes will be cross-collateralized and the Indentures will be cross-defaulted. Any default arising under an Indenture solely by reason of the cross-default in such Indenture may not be of a type required to be cured under Section 1110 of the Bankruptcy Code. In such circumstances, if the Equipment Notes issued under one or more Indentures are in default and the only default under the remaining Indentures is the cross-default, no remedies will be exercisable under such remaining Indentures.

### ***The ratings of the Certificates may be lowered or withdrawn in the future.***

It is a condition to the issuance of the Certificates that Moody's and Standard & Poor's rate the Certificates not less than Baa1 by Moody's and BBB by Standard & Poor's. UAL and United ratings are currently on Credit Watch negative by Standard & Poor's.

A rating is not a recommendation to purchase, hold or sell the Certificates and the rating does not address market price of the Certificates or suitability of investing in the Certificates for a particular investor. A rating may not remain for any given period of time and a Rating Agency may lower or withdraw entirely a rating if in its judgment circumstances in the future so warrant. These circumstances may include a downgrading of the debt of United, the Depositary or the Liquidity Provider by a Rating Agency.

The rating of the Certificates is based primarily on the default risk of the Equipment Notes and the Depositary, the availability of the Liquidity Facility for the benefit of holders of the Certificates, the collateral value provided by the aircraft relating to the Equipment Notes and the cross-collateralization provisions applicable to the Indentures. These ratings address the likelihood of timely payment of interest (at the Stated Interest Rate and without any premium or break amount) when due on the Certificates and the ultimate payment of principal distributable under the Certificates by the Final Legal Distribution Date. The ratings do not address the possibility of certain defaults, optional redemptions or other circumstances, which could result in the payment of the outstanding principal amount of the Certificates prior to the Final Expected Regular Distribution Date. Standard & Poor's has indicated that its rating applies to a unit consisting of Certificates representing the Trust Property and Escrow Receipts initially representing interests in \$659,107,000 of Deposits. Amounts deposited under the Escrow Agreement are not property of United and are not entitled to the benefits of Section 1110 of the Bankruptcy Code. Any cash collateral held as a result of the cross-collateralization of the Equipment Notes will not be entitled to the benefits of Section 1110 of the Bankruptcy Code. The ratings apply only to the Certificates and not the Equipment Notes.

The reduction, suspension or withdrawal of the ratings of the Certificates will not, by itself, constitute an event of default under the pass through trust agreement.

### ***The Certificates will not provide any protection against highly leveraged or extraordinary transactions.***

The Certificates, the Equipment Notes and the underlying agreements will not contain any financial or other covenants or event risk provisions protecting the certificateholders in the event of a highly leveraged or other extraordinary transaction affecting us or our affiliates.

### ***There are no restrictive covenants in the transaction documents relating to our ability to incur future indebtedness.***

The Certificates, Equipment Notes and the underlying agreements will not (i) require us to maintain any financial ratios or specified levels of net worth, revenues, income, cash flow or liquidity and therefore do not protect certificateholders in the event that we experience significant adverse changes in our financial condition or results of operations, (ii) limit our ability to incur additional indebtedness or (iii) restrict our ability to pledge our assets. In light of the absence of such restrictions, we may conduct our business in a manner that may cause the market price of the certificates to decline or otherwise restrict or impair our ability to pay amounts due under the Equipment Notes and/or the related agreements.



**Table of Contents**

***The ability to resell the Certificates may be limited.***

Prior to this Offering, there has been no public market for the Certificates. Neither we nor the Trust intends to apply for listing of the Certificates on any securities exchange or otherwise. The underwriters may assist in resales of the Certificates, but they are not required to do so, and any market-making activity may be discontinued at any time without notice at the sole discretion of each underwriter. A secondary market for the Certificates may not develop. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow you to resell any of your Certificates. If an active public market does not develop, the market price and liquidity of the Certificates may be adversely affected. Neither the Certificates nor the Escrow Receipts may be separately assigned or transferred.

***Escrowed funds may be returned if they are not used to purchase Equipment Notes.***

All of the funds held in escrow as Deposits may not be used to purchase Equipment Notes by the Deposit Period Termination Date. See DESCRIPTION OF THE DEPOSIT AGREEMENT Unused Deposits . If any funds remain as Deposits after the Deposit Period Termination Date, they will be withdrawn by the Escrow Agent and be distributed, with accrued and unpaid interest, but without any Make-Whole Amount, to the certificateholders.

**Table of Contents****USE OF PROCEEDS**

The proceeds from the sale of the Certificates will be used by the Trustee to acquire the Equipment Notes. We will issue the Equipment Notes under 31 separate Indentures. We will use the proceeds from the issuance of the Equipment Notes to refinance the existing debt secured by 29 of the Aircraft which were financed pursuant to our issuance of equipment notes in connection with our 2001-1 pass through certificates (the 2001-1 EETC ) and for general corporate purposes, possibly including the repayment of indebtedness, financing of capital expenditures or funding of potential acquisitions or other business transactions. The following table sets forth certain information regarding the 2001-1 EETC:

<b>CUSIP</b>	<b>Expected Final Distribution Date</b>	<b>Security</b>	<b>Interest Rate</b>
909317 BB4	March 1, 2010	Class B PTC	6.932%
909317 BC2	September 1, 2011	Class C PTC	6.831%
909317 BD0	September 1, 2012	Class D PTC	7.371%

S-17

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS should be read in conjunction with USE OF PROCEEDS and with our financial statements and related notes, which are incorporated by reference in this prospectus supplement.*

*The information presented in Three Year Period Ended December 31, 2008 relates to the period covered by our audited consolidated financial statements as of and for the year ended December 31, 2008 and should be read together with the information presented in Quarters Ended June 30, 2009 and 2008, which presents information related to the period covered by our unaudited consolidated financial statements as of and for the quarters ended June 30, 2009 and 2008. The information in Quarters Ended June 30, 2009 and 2008 replaces any inconsistent information included in Three Year Period Ended December 31, 2008.*

**Three Year Period Ended December 31, 2008**

**Overview**

As discussed below in BUSINESS, UAL and United (together with their consolidated subsidiaries, the Company) derive virtually all of their revenues from airline related activities. The most significant source of airline revenues is passenger revenues; however, Mileage Plus® Frequent Flyer Program (Mileage Plus), United Cargo and United Services are also major sources of operating revenues. The airline industry is highly competitive and is characterized by intense price competition. Fare discounting by United's competitors has historically had a negative effect on the Company's financial results because United has generally been required to match competitors' fares to maintain passenger traffic. Future competitive fare adjustments may negatively impact the Company's future financial results. The Company's most significant operating expense is jet fuel. Jet fuel prices are extremely volatile and are largely uncontrollable by the Company. The Company's historical and future earnings have been and will continue to be significantly impacted by jet fuel prices.

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. Therefore, the following qualitative discussion is applicable to both UAL and United, unless otherwise noted. Any significant differences between UAL and United results are separately disclosed and explained.

**Bankruptcy Matters.** On December 9, 2002, UAL, United and 26 direct and indirect wholly-owned subsidiaries filed voluntary petitions to reorganize their business under Chapter 11 of the Bankruptcy Code. The Company emerged from bankruptcy on February 1, 2006, under the Debtors' Second Amended Joint Plan of Reorganization pursuant to Chapter 11 of the Bankruptcy Code (the Plan of Reorganization) that was approved by the U.S. Bankruptcy Court for the Northern District of Illinois, Eastern Division (the Bankruptcy Court). In connection with its emergence from Chapter 11 bankruptcy protection, the Company adopted fresh-start reporting, which resulted in significant changes in post-emergence financial statements, as compared to the Company's historical financial statements. See Three Year Period Ended December 31, 2008 Financial Results below, for further discussion. See Note 4, Voluntary Reorganization Under Chapter 11 Significant Matters Remaining to be Resolved in Chapter 11 Cases, under Item 8. Financial Statements and Supplementary Data in our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further information regarding bankruptcy matters.

**Recent Developments for the Year Ended December 31, 2008.** The unprecedented increase in fuel prices and a worsening global recession have created an extremely challenging environment for the airline industry. While the Company significantly improved its financial performance in 2006 and 2007, the Company was not

**Table of Contents**

able to financially compensate for the substantial increase in fuel prices during 2008. The Company's average consolidated fuel price per gallon, including net hedge losses that are classified in fuel expense, increased 59% from 2007 to 2008. The increased cost of fuel purchases and hedging losses drove the \$3.1 billion increase in the Company's consolidated fuel costs. The Company's fuel hedge losses that are classified in nonoperating expense also had a significant negative impact on its 2008 liquidity and results of operations.

Although the Company was adversely impacted by fuel costs and special items in this recessionary environment, the Company's commitment to cost reduction was a contributory factor to the year-over-year reduction in other areas of operating expenses as presented in the table below. The following table presents the unit cost of various components of total operating expenses and year-over-year changes.

(In millions, except unit costs)	2008	2008 expense per ASM (in cents)	2007	2007 expense per ASM (in cents)	% change per ASM
Mainline ASMs	135,861		141,890		(4.2)
Mainline fuel expense	\$ 7,722	5.68	\$ 5,003	3.53	60.9
United Aviation Fuel Corporation ( UAFC )	4		36	0.02	(100.0)
Impairments, special items and other charges <sup>(a)</sup>	2,807	2.07	(44)	(0.03)	
Other operating expenses	10,851	7.99	11,170	7.87	1.5
Total Mainline operating expense	21,384	15.74	16,165	11.39	38.2
Regional Affiliates expense	3,248		2,941		
Consolidated operating expense	\$ 24,632		\$ 19,106		

(a) These amounts are summarized in the Summary Results of Operations table in Three Year Period Ended December 31, 2008 Financial Results below.

In 2008, the Company focused on mitigating a portion of the negative impact of higher fuel costs and the weakening economy through cost reductions, fleet optimization, generation of higher revenues, executing on initiatives to enhance liquidity and other strategies as discussed below. Overall, the Company has characterized its business approach as Focus on Five, which refers to a comprehensive set of priorities that focus on the fundamentals of running a good airline: one that runs on time, with clean planes and courteous employees, that delivers industry-leading revenues and competitive costs, and does so safely. Building on this foundation, United aims to regain its industry-leading position in key metrics reported by the U.S. Department of Transportation (the DOT) as well as industry-leading revenue driven by products, services, schedules and routes that are valued by the Company's customers. The goal of this approach is intended to enable United to achieve best-in-class safety performance, exceptional customer satisfaction and experience and industry-leading margin and cash flow. Although results of operations in 2008 were disappointing and economic conditions continue to present a challenge for the Company, we believe we are taking the necessary steps to position the Company for improved financial and operational performance in 2009.

Some of these actions include the following:

The Company significantly reduced its Mainline domestic and international capacity in response to high fuel costs and the weakening global economy. Mainline domestic and international capacity decreased 14% and 8%, respectively, during the fourth quarter of 2008 as compared to the year-ago period. Mainline domestic capacity decreased 8% while international capacity increased 1% for the full year of 2008, as compared to 2007. Consolidated capacity was approximately 11% and 4% lower in the fourth quarter and the full year of 2008, respectively, as compared to the year-ago periods. The Company will implement additional capacity reductions in 2009 as it completes the removal of 100 aircraft, as discussed below, of which 51 aircraft had been removed from service as of December 31, 2008.

## **Table of Contents**

The Company is permanently removing 100 aircraft from its fleet, including its entire fleet of 94 B737 aircraft and six B747 aircraft. These aircraft are some of the oldest and least fuel efficient in the Company's fleet. This reduction reflects the Company's efforts to eliminate unprofitable capacity and divest the Company of assets that currently do not provide an acceptable return, particularly in the current economic environment with volatile fuel prices and a global economy in recession. The Company continues to review the deployment of all of its aircraft in various markets and the overall composition of its fleet to ensure that we are using our assets appropriately to provide the best available return.

The Company continues to refit its wide body international aircraft with new first and business class premium seats, entertainment systems and other product enhancements. As of December 31, 2008, the Company had completed upgrades on 25 international aircraft with new premium travel equipment featuring, among other improvements, 180-degree, lie-flat beds in business class. The Company expects its remaining 66 wide body international aircraft to be upgraded by 2011. The upgrade of this equipment is expected to allow the Company to generate revenue premiums from its first and business class international cabins. This new product will reduce premium seat counts by more than 20%.

In 2008, the Company ceased operations to Ft. Lauderdale and West Palm Beach, Florida, two markets served by Ted, which uses an all-economy seating configuration to serve primarily leisure markets. In addition, during 2008, as part of its operational plans the Company ceased operations in certain non-Ted markets and also reduced frequencies in several Ted and non-Ted markets. In light of these planned capacity reductions and other factors, the Company also determined that it would eliminate its entire B737 fleet by the end of 2009. With the reduced need for Ted aircraft in leisure markets and an increased need for narrow body aircraft in non-Ted markets due to the elimination of the B737 fleet, the Company decided to reconfigure the entire Ted fleet of all-economy Airbus aircraft to include first class, as well as Economy Plus and economy seats. The reconfigured Airbus aircraft will provide United a consistent product offering for our customers and employees, and increases our fleet flexibility to redeploy aircraft onto former Ted and other narrow body routes as market conditions change. The reconfiguration of the Ted aircraft will occur in stages with expected completion by the end of 2009.

The Company was able to pass some of the higher fuel costs in 2008 to customers through passenger and cargo fuel surcharges, among other means. The Company created new revenue streams through unbundling products, offering new a la carte services and expanding choices for customers. The Company's existing Travel Options, such as Economy Plus and Premium Cabin upsell have been extremely successful and the Company continues to implement new revenue initiatives such as a \$15 fee for the first checked bag, as well as a \$25 fee to check a second bag on domestic flights. Additional new Travel Options offered by United include Mileage Plus Award Accelerator, which allows customers to multiply their earned miles for each trip by purchasing accelerator miles upon ticket purchase, and Door-to-Door Baggage, which allows customers to avoid the hassle of taking their luggage to the airport by arranging for the luggage to be picked up from their home and shipped to their final destination. In addition, various ticket change fees have increased, including Mileage Plus close-in fees.

The Company reduced its capital expenditures in 2008 as compared to 2007 by more than \$200 million as discussed in Three Year Period Ended December 31, 2008 Liquidity below. In addition, the Company further plans to limit capital spending to \$450 million during 2009.

The Company is streamlining its operations and corporate functions in order to match the size of its workforce to the size of its reduced capacity. The Company expects a total workforce reduction of approximately 9,000 positions by the end of 2009, of which approximately 6,000 positions were eliminated as of December 31, 2008. The total expected reduction will consist of approximately 2,500 salaried and management positions and approximately 6,500 represented positions. The Company has offered furlough-mitigation programs such as voluntary early-out options, primarily to certain union

## **Table of Contents**

groups, to reduce the required involuntary furloughs. Of the total expected represented workforce reduction, approximately 40% have been through voluntary furloughs through January 2009.

A transatlantic aviation agreement to replace the existing bilateral arrangements between the U.S. government and the 27 EU member states became effective in 2008. The future effects of this agreement on our financial position and results of operations cannot be predicted with certainty due to the diverse nature of its potential impacts, including increased competition at London's Heathrow Airport as well as throughout the EU member states. However, we have already taken actions to capitalize on opportunities under the new agreement. Upon the effective date of the transatlantic aviation agreement, the DOT's approval of United's application for antitrust immunity with bmi also became effective, allowing the two airlines to deepen their commercial relationship and adding bmi to the multilateral group of Star Alliance carriers that had already been granted antitrust immunity by the DOT.

United and Continental Airlines announced their plan to form a new partnership that will link the airlines' networks and services worldwide to the benefit of customers, employees and shareholders, creating new revenue opportunities, cost savings and other efficiencies.

The Company also took certain actions to maintain adequate liquidity and minimize its financing costs during this challenging economic environment. During 2008, the Company generated unrestricted cash of approximately \$1.9 billion through new financing agreements, amendments to our Mileage Plus co-branded credit card agreement and our largest credit card processing agreement and other means. Some of these agreements are summarized below. See Three Year Period Ended December 31, 2008 Liquidity and Capital Resources Financing Activities below, for additional information related to these agreements.

During the fourth quarter of 2008, UAL began a public offering of up to \$200 million of UAL common stock, generating gross proceeds of \$172 million in 2008 and January 2009. UAL may issue additional shares during 2009 until it reaches \$200 million in proceeds.

United completed a \$241 million credit agreement secured by 26 of the Company's currently owned and mortgaged A319 and A320 aircraft. Borrowings under the agreement were at a variable interest rate based on LIBOR plus a margin. The credit agreement requires periodic principal and interest payments through its final maturity in June 2019. The Company may not prepay the loan prior to July 2012. This agreement did not change the number of the Company's unencumbered aircraft as the Company used available equity in these previously owned and mortgaged aircraft as collateral for this financing.

United entered into an \$84 million loan agreement secured by three aircraft, including two Airbus A320 and one Boeing B777 aircraft. Borrowings under the agreement were at a variable interest rate based on LIBOR plus a margin. The loan requires principal and interest payments every three months and has a final maturity in June 2015.

During 2008 and January 2009, United also entered into three aircraft sale-leaseback agreements. The Company sold these aircraft for approximately \$370 million and has leased them back.

The Company completed an amendment of its marketing services agreement with its Mileage Plus co-branded bankcard partner and its largest credit card processor to amend the terms of their existing agreements to, among other things, extend the terms of the agreements. These amendments resulted in an immediate increase in the Company's cash position by approximately \$1.0 billion, which included a total of \$600 million for the advanced purchase of miles and the licensing extension payment, as well as the release of approximately \$357 million in previously restricted cash for reserves required under the credit card processing agreement. Approximately \$100 million of additional cash receipts are expected over the next two years based on the amended terms of the co-brand agreement as compared to cash that would have been generated under the terms of the previous co-brand agreement. This amount is less than the Company's initial estimate primarily due to the severe



## Table of Contents

weakening of the global economy. As part of the transaction, United granted a first lien of specified intangible Mileage Plus assets and a second lien on certain other assets. The term of the amended co-branded agreement is through December 31, 2017. See Three Year Period Ended December 31, 2008 Liquidity below, for additional terms of this agreement.

The Company also made the following significant changes to its international route network:

United commenced daily, non-stop service between Washington Dulles and Dubai in October 2008.

The Company announced new daily service from Washington Dulles to Moscow and Geneva, commencing in March and April 2009, respectively.

The Company will reinstate daily seasonal service from Denver to London Heathrow effective March 2009.

**Financial Results.** UAL and United adopted fresh-start reporting in accordance with SOP 90-7 upon emerging from bankruptcy. Thus, the consolidated financial statements before February 1, 2006 reflect results based upon the historical cost basis of the Company while the post-emergence consolidated financial statements reflect the new basis of accounting, which incorporates fair value and other adjustments recorded from the application of SOP 90-7. Therefore, financial statements for the post-emergence periods are not comparable to the pre-emergence period financial statements. References to Successor Company refer to UAL and/or United on or after February 1, 2006, after giving effect to the adoption of fresh-start reporting. References to Predecessor Company refer to UAL and/or United before their exit from bankruptcy on February 1, 2006.

For purposes of the discussion of financial results, management utilizes the combined results of the Successor Company and Predecessor Company for the twelve months ended December 31, 2006. The combined results for the twelve months ended December 31, 2006 are non-GAAP measures; however, management believes that the combined results provide a more meaningful comparison to the years ended December 31, 2008 and 2007.

The air travel business is subject to seasonal fluctuations and historically, the Company's results of operations are better in the second and third quarters as compared to the first and fourth quarters of each year, since our first and fourth quarter results normally reflect weaker travel demand. The Company's results of operations can be impacted by adverse weather, air traffic control delays, fuel price volatility and other factors in any period. The table below presents certain financial statement items to provide an overview of the Company's financial performance for the three years ended December 31, 2008, 2007 and 2006. The most significant contributors to the Company's net loss in 2008 were increased fuel prices and asset impairments. The table below also highlights that the Company, through its past and on-going cost reduction initiatives, was able to effectively manage costs in non-fuel and other areas, although the benefits of these cost savings initiatives and higher revenues were not sufficient to offset the dramatic increase in fuel cost.



**Table of Contents****Summary Results of Operations**

	Successor		Combined	Predecessor	
(In millions)	2008	2007	2006 <sup>(e)</sup>	Period from February 1 to December 31, 2006	Period from January 1 to January 31, 2006
<b>UAL Information</b>					
Revenues	\$ 20,194	\$ 19,852	\$ 19,340	\$ 17,882	\$ 1,458
Special revenue items <sup>(a)</sup>		45			
Revenues due to Mileage Plus policy change <sup>(a)</sup>		246			
Total revenues	20,194	20,143	19,340	17,882	1,458
Mainline fuel purchase cost	7,114	5,086	4,798	4,436	362
Operating non-cash fuel hedge (gain)/loss	568	(20)	2	2	
Operating cash fuel hedge (gain)/loss	40	(63)	24	24	
Regional Affiliates fuel expense <sup>(b)</sup>	1,257	915	834	772	62
Reorganization gain			(22,934)		(22,934)
Goodwill impairment <sup>(c)</sup>	2,277				
Other impairments and special items <sup>(c)</sup>	339	(44)	(36)	(36)	
Other charges (see table below)	191				
Total impairments, special items and other charges	2,807	(44)	(36)	(36)	
Other operating expenses	12,846	13,232	13,271	12,185	1,086
Nonoperating non-cash fuel hedge (gain)/loss	279				
Nonoperating cash fuel hedge (gain)/loss	249				
Other nonoperating expense <sup>(d)</sup>	455	380	502	471	31
Income tax expense (benefit)	(25)	297	21	21	
Net income (loss)	\$ (5,396)	\$ 360	\$ 22,858	\$ 7	\$ 22,851
United net income (loss)	\$ (5,354)	\$ 359	\$ 22,640	\$ 14	\$ 22,626

- (a) These significant items affecting the Company's results of operations are discussed in Three Year Period Ended December 31, 2008 Results of Operations below.
- (b) Regional Affiliates' fuel expense is classified as part of Regional Affiliates expense in the Company's audited consolidated financial statements.
- (c) As described in Three Year Period Ended December 31, 2008 Results of Operations below, impairment charges were recorded as a result of interim asset impairment testing performed as of May 31, 2008 and December 31, 2008.
- (d) Includes non-cash interest expense of \$48 million, \$43 million and \$18 million in 2008, 2007 and 2006 (Successor) periods, respectively, related to the retrospective adoption of APB 14-1. Also includes equity in earnings of affiliates.
- (e) The combined period includes the results for one month ended January 31, 2006 (Predecessor Company) and eleven months ended December 31, 2006 (Successor Company).

**Table of Contents**

Additional details of significant variances in 2008 as compared to 2007 results, as presented in the table above, include the following:

UAL recorded the following impairment and other charges, as further discussed below, during the year ended December 31, 2008:

<b>(In millions)</b>	<b>Year Ended December 31, 2008</b>	<b>Income statement classification</b>
Goodwill impairment	\$ 2,277	Goodwill impairment
Intangible asset impairments	64	
Aircraft and related deposit impairments	250	
Total other impairments	314	
Lease termination and other charges	25	
Total other impairments and special items	339	Other impairments and special items
Severance	106	Salaries and related costs
Employee benefit obligation adjustment	57	Salaries and related costs
Litigation-related settlement gain	(29)	Other operating expenses
Charges related to terminated/deferred projects	26	Purchased services
Net gain on asset sales	(3)	Depreciation and amortization
Accelerated depreciation	34	Depreciation and amortization
Total other charges	191	
Operating non-cash fuel hedge loss	568	Aircraft fuel
Nonoperating non-cash fuel hedge loss	279	Miscellaneous, net
Tax benefit on intangible asset impairments and asset sales	(31)	Income tax benefit
Total impairments and other charges	\$ 3,623	

The relatively small income tax benefit in 2008 is related to the impairment and sale of certain indefinite-lived intangible assets, partially offset by the impact of an increase in state tax rates. In 2007, UAL recognized income tax expense of \$297 million.

**Liquidity.** The following table provides a summary of the Company's cash, restricted cash and short-term investments at December 31, 2008 and 2007.

<b>(In millions)</b>	<b>As of December 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 2,039	\$ 1,259
Short-term investments		2,295
Restricted cash	272	756
Cash, short-term investments & restricted cash	\$ 2,311	\$ 4,310

The decrease in the Company's cash, restricted cash and short-term investments balances was primarily due to a \$3.4 billion unfavorable reduction in cash flows from operations in 2008 as compared to 2007. The operating cash decrease was primarily due to increased cash expenses, mainly fuel and fuel hedge cash settlements, as discussed in Three Year Period Ended December 31, 2008 Results of Operations below. Fuel hedge collateral requirements also used operating cash of approximately \$965 million in the year ended December 31, 2008. This unfavorable variance was partly offset by approximately \$600 million of proceeds received from the amendment of the co-brand credit card agreement, as discussed above. Restricted cash decreased in 2008 primarily due to an amendment to our largest credit card processing agreement

and posting of letters of credit, as further discussed below.

S-24

## **Table of Contents**

The increase in net cash used by investing activities was primarily due to a reallocation of excess cash from short-term investments to cash and cash equivalents. Investing cash flows benefited from a reduction in restricted cash of \$484 million. This benefit was primarily due to the amendment of the credit card processing agreement in association with the co-branded amendment described above, which decreased restricted cash by \$357 million, and the substitution of letters of credit for cash deposits related to workers' compensation obligations. In addition, UAL financing outflows included approximately \$253 million to pay a \$2.15 per common share special distribution in January 2008.

The Company expects its cash flows from operations and its available capital to be sufficient to meet its future operating expenses, lease obligations and debt service requirements in the next twelve months; however, the Company's future liquidity could be impacted by increases or decreases in fuel prices, fuel hedge collateral requirements, inability to adequately increase revenues to offset high fuel prices, softening revenues resulting from reduced demand, failure to meet future debt covenants and other factors. See Three Year Period Ended December 31, 2008 Liquidity and Capital Resources below and Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, for a discussion of these factors and the Company's significant operating, investing and financing cash flows.

**Capital Commitments.** At December 31, 2008, the Company's future commitments for the purchase of property and equipment include approximately \$2.4 billion of nonbinding aircraft commitments and \$0.6 billion of binding commitments. The nonbinding commitments of \$2.4 billion are related to 42 A319 and A320 aircraft. These orders may be cancelled which would result in the forfeiture of \$91 million of advance payments provided to the manufacturer. United believes it is highly unlikely that it will take delivery of the remaining aircraft in the future and therefore believes it will be required to forfeit its \$91 million of advance delivery deposits. Based on this determination, the Company recorded an impairment charge in 2008 to decrease the value of the deposits and related capitalized interest of \$14 million to zero in the Company's audited consolidated financial statements. In addition, the Company's capital commitments include commitments related to its international premium cabin enhancement program. During 2008, the Company reduced the scope of this project by six aircraft, from the originally disclosed number of 97 aircraft. As of December 31, 2008, the Company had completed upgrades on 25 aircraft and had remaining capital commitments to complete enhancements on an additional 66 aircraft. For further details, see Note 14, Commitments, Contingent Liabilities and Uncertainties, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein.

**Contingencies.** During the course of its Chapter 11 proceedings, the Company successfully reached settlements with most of its creditors and resolved most pending claims against the Debtors. We are a party to numerous long-term agreements to lease certain airport and maintenance facilities that are financed through tax-exempt municipal bonds issued by various local municipalities to build or improve airport and maintenance facilities. United was advised during its restructuring that these municipal bonds may have been unsecured (or in certain instances, partially secured) pre-petition debt. In 2006, certain of United's Los Angeles International Airport ( LAX ) municipal bond obligations were conclusively adjudicated through the Bankruptcy Court as financings and not true leases; however, there remains pending litigation to determine the value of the security interests, if any, that the bondholders have in our underlying leaseholds. See Note 4, Voluntary Reorganization Under Chapter 11, under Item 8. Financial Statements and Supplementary Data in our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further information on this matter and the resolution of the separate San Francisco International Airport ( SFO ) municipal bond matter in 2008.

United has guaranteed \$270 million of the City and County of Denver, Colorado Special Facilities Airport Revenue Bonds (United Air Lines Project) Series 2007A (the Denver Bonds ). This guarantee replaces our prior guarantee of \$261 million of bonds issued by the City and County of Denver, Colorado in 1992. These bonds are callable by United. The outstanding bonds and related guarantee are not recorded in the Company's audited consolidated financial statements. However, the related lease agreement is accounted for on a straight-line basis resulting in a ratable accrual of the final \$270 million payment over the lease term.

## **Table of Contents**

**Legal and Environmental.** The Company has certain contingencies resulting from litigation and claims incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the information currently available, the views of legal counsel, the nature of contingencies to which the Company is subject and prior experience, that the ultimate disposition of the litigation and claims will not materially affect the Company's consolidated financial position or results of operations. When appropriate, the Company accrues for these matters based on its assessments of the likely outcomes of their eventual disposition. The amounts of these liabilities could increase or decrease in the near term, based on revisions to estimates relating to the various claims.

The Company anticipates that if ultimately found liable, its damages from claims arising from the events of September 11, 2001, could be significant; however, the Company believes that, under the Air Transportation Safety and System Stabilization Act of 2001, its liability will be limited to its insurance coverage.

The Company continues to analyze whether any potential liability may result from air cargo/passenger surcharge cartel investigations following the receipt of a Statement of Objections that the European Commission (the "Commission") issued to 26 companies on December 18, 2007. The Statement of Objections sets out evidence related to the utilization of fuel and security surcharges and exchange of pricing information that the Commission views as supporting the conclusion that an illegal price-fixing cartel had been in operation in the air cargo transportation industry. United received a copy of the Statement of Objections and has provided written and oral responses vigorously disputing the Commission's allegations against the Company. Nevertheless, United will continue to cooperate with the Commission's ongoing investigation. Based on its evaluation of all information currently available, the Company has determined that no reserve for potential liability is required and will continue to defend itself against all allegations that it was aware of or participated in cartel activities. However, penalties for violation of European competition laws can be substantial and a finding that the Company engaged in improper activity could have a material adverse impact on our consolidated financial position and results of operations.

Many aspects of United's operations are subject to increasingly stringent federal, state and local laws protecting the environment. Future environmental regulatory developments, such as in regard to climate change, in the United States and abroad could adversely affect operations and increase operating costs in the airline industry. There are a few climate change laws and regulations that have gone into effect that apply to United, including environmental taxes for certain international flights, some limited greenhouse gas reporting requirements and some land-based planning laws which could apply to airports and ultimately impact airlines depending upon the circumstances. In addition, the EU has adopted legislation to include aviation within the EU's existing greenhouse gas emission trading scheme effective in 2012. There are significant questions that remain as to the legality of applying the scheme to non-EU airlines and the United States and other governments are considering filing a legal challenge to the EU's unilateral inclusion of non-EU carriers. While such a measure could significantly increase the costs of carriers operating in the EU, the precise cost to United is difficult to calculate with certainty due to a number of variables, and it is not clear whether the scheme will withstand legal challenge. There may be future regulatory actions taken by the U.S. government, state governments within the United States, foreign governments, the International Civil Aviation Organization, or through a new climate change treaty to regulate the emission of greenhouse gases by the aviation industry. Such future regulatory actions are uncertain at this time (in terms of either the regulatory requirements or their applicability to United), but the impact to the Company and its industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

See Note 14, Commitments, Contingent Liabilities and Uncertainties, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further discussion of the above contingencies.

**Table of Contents****Results of Operations****Operating Revenues**

2008 Compared to 2007

The table below illustrates the year-over-year percentage change in UAL and United operating revenues.

(In millions)	Year Ended December 31,		\$	%
	2008	2007	Change	Change
Passenger-United Airlines	\$ 15,337	\$ 15,254	\$ 83	0.5
Passenger-Regional Affiliates	3,098	3,063	35	1.1
Cargo	854	770	84	10.9
Special operating items		45	(45)	(100.0)
Other operating revenues	905	1,011	(106)	(10.5)
UAL total	\$ 20,194	\$ 20,143	\$ 51	0.3
United total	\$ 20,237	\$ 20,131	\$ 106	0.5

The 2007 special item of \$45 million relates to an adjustment of the estimated obligation associated with certain bankruptcy administrative claims, of which \$37 million and \$8 million relates to the Mainline and United Express reporting units, respectively. The table below presents selected UAL and United passenger revenues and operating data from our Mainline segment, broken out by geographic region with an associated allocation of the special item, and from our United Express segment, expressed as year-over-year changes.

2008	Domestic	Pacific	Atlantic	Latin	Mainline	United Express	Consolidated
<b>Increase (decrease) from 2007:</b>							
Passenger revenues (in millions)	\$ (156)	\$ (91)	\$ 263	\$ 30	\$ 46	\$ 27	\$ 73
Passenger revenues	(1.7)%	(2.8)%	11.1%	6.0%	0.3%	0.9%	0.4%
Available seat miles ( ASMs )	(7.8)%	(4.8)%	11.0%	(2.8)%	(4.2)%	(0.8)%	(3.9)%
Revenue passenger miles ( RPMs )	(8.5)%	(9.4)%	7.9%	(5.5)%	(6.3)%	(3.9)%	(6.0)%
Passenger revenues per ASM ( PRASM )	6.7%	2.1%	0.1%	9.0%	4.7%	1.8%	4.5%
Yield <sup>(a)</sup>	7.4%	7.2%	2.2%	12.7%	6.9%	5.0%	6.8%
Passenger load factor (points)	(0.6) pts.	(3.9) pts.	(2.3) pts.	(2.2) pts.	(1.7) pts.	(2.4) pts.	(1.8) pts.

(a) Yield is a measure of average price paid per passenger mile, which is calculated by dividing passenger revenues by RPMs. Yields for geographic regions exclude charter revenue and RPMs.

In 2008, revenues for both Mainline and United Express benefited from yield increases of 6.9% and 5.0%, respectively, as compared to 2007. The yield increases are due to industry capacity reductions and fare increases, including fuel surcharges plus incremental revenues derived from merchandising and fees. However, the benefit of higher yields was partially offset by 6.3% and 3.9% decreases in traffic for the Mainline and United Express segments, respectively. Consolidated passenger revenues in 2008 included an unfavorable variance compared to 2007 that was partly due to the change in the Mileage Plus expiration policy for inactive accounts from 36 months to 18 months that provided a consolidated estimated annual benefit of \$246 million in 2007. In addition, the weak economic environment negatively impacted demand and passenger revenues, particularly in the fourth quarter of 2008.

International PRASM was up 2.4% year-over-year with a related capacity increase of 0.9%. While Latin American PRASM growth was strong at 9.0% year-over-year, it is not a significant part of United's international network. Atlantic performance was driven by lower than average revenue growth in our London and Germany

S-27

**Table of Contents**

markets, largely due to industry capacity growth of approximately 13% in the U.S. to London Heathrow route and United's 15% growth in Germany. These markets account for approximately 75% of our Atlantic capacity. The Pacific region was impacted by 7% industry capacity growth between the United States and China / Hong Kong, which account for approximately 45% of United's Pacific capacity.

Cargo revenues increased by \$84 million, or 11%, in 2008 as compared to 2007, primarily due to higher fuel surcharges and improved fleet utilization. In addition, revenues were higher due to increased volume associated with the U.S. domestic mail contract, which commenced in late April 2007, as well as filling new capacity in international markets. A weaker dollar also benefited cargo revenues in 2008 as a significant portion of cargo services are contracted in foreign currencies. However, the Company experienced a significant decline in cargo revenues in the fourth quarter of 2008 due to rationalization of international capacity, falling demand for domestic and international air cargo as the global economy softened, and lower fuel costs driving lower fuel surcharges in late 2008. Decreased cargo revenues resulting from lower demand have a disproportionate impact on our operating results because cargo revenues typically generate higher margins as compared to passenger revenues.

The full-year 2008 trends in passenger and cargo revenues are not indicative of the Company's most recent fourth quarter revenue results. In the fourth quarter of 2008, Mainline passenger revenues decreased approximately 10% due to lower traffic as a result of the Company's 12% capacity reduction and lower demand due to the weak global economy. The 2008 capacity reductions, planned 2009 capacity reductions and weak U.S. and global economies are expected to negatively impact revenues in 2009. In late 2008 and early 2009, the Company has experienced decreased travel bookings and lower credit card sales activity which have resulted from the weak global economy and have negatively affected revenues and are expected to continue to negatively impact revenues in 2009. The Company cannot predict the longevity or severity of the current weak global economy and, therefore, cannot accurately estimate the negative impact it will have on future revenues.

Other revenues decreased approximately 11% in 2008 as compared to 2007. This decrease was primarily due to lower jet fuel sales to third parties. The decrease in third party fuel sales had a negligible impact on our operating margin because the associated cost of sales decreased by a similar amount in 2008 as compared to 2007.

*2007 Compared to 2006*

The table below illustrates the year-over-year percentage changes in UAL and United operating revenues. The primary difference between UAL and United revenues is due to other revenues at UAL, which are generated from minor direct subsidiaries of UAL.

	Successor Period From February 1 to January 1 to December 31, 2007	Combined Period from December 31, 2006 <sup>(a)</sup>	Successor Period Ended December 31, 2006	Predecessor Period Ended January 31, 2006	\$ Change	% Change
(In millions)						
Passenger United Airlines	\$ 15,254	\$ 14,367	\$ 13,293	\$ 1,074	\$ 887	6.2
Passenger Regional Affiliates	3,063	2,901	2,697	204	162	5.6
Cargo	770	750	694	56	20	2.7
Special operating items	45				45	
Other operating revenues	1,011	1,322	1,198	124	(311)	(23.5)
UAL total	\$ 20,143	\$ 19,340	\$ 17,882	\$ 1,458	\$ 803	4.2
United total	\$ 20,131	\$ 19,334	\$ 17,880	\$ 1,454	\$ 797	4.1

- (a) The combined 2006 period includes the results for one month ended January 31, 2006 (Predecessor Company) and eleven months ended December 31, 2006 (Successor Company).



**Table of Contents**

The table below presents selected UAL and United passenger revenues and operating data from our Mainline segment, broken out by geographic region, and from our United Express segment, expressed as year-over-year changes. Passenger revenues presented below include the effects of the \$45 million special revenue items on Mainline (\$37 million) and United Express (\$8 million) revenue, which resulted directly from the Company's ongoing efforts to resolve certain bankruptcy pre-confirmation contingencies.

	United	Domestic	Pacific	Atlantic	Latin	Mainline Express	Consolidated
Increase (decrease) from 2006 <sup>(a)</sup> :							
Passenger revenues (in millions)	\$ 121	\$ 374	\$ 423	\$ 6	\$ 924	\$ 170	\$ 1,094
Passenger revenues	1.3%	12.9%	21.8%	1.3%	6.4%	5.9%	6.3%
ASMs	(3.3)%	2.9%	6.8%	(10.2)%	(0.8)%	3.6%	(0.4)%
RPMs	(1.5)%	1.1%	7.6%	(11.0)%	(0.1)%	3.2%	0.2%
Yield	3.0%	11.8%	14.0%	13.9%	6.6%	2.6%	6.2%
Passenger load factor (points)	1.5 pts	(1.5) pts	0.6 pts	(0.7) pts	0.6 pts	(0.3) pts	0.5 pts

(a) Variances are from the combined 2006 period that includes the results for the one month period ended January 31, 2006 (Predecessor) and the eleven month period ended December 31, 2006 (Successor).

Including the special revenue items, Mainline and United Express passenger revenues increased by \$924 million and \$170 million, respectively, in 2007 as compared to 2006. In 2007, Mainline revenues benefited from a 0.6 point increase in load factor and a 7% increase in yield as compared to 2006. In the same periods, United Express load factor was relatively flat while yield and traffic both increased 3% resulting in the 6% increase in revenue. Overall, passenger revenues increased due to a better revenue environment for the industry which was partly due to industry-wide capacity constraint. The Company's shift of some capacity and traffic from domestic to higher yielding international flights also benefited revenues in 2007. In addition, the change in the Mileage Plus expiration period policy also contributed to the increase in revenues in 2007. Mileage Plus revenue, included in passenger revenues, was approximately \$169 million higher in 2007. This impact was largely due to a change in the Mileage Plus expiration period policy from 36 months to 18 months, as discussed in Three Year Period Ended December 31, 2008 Critical Accounting Policies below. Mileage Plus customer accounts are deactivated after 18 months of inactivity, effective December 31, 2007. Severe winter storms in December 2007 had the estimated impact of reducing revenue by \$25 million. Similarly winter storms in December 2006 had an estimated impact of reducing revenue by \$40 million.

Cargo revenues increased by \$20 million, or 3%, in the year ended December 31, 2007 as compared to the same period in 2006. Freight revenue increased due to both higher yields and higher volume. This increase was partially offset by a reduction in mail revenue due to lower 2007 volume as a result of the termination of the U.S. Postal Service (USPS) contract on June 30, 2006. United signed a new USPS contract effective April, 2007.

UAL other operating revenues decreased by \$311 million, or 24%, in the year ended December 31, 2007 as compared to the same period in 2006. Lower jet fuel sales to third parties by our subsidiary UAFC accounted for \$307 million of the other revenue decrease. This decrease in jet fuel sales was due to several factors, including decreased UAFC sales to our Regional Affiliates, our decision not to renew various low margin supply agreements to other carriers and decreased sales of excess inventory. This decrease had no material impact on the Company's operating margin, because UAFC cost of sales decreased by \$306 million in the year ended December 31, 2007 as compared to the prior year.

**Table of Contents****Operating Expenses***2008 Compared to 2007*

The table below includes data related to UAL and United operating expenses.

Significant fluctuations are discussed below.

(In millions)	Year Ended December 31,		\$ Change	% Change
	2008	2007		
Aircraft fuel	\$ 7,722	\$ 5,003	\$ 2,719	54.3
Salaries and related costs	4,311	4,261	50	1.2
Regional Affiliates	3,248	2,941	307	10.4
Purchased services	1,375	1,346	29	2.2
Aircraft maintenance materials and outside repairs	1,096	1,166	(70)	(6.0)
Depreciation and amortization	932	925	7	0.8
Landing fees and other rent	862	876	(14)	(1.6)
Distribution expenses	710	779	(69)	(8.9)
Aircraft rent	409	406	3	0.7
Cost of third party sales	272	316	(44)	(13.9)
Goodwill impairment	2,277		2,277	
Other impairment and special items	339	(44)	383	
Other operating expenses	1,079	1,131	(52)	(4.6)
UAL total	\$ 24,632	\$ 19,106	\$ 5,526	28.9
United total	\$ 24,630	\$ 19,099	\$ 5,531	29.0

The increase in aircraft fuel expense and Regional Affiliates expense was primarily attributable to increased market prices for crude oil and related fuel products as highlighted in table below, which presents several key variances for Mainline and Regional Affiliates aircraft fuel expense in the 2008 period as compared to the year-ago period.

(In millions, except per gallon)	\$		Average price per gallon (in cents)			
	2008	2007	Year Ended December 31,			
			% Change	2008	2007	% Change
Mainline fuel purchase cost	\$ 7,114	\$ 5,086	39.9	326.0	221.9	46.9
Non-cash fuel hedge (gains) losses in Mainline fuel	568	(20)		26.0	(0.9)	
Cash fuel hedge (gains) losses in Mainline fuel	40	(63)		1.9	(2.7)	
Total Mainline fuel expense	7,722	5,003	54.3	353.9	218.3	62.1
Regional Affiliates fuel expense <sup>(a)</sup>	1,257	915	37.4	338.8	242.7	39.6
UAL system operating fuel expense	\$ 8,979	\$ 5,918	51.7	351.7	221.7	58.6
Non-cash fuel hedge (gains) losses in nonoperating income (loss)	\$ 279	\$				
Cash fuel hedge (gains) losses in nonoperating income (loss)	249					
Mainline fuel consumption (gallons)	2,182	2,292	(4.8)			
Regional Affiliates fuel consumption (gallons)	371	377	(1.6)			
Total fuel consumption (gallons)	2,553	2,669	(4.3)			

(a) Regional Affiliates fuel costs are classified as part of Regional Affiliates expense. Salaries and related costs increased \$50 million in 2008. The Company's costs in 2008 include the negative impact of average wage increases and higher benefits expense, as well as severance expense of \$106

S-30

## **Table of Contents**

million due to the implementation of the Company's operating plans, as more fully explained in Note 2, Company Operational Plans, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein. In addition, the Company recorded \$87 million of expense in 2008 from certain benefit obligation adjustments, which were primarily due to discount rate changes. These negative impacts were partially offset by lower combined profit and success sharing expense in the 2008 period as compared to the year-ago period due to the unfavorable financial results in 2008 as compared to 2007. In addition, 2008 salaries and related costs benefited from the workforce reductions completed during the year as discussed in Three Year Period Ended December 31, 2008 Overview above.

Regional Affiliates expense increased \$307 million, or 10%, in 2008 as compared to the same period last year. Regional Affiliates expense increased primarily due to a \$342 million, or 37%, increase in Regional Affiliates fuel that was driven by an increase in market price for fuel as highlighted in the fuel table above. The Regional Affiliates operating loss was \$150 million in 2008 period, as compared to income of \$122 million in 2007, due to the aforementioned fuel impacts, which could not be fully offset by higher ticket prices, as Regional Affiliates revenues were only 1% higher in 2008.

The Company's purchased services increased \$29 million, or 2%, in 2008 as compared to 2007. In 2008, purchased services included a charge of \$26 million related to certain projects and transactions being terminated or indefinitely postponed. In 2008, other areas of purchased services did not change significantly as compared to 2007.

Aircraft maintenance materials and outside repairs decreased 6% in 2008 as compared to 2007, primarily due to a decrease in engine and airframe maintenance associated with the retirement of the Company's B737 fleet and more favorable engine maintenance contract rates.

Depreciation expense in 2008 was adversely impacted by \$34 million of accelerated depreciation primarily related to the retirement of certain B737 and B747 aircraft and related parts and a \$20 million charge to increase the inventory obsolescence reserve. This adverse impact was partially offset by reduced amortization expense in 2008 related to certain of the Company's intangible assets that were fully amortized in 2007.

UAL landing fees and other rent decreased 2% in 2008 due to a reduction in the amount of facilities rented based upon our ongoing efforts to optimize our rented facilities consistent with our operational needs.

Distribution expenses decreased 9% in 2008 as compared to 2007 largely due to the Company's reduction of some of its travel agency commission programs in 2008, resulting in an average commission rate reduction. In addition, the Company's lower passenger revenues due to its capacity reductions in 2008 also contributed to the decrease in related distribution expenses.

Cost of third party sales decreased 14% year-over-year primarily due to a reduction in UAFC expenses. This decrease is consistent with the reduction in UAFC revenues.

The Company's other operating expenses decreased 5% in 2008 compared to the year-ago period. This decrease was partly due to a \$29 million litigation-settlement gain, which was recorded in other operating expenses, and decreases in several other expense categories which resulted from the Company's cost reduction program.

### ***Asset Impairments and Special Items***

As described in the Combined Notes to Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, in accordance with SFAS 142 and SFAS 144, as of May 31, 2008 the Company performed an interim impairment test of its goodwill, all intangible assets and certain of its long-lived assets (principally aircraft pre-delivery deposits, aircraft and related spare engines and spare parts) due to events and

**Table of Contents**

changes in circumstances during the first five months of 2008 that indicated an impairment might have occurred. In addition, the Company also performed an impairment test of certain aircraft fleet types as of December 31, 2008, because unfavorable market conditions for aircraft indicated potential impairment of value. The Company also performed annual indefinite-lived intangible asset impairment testing at October 1, 2008. As a result of all of its impairment testing, the Company recorded asset impairment charges of \$2.6 billion as summarized in the table below. All of these impairment charges are within the Mainline segment. All of the impairments other than the goodwill impairment, which is separately identified, are classified as Other impairments and special items in the Company's audited consolidated financial statements. See Note 3, Asset Impairments and Intangible Assets, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for additional information, including factors considered by management in concluding that a triggering event under SFS 142 and SFAS 144 had occurred and additional details of assets impaired.

The lease termination and other charges of \$25 million primarily relate to the accrual of future rents for the B737 leased aircraft that have been removed from service and charges associated with the return of certain of these aircraft to their lessors.

<b>(In millions)</b>	
Goodwill impairment	\$ 2,277
Indefinite-lived intangible assets	64
Tangible assets	250
 Total impairments	 2,591
Lease termination and other charges	25
 Total impairments and special items	 \$ 2,616

The Company recorded special operating expense credits of \$44 million in 2007. These items have been classified as special because they are directly related to the resolution of bankruptcy administrative claims and are not indicative of the Company's ongoing financial performance. See

Three Year Period Ended December 31, 2008 Asset Impairments and Special Items 2007 compared to 2006 below, for a discussion of these bankruptcy-related special items and Note 4, Voluntary Reorganization Under Chapter 11 Significant Matters Remaining to be Resolved in Chapter 11 Cases, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further information on pending matters related to the Company's bankruptcy.

**Table of Contents***2007 Compared to 2006*

The table below includes the year-over-year dollar and percentage changes in UAL and United operating expenses. Significant fluctuations are discussed below.

(In millions)	Successor Year Ended December 31, 2007	Combined Period Ended December 31, 2006 <sup>(a)</sup>	Successor Period from February 1 to December 31, 2006	Predecessor Period from January 1 to January 31, 2006	\$ Change	% Change
<b>Operating expenses:</b>						
Aircraft fuel	\$ 5,003	\$ 4,824	\$ 4,462	\$ 362	\$ 179	3.7
Salaries and related costs	4,261	4,267	3,909	358	(6)	(0.1)
Regional Affiliates	2,941	2,824	2,596	228	117	4.1
Purchased services	1,346	1,246	1,148	98	100	8.0
Aircraft maintenance materials and outside repairs	1,166	1,009	929	80	157	15.6
Depreciation and amortization	925	888	820	68	37	4.2
Landing fees and other rent	876	876	801	75		
Distribution expenses	779	798	738	60	(19)	(2.4)
Aircraft rent	406	415	385	30	(9)	(2.2)
Cost of third party sales	316	679	614	65	(363)	(53.5)
Special operating items	(44)	(36)	(36)		(8)	22.2
Other operating expenses	1,131	1,103	1,017	86	28	2.5
UAL total	\$ 19,106	\$ 18,893	\$ 17,383	\$ 1,510	\$ 213	1.1
United total	\$ 19,099	\$ 18,875	\$ 17,369	\$ 1,506	\$ 224	1.2

(a) The combined period includes the results for one month ended January 31, 2006 (Predecessor Company) and eleven months ended December 31, 2006 (Successor Company).

Mainline aircraft fuel increased \$179 million, or 4%, in the year ended December 31, 2007 as compared to 2006. This net fuel variance was due to a 4% increase in the average price per gallon of jet fuel from \$2.11 in 2006 to \$2.18 in 2007, resulting from unfavorable market conditions. Included in the 2007 average price per gallon was an \$83 million net hedge gain; a net fuel hedge loss of \$26 million is included in the 2006 average price per gallon.

UAL salaries and related costs remained relatively flat in 2007 as compared to 2006. The Company recognized \$49 million of share-based compensation expense in 2007 as compared to \$159 million in 2006. There were no significant grants in 2007 as compared to 2006, which included a large number of grants associated with the Company's emergence from bankruptcy. Additionally, immediate recognition of 100% of the cost of awards granted to retirement-eligible employees on the grant date, together with accelerated vesting of grants within the first twelve months after the grant date, accounted for most of the decrease in share-based compensation expense. Also benefiting the 2007 period was the absence of the \$22 million severance charge incurred in 2006. Offsetting the decreased share-based compensation and severance expense was a slight increase in salaries and related costs as a result of certain wage increases as well as a \$110 million increase in profit sharing, including related employee taxes, which is based on annual pre-tax earnings. As noted above, this increase is due to increased pre-tax earnings and an increase in the payout percentage from 7.5% in 2006 to 15% in 2007.

Regional Affiliates expense, which includes aircraft fuel, increased \$117 million, or 4%, during 2007 as compared to 2006. Regional Affiliates capacity increased 4% in 2007, which was a major contributor to the increase in expense. Including the special revenue item of \$8 million, our Regional Affiliates operating income



## **Table of Contents**

was \$53 million higher in the 2007 period as compared to the 2006 period. The margin improvement was due to improved revenue performance, which was due to increased yield and traffic, and cost control. Factors impacting Regional Affiliates margin include the restructuring of regional carrier capacity agreements, the replacement of some 50-seat regional jets with 70-seat regional jets and regional carrier network optimization. All of these improvements were put in place throughout 2006; therefore, we realized some year-over-year benefits in 2007. Regional Affiliates fuel expense increased \$81 million, or 10%, from \$834 million in 2006 to \$915 million in 2007 due to a 9% increase in the average price of fuel and a 1% increase in consumption.

Purchased services increased 8% in 2007 as compared to 2006, primarily due to increased information technology and other costs incurred in support of the Company's customer and employee initiatives. Information technology expenses increased due to an increase in non-capitalizable information technology related expenditures, generally occurring during the planning and scoping phases, for new applications in 2007. In addition, airport operations handling and security costs increased due to the new USPS contract and new international routes, among other factors.

Aircraft maintenance materials and outside repairs expense increased \$157 million, or 16%, year-over-year primarily due to inflationary increases related to our V2500 engine maintenance contract and the cost of component parts, as well as the impact of increases in airframe and engine repair volumes.

A charge of \$18 million in 2007 for surplus and obsolete aircraft parts inventory accounted for approximately half of the 4% increase in depreciation and amortization.

Ongoing efforts to efficiently utilize our rented facilities have offset contractual rent increases, keeping 2007 rent expense in line with 2006 rent expense.

In 2007, United's Mainline revenues increased by 6%. During the same period of time, distribution expenses, which include commissions, global distribution services (GDS) fees and credit card fees decreased 2% from \$798 million in 2006 to \$779 million in 2007. This decrease was due to cost savings realized as the Company continues to drive reductions across the full spectrum of costs of sale. Impact areas included renegotiation of contracts with various channel providers, rationalization of commission plans and programs, and continued emphasis on movement of customer purchases toward lower cost channels including online channels. Such efforts resulted in a 9% year-over-year reduction in GDS fees and commissions.

The decrease in cost of sales in 2007 as compared to 2006 was primarily due to lower UAFC third party fuel sales of \$307 million as described in the discussion of revenue variances above.

Special items of \$44 million in the year ended December 31, 2007 include a \$30 million benefit due to the reduction in recorded accruals for pending bankruptcy litigation related to our SFO and LAX municipal bond obligations and a \$14 million benefit due to the Company's ongoing efforts to resolve certain other bankruptcy pre-confirmation contingencies. In the eleven months ended December 31, 2006, special items of \$36 million included a \$12 million benefit to adjust the Company's recorded obligation for the SFO and LAX municipal bonds and a \$24 million benefit related to pre-confirmation pension matters. The 2007 and 2006 special items resulted from revised estimates of the probable amount to be allowed by the Bankruptcy Court and were recorded in accordance with AICPA Practice Bulletin 11, *Accounting for Preconfirmation Contingencies in Fresh-Start Reporting*. See Note 4, Voluntary Reorganization Under Chapter 11 Significant Matters Remaining to be Resolved in Chapter 11 Cases, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further information on these special items and pending bankruptcy matters.



**Table of Contents****Other Income (Expense)***2008 Compared to 2007*

The following table illustrates the year-over-year dollar and percentage changes in UAL and United other income (expense).

(In millions)	Year Ended December 31,		Favorable/ (Unfavorable) Change	
	2008	2007	\$	%
Interest expense	\$ (571)	\$ (704)	\$ 133	18.9
Interest income	112	257	(145)	(56.4)
Interest capitalized	20	19	1	5.3
Gain on sale of investment		41	(41)	(100.0)
Non-cash fuel hedge gain (loss)	(279)		(279)	
Cash fuel hedge gain (loss)	(249)		(249)	
Miscellaneous, net	(22)	2	(24)	
UAL total	\$ (989)	\$ (385)	\$ (604)	(156.9)
United total	\$ (989)	\$ (382)	\$ (607)	(158.9)

UAL interest expense decreased \$133 million, or 19%, in 2008 as compared to 2007. The 2008 period was favorably impacted by \$1.5 billion of total credit facility prepayments and the February 2007 credit facility amendment, which lowered United's interest rate on these obligations. Scheduled debt obligation repayments throughout 2008 and 2007 also reduced interest expense in 2008 as compared to 2007. The Company has a significant amount of variable-rate debt. Lower benchmark interest rates on these variable-rate borrowings also reduced the Company's interest expense in 2008 as compared to 2007. Interest expense in 2007 included the write-off of \$17 million of previously capitalized debt issuance costs associated with the Company's February 2007 amended credit facility (the Amended Credit Facility) partial prepayment, \$6 million of financing costs associated with the February 2007 amendment and a gain of \$22 million from a debt extinguishment. The benefit of lower interest expense in 2008 was offset by a \$145 million decrease in interest income due to lower average cash and short-term investment balances and lower investment yields. Interest expense for the years ended December 31, 2008 and 2007 includes \$48 million and \$43 million, respectively, of interest expense related to the Company's retrospective adoption of APB 14-1. See Three Year Period Ended December 31, 2008 Liquidity and Capital Resources below, for further details related to financing activities.

Nonoperating fuel hedge gains (losses) relate to hedging instruments that are not classified as economic hedges. These net hedge gains (losses) are presented separately in the table above for purposes of additional analysis. These hedging gains (losses) are due to favorable (unfavorable) movements in crude oil prices relative to the fuel hedge instrument terms. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein and Note 13, Fair Value Measurements and Derivative Instruments, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further discussion of these hedges.

There were no significant investment gains or losses in 2008 as compared to 2007 during which the Company recorded a \$41 million gain on sale of investment, as discussed in Three Year Period Ended December 31, 2008 Other Income (Expenses) 2007 Compared to 2006 below.

The \$24 million variance in Miscellaneous, net is primarily due to unfavorable foreign exchange rate fluctuations in 2008.

**Table of Contents**

2007 Compared to 2006

The following table illustrates the year-over-year dollar and percentage changes in other income (expense).

(In millions)	Successor Year Ended December 31, 2007	Combined Period Ended December 31, 2006 <sup>(a)</sup>	Successor Period from February 1 to December 31, 2006	Predecessor Period from January 1 to January 31, 2006	Favorable (Unfavorable)	% Change
<b>Other income (expense):</b>						
Interest expense	\$ (704)	\$ (788)	\$ (746)	\$ (42)	\$ 84	10.7
Interest income	257	249	243	6	8	3.2
Interest capitalized	19	15	15		4	26.7
Gain on sale of investment	41				41	
Miscellaneous, net	2	14	14		(12)	(85.7)
UAL total	\$ (385)	\$ (510)	\$ (474)	\$ (36)	\$ 125	24.5
United total	\$ (382)	\$ (507)	\$ (471)	\$ (36)	\$ 125	24.7

(a) The combined period includes the results for one month ended January 31, 2006 (Predecessor Company) and eleven months ended December 31, 2006 (Successor Company).

UAL interest expense decreased \$84 million, or 11%, in 2007 as compared to 2006. The decrease was due to the February and December 2007 amendments and prepayments of the Amended Credit Facility, which lowered United's interest rate on these obligations and reduced the total obligations outstanding by approximately \$1.5 billion. Repayments of scheduled maturities of debt obligations and other debt refinancings, which are discussed in Three Year Period Ended December 31, 2008 Liquidity and Capital Resources below, also reduced interest expense. The 2007 period also included a \$22 million reduction in interest expense due to the recognition of a gain on debt extinguishment. These benefits were offset by interest expense of \$17 million for expensing previously capitalized debt issuance costs that were associated with the February 2007 prepayment of the Amended Credit Facility and \$6 million for financing costs incurred in connection with the February amendment of the Amended Credit Facility. The \$500 million Amended Credit Facility prepayment in December 2007 increased interest expense by a net of \$4 million from expensing \$6 million of previously capitalized credit facility costs and recording a gain of \$2 million to recognize previously deferred interest rate swap gains. Interest expense for the years ended December 31, 2007 and 2006 includes \$43 million and \$18 million, respectively, of interest expense related to the Company's retrospective adoption of APB 14-1.

UAL interest income increased \$8 million, or 3%, year-over-year. Interest income increased due to the classification of \$6 million of interest income as reorganization items in the January 2006 predecessor period in accordance with SOP 90-7.

The \$41 million gain on sale of investment resulted from the Company's sale of its 21.1% interest in Aeronautical Radio, Inc. (ARINC).

The unfavorable variances in miscellaneous income (expense) are primarily due to foreign currency transaction gains of \$9 million in 2006 as compared to foreign currency transaction losses of \$4 million in 2007.

**Income Taxes**

The relatively small tax benefit recorded in 2008 is related to the impairment and sale of certain indefinite-lived intangible assets, partially offset by the impact of an increase in state tax rates. UAL recorded income tax expense of \$297 million for the year ended December 31, 2007 based on an estimated effective tax rate of 45.5%. See Note 8, Income Taxes, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for additional information.



## **Table of Contents**

### **Liquidity and Capital Resources**

As of March 2, 2009, the date of filing of our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, the Company believes it has sufficient liquidity to fund its operations for the next 12 months, including funding for scheduled repayments of debt and capital lease obligations, capital expenditures, cash deposits required under fuel hedge contracts and other contractual obligations. We expect to meet our liquidity needs in 2009 from cash flows from operations, cash and cash equivalents on hand, proceeds from new financing arrangements using unencumbered assets and proceeds from aircraft sales and sales of other assets, among other sources. While the Company expects to meet its future cash requirements in 2009, our ability to do so could be impacted by many factors including, but not limited to, the following:

Volatile fuel prices and the cost and effectiveness of hedging fuel prices, as described in Three Year Period Ended December 31, 2008 Overview and Three Year Period Ended December 31, 2008 Results of Operations above, may require the use of significant liquidity in future periods. Crude oil prices have been extremely volatile and unpredictable in recent years and may become more volatile in future periods due to the current severe dislocations in world financial markets.

In late 2008, the price of crude oil dramatically fell from its record high in July 2008. Earlier in 2008, the Company entered into derivative contracts (including collar strategies) to hedge the risk of future price increases. As fuel prices have fallen below the floor of the collars, the Company has had, and could continue to have, significant future payment obligations at the settlement dates of these contracts. In addition, the Company has been and may in the future be further required to provide counterparties with additional cash collateral prior to such settlement dates. While the Company's results of operations should benefit significantly from lower fuel prices on its unhedged fuel consumption, in the near term lower fuel prices could also significantly and negatively impact liquidity based on the amount of cash settlements and collateral that may be required. However, at December 31, 2008 the Company partially mitigated its exposure to further price declines by purchasing put options to effectively cover approximately 55% of its short put positions. In addition, over the longer term, lower crude oil prices will further benefit the Company as the unfavorable hedge contracts terminate and the Company realizes the benefit of lower jet fuel costs on a larger percentage of its fuel consumption. See Note 13, Fair Value Measurements and Derivative Instruments, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, as well as Item 7A. Quantitative and Qualitative Disclosures above Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, for further information regarding the Company's fuel derivative instruments.

The Company's current operational plans to address the severe condition of the global economy may not be successful in improving its results of operations and liquidity.

The Company may not achieve expected increases in unit revenue from the capacity reductions announced by the Company and certain of its competitors. Further, certain of the Company's competitors may not reduce capacity or may increase capacity; thereby diminishing our expected benefit from capacity reductions. The Company may also not achieve expected revenue improvements from merchandising and fee enhancement initiatives.

Poor general economic conditions have had, and may in the future continue to have, a significant adverse impact on travel demand, which may result in a negative impact to revenues.

The Company is using cash to implement its operational plans for such items as severance payments, lease termination payments, conversion of Ted aircraft and facility closure costs, among others. These cash requirements will reduce the Company's cash available for its ongoing operations and commitments.

While fuel prices decreased significantly from their record high prices, fuel prices remain volatile and could increase significantly.

S-37

**Table of Contents**

Our level of indebtedness, our non-investment grade credit rating, and general credit market conditions may make it difficult, or impossible, for us to raise capital to meet liquidity needs and/or may increase our cost of borrowing.

Due to the factors above, and other factors, we may be unable to comply with our Amended Credit Facility covenant that currently requires the Company to maintain an unrestricted cash balance of \$1.0 billion and will also require the Company, beginning in the second quarter of 2009, to maintain a minimum ratio of EBITDAR to fixed charges. If the Company does not comply with these covenants, the lenders may accelerate repayment of these debt obligations, which would have a material adverse impact on the Company's financial position and liquidity.

If a default occurs under our Amended Credit Facility or other debt obligations, the cost to cure any such default may materially and adversely impact our financial position and liquidity, and no assurance can be provided that such a default will be mitigated or cured.

Although the factors described above may adversely impact the Company's liquidity, the Company believes it has an adequate available cash position to fund current operations. UAL's unrestricted and restricted cash balances were \$2.0 billion and \$0.3 billion, respectively, at December 31, 2008. In addition, the Company has recently taken actions to improve its liquidity and believes it may access additional capital or improve its liquidity further, as described below.

During 2008, the Company completed several initiatives that generated unrestricted cash of more than \$1.9 billion. These initiatives are described below.

The Company has significant additional unencumbered aircraft and other assets that may be used as collateral to obtain additional financing, as discussed below. At December 31, 2008, the Company had 62 unencumbered aircraft. As discussed in Note 23,

Subsequent Events, under Item 8. Financial Statements and Supplementary Data in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, in January 2009, the Company completed several financing-related transactions which generated approximately \$315 million of proceeds.

The Company is taking aggressive actions to right-size its business including significant capacity reductions, disposition of underperforming assets and a workforce reduction, among others.

**Cash Position and Liquidity.** As of December 31, 2008, approximately 50% of the Company's cash and cash equivalents consisted of money market funds directly or indirectly invested in U.S. treasury securities with the remainder largely in money market funds that are covered by the new government money market funds guarantee program. There are no withdrawal restrictions at the present time on any of the money market funds in which the Company has invested. In addition, the Company has no auction rate securities as of December 31, 2008. Therefore, we believe our credit risk is limited with respect to our cash balances. The following table provides a summary of UAL's net cash provided (used) by operating, financing, investing and reorganization activities for the years ended December 31, 2008, 2007 and 2006 and total cash position as of December 31, 2008 and 2007.

(In millions)	Year Ended December 31,		
	2008	2007	2006
Net cash provided (used) by operating activities	\$ (1,239)	\$ 2,134	\$ 1,562
Net cash provided (used) by investing activities	2,721	(2,560)	(250)
Net cash provided (used) by financing activities	(702)	(2,147)	782
Net cash used by reorganization activities			(23)

**Table of Contents**

	<b>As of December 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 2,039	\$ 1,259
Short-term investments		2,295
Restricted cash	272	756
Cash, short-term investments & restricted cash	\$ 2,311	\$ 4,310

The Company's cash and short-term investment position represents an important source of liquidity. The change in cash from 2006 to 2008 is explained below. Restricted cash primarily represents cash collateral to secure workers' compensation obligations, security deposits for airport leases and reserves with institutions that process our credit card ticket sales. We may be required to post significant additional cash collateral to meet such obligations in the future. The Company has a \$255 million revolving commitment under its Amended Credit Facility, of which \$254 million and \$102 million had been used for letters of credit as of December 31, 2008 and 2007, respectively. In addition, under a separate agreement, the Company had \$27 million of letters of credit issued as of December 31, 2008. The increase of letters of credit issued in 2008 was primarily due to the providing of alternative collateral in place of restricted cash deposits, thereby providing the Company with additional unrestricted cash.

***Cash Flows from Operating Activities******2008 Compared to 2007***

UAL's cash from operations decreased by approximately \$3.4 billion in 2008 as compared to 2007. This decrease was primarily due to the increased cash required for fuel purchases and operating and nonoperating cash fuel hedge losses. Mainline and Regional Affiliates fuel costs increased \$3.1 billion in 2008 over 2007 and nonoperating expenses also increased over the same period largely due to cash and non-cash fuel hedge losses. In addition, certain counterparties to our fuel hedge instruments required the Company to provide cash collateral deposits of approximately \$965 million in 2008, which negatively impacted our cash flows during this period as compared to 2007 when no similar deposits were required. A decrease in advance ticket sales also negatively impacted operating cash flow in 2008. Partially offsetting the negative impacts were \$500 million of proceeds from the advanced purchase of miles by our co-branded credit card partner as part of the amendment of our marketing agreement and \$100 million of proceeds from the extension of the license previously granted to our co-branded credit card partner to be the exclusive issuer of Mileage Plus Visa cards through 2017. In 2008, the Company contributed approximately \$240 million and \$22 million to its defined contribution plans and non-U.S. pension plans, respectively, as compared to contributions of \$236 million and \$14 million, respectively, in 2007 for these plans.

***2007 Compared to 2006***

The Company's cash from operations improved by more than \$500 million year-over-year. The Company's improvement in net income excluding primarily non-cash reorganization items, was a significant factor contributing to the increase in operating cash flows. Operating cash flows for 2007 also include the favorable impact of an increase in non-cash income tax expense of nearly \$300 million as compared to 2006. In addition, cash from operations improved due to a reduction of \$124 million in cash interest payments in 2007 as compared to 2006 as a result of the financing activities completed in 2007 to reduce debt and interest rates. The improvement in cash generated from operations that was due to better operating performance was further enhanced by a decrease in operating cash used for working capital. In 2007, the Company contributed approximately \$236 million and \$14 million to its defined contribution plans and non-U.S. pension plans, respectively, as compared to contributions of \$270 million in 2006 for these plans.

***Cash Flows from Investing Activities******2008 Compared to 2007***

Net sales of short-term investments provided cash of \$2.3 billion for UAL in 2008 as compared to cash used for net purchases of short-term investments of \$2.0 billion in 2007. In 2008, the Company invested most of

## **Table of Contents**

its excess cash in money market funds, whereas in 2007, excess cash was largely invested in short-term investments such as commercial paper. During 2008, the Company also received \$357 million of cash that was previously restricted cash held by the Company's largest credit card processor. The release of cash was part of an amendment to the Company's co-branded credit card agreement and largest credit card processor agreement. See *Three Year Period Ended December 31, 2008 Credit Card Processing Agreements* below, for further discussion of the amended agreement and future cash reserve requirements.

In 2008, cash expenditures for property, equipment and software totaled approximately \$455 million. Additions to property in 2008 also included \$20 million of capitalized interest. In 2007, cash expenditures for property and equipment, software and capitalized interest were \$639 million, \$65 million and \$19 million, respectively. This year-over-year decrease is primarily due to the Company's efforts to optimize its available cash and a reduction in cash used to acquire aircraft as the 2007 capital expenditures included cash used to acquire six aircraft that were previously financed as operating leases, as discussed in *Three Year Period Ended December 31, 2008 Cash Flows from Investing Activities 2007 Compared to 2006* below.

During 2008, the Company generated \$94 million from various asset sales including the sale of five B737 aircraft, spare parts, engines and slots. Certain previously existing agreements in principle to sell additional aircraft in 2008 have been terminated.

Investing cash of \$274 million was generated from aircraft sold under sale-leaseback financing agreements. In 2008, United entered into a \$125 million sale-leaseback involving nine previously unencumbered aircraft and a \$149 million sale-leaseback involving 15 aircraft. See Note 15, *Lease Obligations*, under *Item 8. Financial Statements and Supplementary Data* in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein and Note 16, *Statement of Consolidated Cash Flows Supplemental Disclosures*, under *Item 8. Financial Statements and Supplementary Data* in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for additional information related to these transactions. In addition, the Company's investing cash flows benefited from \$41 million of cash proceeds from a litigation settlement resulting in the recognition of a \$29 million gain during 2008. The litigation settlement related to pre-delivery advance aircraft deposits.

### *2007 Compared to 2006*

UAL's cash released from restricted funds was \$91 million in 2007 as compared to \$357 million that was provided by a decrease in the segregated and restricted funds for UAL in 2006. The significant cash generated from restricted accounts in 2006 was due to our improved financial position upon our emergence from bankruptcy. Net purchases of short-term investments used cash of \$2.0 billion for UAL in 2007 as compared to cash used for net purchases of short-term investments of \$0.2 billion in 2006. This change was due to investing additional excess cash in longer-term commercial paper in 2007 to increase investment yields. Investing activities in 2007 also included the Company's use of \$96 million of cash to acquire certain of the Company's previously issued and outstanding debt instruments. The debt instruments repurchased by the Company remain outstanding. See Note 12, *Debt Obligations and Card Processing Agreements*, under *Item 8. Financial Statements and Supplementary Data* in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for further information related to the \$96 million of purchased debt securities.

The Company's capital expenditures were \$658 million and \$362 million in 2007 and 2006, respectively, including the purchase of six aircraft during 2007. In the third quarter of 2007, the Company purchased three 747-400 aircraft that had previously been financed by United through operating leases which were terminated at closing. The total purchase price for these aircraft was largely financed with certain proceeds from the secured EETC financing described below. These transactions did not result in any change in the Company's fleet count of 460 Mainline aircraft, or in the amount of aircraft encumbered by debt or lease agreements.

During the fourth quarter of 2007, the Company used existing cash to acquire three aircraft that were previously financed under operating lease agreements. The total purchase price of these three aircraft and the



## **Table of Contents**

three aircraft acquired in the third quarter of 2007 was approximately \$200 million. This purchase did not result in any change in the Company's fleet count of 460 Mainline aircraft, but did unencumber three aircraft.

In addition, in the fourth quarter of 2007, the Company utilized existing aircraft deposits pursuant to the terms of the original capital lease to make the final lease payments on three aircraft, resulting in the reclassification of the aircraft from capital leased assets to owned assets. However, the purchase of these three aircraft did not result in a net change in cash because the Company had previously provided cash deposits equal to the purchase price of the aircraft to third party financial institutions for the benefit of the lessor. These transactions resulted in three additional aircraft becoming unencumbered for a total increase of six unencumbered aircraft during the year.

During 2007, the Company sold its interest in ARINC, generating proceeds of \$128 million. In 2006, UAL received \$43 million more in cash proceeds from investing activities as compared to United primarily due to \$56 million of proceeds from the sale of MyPoints, a former direct subsidiary of UAL.

### ***Cash Flows from Financing Activities***

#### ***2008 Activity***

UAL used \$253 million for its special distribution to common stockholders (United issued a \$257 million dividend to UAL for this distribution) and \$919 million for scheduled long-term debt and capital lease payments. United used cash of \$109 million in connection with an amendment to its Amended Credit Facility, as further discussed below. In 2008, the Company acquired ten aircraft that were being operated under existing leases. These aircraft were acquired pursuant to existing lease terms. Aircraft lease deposits of \$155 million provided financing cash that was primarily utilized by the Company to make the final payments due under these lease obligations. Nine of these aircraft were previously recorded as capital leased assets and are now owned assets.

United completed a \$241 million credit agreement secured by 26 of the Company's currently owned and mortgaged A319 and A320 aircraft. Borrowings under the agreement were at a variable interest rate based on LIBOR plus a margin. The agreement requires periodic principal and interest payments through its final maturity in June 2019. The Company may not prepay the loan prior to July 2012. This agreement did not change the number of the Company's unencumbered aircraft as the Company used available equity in these previously owned and mortgaged aircraft as collateral for this financing.

United also entered into an \$84 million loan agreement secured by three aircraft, including two Airbus A320 and one Boeing B777. Borrowings under the agreement were at a variable interest rate based on LIBOR plus a margin. The loan requires principal and interest payments every three months and has a final maturity in June 2015.

The Company issued 11.2 million shares of UAL common stock as part of a \$200 million equity offering during 2008. As of December 31, 2008, the Company had generated net proceeds of \$107 million.

As of December 31, 2008, 62 aircraft with a net book value of approximately \$570 million were unencumbered. The unencumbered aircraft at December 31, 2008 exclude nine aircraft which became encumbered with the December 2008 signing of a binding sale-leaseback agreement that closed in January 2009. As of December 31, 2007, the Company had 113 unencumbered aircraft with a net book value of \$2.0 billion. See Note 12, Debt Obligations and Card Processing Agreements, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for additional information on assets provided as collateral by the Company.

See Three Year Period Ended December 31, 2008 Cash Flows from Investing Activities above, for a discussion of the Company's 2008 sale-leaseback transactions.

## **Table of Contents**

### *2007 Activity*

In 2007, the Company made a \$1.0 billion prepayment on its Amended Credit Facility and made \$1.1 billion of additional debt payments, which included \$590 million related to the early retirement of debt. The Company prepaid an additional \$500 million of the Amended Credit Facility in December 2007. In addition, the Company completed a \$694 million debt issuance, which effectively refinanced the aforementioned early debt retirement and refinanced three aircraft that had been previously financed through operating lease agreements.

In 2007, the Company completed financing transactions totaling approximately \$964 million which included the \$694 million EETC secured financing and the \$270 million Denver International Airport financing. A portion of the proceeds of the \$694 million EETC transaction was used to repay \$590 million of debt obligations that were secured by ten previously mortgaged, owned aircraft and to finance three previously unencumbered owned aircraft. The proceeds of the Denver International Airport bonds were used to refinance the former \$261 million of Denver Series 1992A bonds.

In 2007, cash from aircraft lease deposits increased \$80 million primarily due to the use of the deposits to purchase the three previously leased assets described above in Cash Flows from Investing Activities. This was reported as a financing cash inflow as the prepayment of the initial deposits were recorded as a financing cash outflow.

### *2006 Activity*

During 2006, we generated proceeds of \$3.0 billion from United's new credit facility, but used approximately \$2.1 billion of these proceeds to repay the \$1.2 billion DIP Financing and make other scheduled and revolving payments under long-term debt and capital lease agreements.

### *Other 2008 and 2009 Financing Matters*

In January 2009, the Company entered into a sale-leaseback agreement of nine aircraft for approximately \$95 million. In addition, in January 2009, the Company generated net proceeds of \$62 million from the issuance of 4.0 million shares and settlement of unsettled trades at December 31, 2008 under its \$200 million common stock distribution agreement. After issuance of these shares, the Company had issued shares for gross proceeds of \$172 million of the \$200 million available under this stock offering, leaving \$28 million available for future issuance under this program.

In January 2009, the Company entered into an amendment to its O'Hare cargo building site lease with the City of Chicago. The Company agreed to vacate its current cargo facility at O'Hare to allow the land to be used for the development of a future runway. In January 2009, the Company received \$160 million from O'Hare in accordance with the lease amendment. In addition, the lease amendment requires that the City of Chicago provide the Company with another site at O'Hare upon which a replacement cargo facility could be constructed.

**Future Financing.** Subject to the restrictions of its Amended Credit Facility, the Company could raise additional capital by issuing unsecured debt, equity or equity-like securities, monetizing or borrowing against certain assets or refinancing existing obligations to generate net cash proceeds. However, the availability and capacity of these funding sources cannot be assured or predicted. General economic conditions, poor credit market conditions and any adverse changes in the Company's credit ratings could adversely impact the Company's ability to raise capital, if needed, and could increase the Company's cost of capital.

**Credit Ratings.** In 2008, both Standard & Poor's and Moody's Investors Services lowered the Company's credit ratings. Standard & Poor's lowered its ratings from a corporate credit rating of B (outlook stable) to B- (outlook negative) reflecting expected losses and reduced operating cash flow due to volatile fuel prices. Meanwhile, Moody's Investor Services lowered UAL's corporate family from B2 to Caa1 with a negative outlook and its secured bank rating from B1 to B3, citing record-high fuel prices and the weak

**Table of Contents**

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

**Amended Credit Facility Covenants.** The Amended Credit Facility requires compliance with certain covenants. The Company was in compliance with all of its Amended Credit Facility covenants as of December 31, 2008 and 2007. In May 2008, the Company amended the terms of certain financial covenants of the Amended Credit Facility. A summary of financial covenants, after the May amendment, is included below.

Beginning with the second quarter of 2009, the Company must maintain a specified minimum ratio of EBITDAR to the sum of the following fixed charges for all applicable periods: (a) cash interest expense and (b) cash aircraft operating rental expense. EBITDAR represents earnings before interest expense net of interest income, income taxes, depreciation, amortization, aircraft rent and certain other cash and non-cash credits and charges as further defined by the Amended Credit Facility. The other adjustments to EBITDAR include items such as foreign currency transaction gains or losses, increases or decreases in our deferred revenue obligation, share-based compensation expense, non-recurring or unusual losses, any non-cash non-recurring charge or non-cash restructuring charge, a limited amount of cash restructuring charges, certain cash transaction costs incurred with financing activities and the cumulative effect of a change in accounting principle.

The Amended Credit Facility also requires compliance with the following financial covenants: (i) a minimum unrestricted cash balance of \$1.0 billion, and (ii) a minimum ratio of market value of collateral to the sum of (a) the aggregate outstanding amount of the loans plus (b) the undrawn amount of outstanding letters of credit, plus (c) the unreimbursed amount of drawings under such letters of credit and (d) the termination value of certain interest rate protection and hedging agreements with the Amended Credit Facility lenders and their affiliates, of 150% at any time, or 200% at any time following the release of Primary Routes having an appraised value in excess of \$1 billion (unless the Primary Routes are the only collateral then pledged).

The requirement to meet a fixed charge coverage ratio was suspended for the four quarters beginning with the second quarter of 2008 and ending with the first quarter of 2009 and thereafter is determined as set forth below:

**Number of Preceding****Months Covered****Period Ending****Required  
Coverage Ratio**

Three	June 30, 2009	1.0 to 1.0
Six	September 30, 2009	1.1 to 1.0
Nine	December 31, 2009	1.2 to 1.0
Twelve	March 31, 2010	1.3 to 1.0
Twelve	June 30, 2010	1.4 to 1.0
Twelve	September 30, 2010 and each quarter ending thereafter	1.5 to 1.0

The Amended Credit Facility contains a cross default provision with respect to other credit arrangements that exceed \$50 million. Although the Company was in compliance with all required financial covenants as of December 31, 2008, and the Company is not required to comply with a fixed charge coverage ratio until the three month period ending June 30, 2009, continued compliance depends on many factors, some of which are beyond the Company's control, including the overall industry revenue environment and the level of fuel costs. There are no assurances that the Company will continue to comply with its debt covenants. Failure to comply with applicable covenants in any reporting period would result in a default under the Amended Credit Facility, which could have a material adverse impact on the Company depending on the Company's ability to obtain a waiver of, or otherwise mitigate, the impact of the default.

**Credit Card Processing Agreements.** The Company has agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. Under certain of the Company's card processing agreements, the financial institutions either require, or have the right to require, that United maintain a reserve equal to a portion of advance ticket sales that have been processed by that financial

**Table of Contents**

institution, but for which the Company has not yet provided the air transportation (referred to as relevant advance ticket sales). As of December 31, 2008, the Company had advance ticket sales of approximately \$1.5 billion of which approximately \$1.3 billion relates to credit card sales.

In November 2008, United entered into an amendment for its card processing agreement with Paymentech and JPMorgan Chase Bank, N.A. (the Amendment) that suspends until January 20, 2010 the requirement for United to maintain additional cash reserves with this processor of bank cards (above the current cash reserve of \$25 million at December 31, 2008) if United's month-end balance of unrestricted cash, cash equivalents and short-term investments falls below \$2.5 billion. In exchange for this benefit, United has granted the processor a security interest in certain of United's owned aircraft with a current appraised value of at least \$800 million. United also has agreed that such security interest collateralizes not only United's obligations under the processing agreement, but also United's obligations under United's Amended and Restated Co-Branded Card Marketing Services Agreement. United has an option to terminate the Amendment prior to January 20, 2010, in which event the parties' prior credit card processing reserve arrangements under the processing agreement will go back into effect.

After January 20, 2010, or in the event United terminates the Amendment, and in addition to certain other risk protections provided to the processor, the amount of any such reserve will be determined based on the amount of unrestricted cash held by the Company as defined under the Amended Credit Facility. If the Company's unrestricted cash balance is more than \$2.5 billion as of any calendar month-end measurement date, its required reserve will remain at \$25 million. However, if the Company's unrestricted cash is less than \$2.5 billion, its required reserve will increase to a percentage of relevant advance ticket sales as summarized in the following table:

<b>Total Unrestricted</b>	
<b>Cash Balance<sup>(a)</sup></b>	<b>Required % of Relevant Advance Ticket Sales</b>
Less than \$2.5 billion	15%
Less than \$2.0 billion	25%
Less than \$1.0 billion	50%

(a) Includes unrestricted cash, cash equivalents and short-term investments at month-end, including certain cash amounts already held in reserve, as defined by the agreement.

If the November 2008 Amendment had not been in effect as of December 31, 2008, the Company would have been required to post an additional \$132 million of reserves based on an actual unrestricted cash, cash equivalents and short-term investments balance of between \$2.0 billion and \$2.5 billion at December 31, 2008.

United's card processing agreement with American Express expired on February 28, 2009 and was replaced by a new agreement on March 1, 2009 which has an initial five year term. As of December 31, 2008, there were no required reserves under this card agreement, and no reserves were required up through the date of expiration.

Under the new agreement, in addition to certain other risk protections provided to American Express, the Company will be required to provide reserves based primarily on its unrestricted cash balance and net current exposure as of any calendar month-end measurement date, as summarized in the following table:

<b>Total Unrestricted</b>	
<b>Cash Balance<sup>(a)</sup></b>	<b>Required % of Net Current Exposure<sup>(b)</sup></b>
Less than \$2.4 billion	15%
Less than \$2.0 billion	25%
Less than \$1.35 billion	50%
Less than \$1.2 billion	100%

(a)

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Includes unrestricted cash, cash equivalents and short-term investments at month-end, including certain cash amounts already held in reserve, as defined by the agreement.

- (b) Net current exposure equals relevant advance ticket sales less certain exclusions, and as adjusted for specified amounts payable between United and the processor, as further defined by the agreement.

S-44

## Table of Contents

The new agreement permits the Company to provide certain replacement collateral in lieu of cash collateral, as long as the Company's unrestricted cash is above \$1.35 billion. Such replacement collateral may be pledged for any amount of the required reserve up to the full amount thereof, with the stated value of such collateral determined according to the agreement. Replacement collateral may be comprised of aircraft, slots and routes, real estate or other collateral as agreed between the parties.

In the near term, the Company will not be required to post reserves under the new American Express agreement as long as unrestricted cash as measured at each month-end, and as defined in the agreement, is equal to or above \$2.0 billion.

If the terms of the new agreement had been in place at December 31, 2008, and ignoring the near term protection in the preceding sentence, the Company would have been required to provide collateral of approximately \$40 million.

An increase in the future reserve requirements as provided by the terms of either or both the Company's material card processing agreements could materially reduce the Company's liquidity.

## Capital Commitments and Off-Balance Sheet Arrangements

The Company's business is very capital intensive, requiring significant amounts of capital to fund the acquisition of assets, particularly aircraft. In the past, the Company has funded the acquisition of aircraft through outright purchase, by issuing debt, by entering into capital or operating leases, or through vendor financings. The Company also often enters into long-term lease commitments with airports to ensure access to terminal, cargo, maintenance and other required facilities.

The table below provides a summary of UAL's material contractual obligations as of December 31, 2008.

(In millions)	One year or less	Years 2 and 3	Years 4 and 5	After 5 years	Total
Long-term debt, including current portion <sup>(a)</sup>	\$ 782	\$ 1,821	\$ 682	\$ 3,743	\$ 7,028
Interest payments <sup>(b)</sup>	336	511	368	1,228	2,443
Capital lease obligations Mainline <sup>(c)</sup>	231	789	280	520	1,820
United Express <sup>(c)</sup>	6	10	10		26
Aircraft operating lease obligations Mainline	351	646	603	655	2,255
United Express <sup>(d)</sup>	441	869	750	1,090	3,150
Other operating lease obligations	553	975	801	2,798	5,127
Postretirement obligations <sup>(e)</sup>	146	295	281	701	1,423
Legally binding capital purchase commitments <sup>(f)</sup>	229	332	28		589
Total	\$ 3,075	\$ 6,248	\$ 3,803	\$ 10,735	\$ 23,861

- (a) Long-term debt includes \$113 million of non-cash obligations as these debt payments are made directly to the creditor by a company that leases three aircraft from United. The creditor's only recourse to United is repossession of the aircraft.
- (b) Future interest payments on variable rate debt are estimated using estimated future variable rates based on a yield curve.
- (c) Mainline includes non-aircraft capital lease payments of approximately \$6 million in each of the years 2009 through 2011. United Express payments are all for aircraft. United has lease deposits of \$326 million in separate accounts to meet certain of its future lease obligations.
- (d) Amounts represent lease payments that are made by United under capacity agreements with the regional carriers who operate these aircraft on United's behalf.
- (e) Amounts represent postretirement benefit payments, net of subsidy receipts, through 2018. Benefit payments approximate plan contributions as plans are substantially unfunded. Not included in the table

## **Table of Contents**

above are contributions related to the Company's foreign pension plans. The Company does not have any significant contributions required by government regulations. The Company's expected pension plan contributions for 2009 are \$10 million.

- (f) Amounts exclude nonbinding aircraft orders of \$2.4 billion. Amounts are excluded because, as discussed further in *Three Year Period Ended December 31, 2008 Overview* above, these orders are not legally binding purchase orders. The Company may cancel its orders, which would result in forfeiture of its deposits. Amounts include commitments to upgrade international aircraft with our premium travel experience product. These aircraft commitments were not significantly impacted by the Company's recently announced capacity reductions as the international aircraft are only a small portion of the fleet reductions.

See Note 1(i), *Summary of Significant Accounting Policies United Express* and Note 12, *Debt Obligations and Card Processing Agreements*, under *Item 8. Financial Statements and Supplementary Data* in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein and Note 9, *Retirement and Postretirement Plans* and Note 15, *Lease Obligations*, under *Item 8. Financial Statements and Supplementary Data* in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for additional discussion of these items.

***Off-Balance Sheet Arrangements.*** An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company. The Company's off-balance sheet arrangements include operating leases, which are summarized in the contractual obligations table, above, and certain municipal bond obligations, as discussed below, and letters of credit, of which \$281 million were outstanding at December 31, 2008.

Certain municipalities have issued municipal bonds on behalf of United to finance the construction of improvements at airport-related facilities. The Company also leases facilities at airports where municipal bonds funded at least some of the construction of airport-related projects. At December 31, 2008, the Company guaranteed interest and principal payments on \$270 million in principal of such bonds that were originally issued in 1992, subsequently refinanced in 2007, and are due in 2032 unless the Company elects not to extend its lease in which case the bonds are due in 2023. The outstanding bonds and related guarantee are not recorded in the Company's audited consolidated financial statements in accordance with GAAP. The related lease agreement is accounted for as an operating lease with the associated rent expense recorded on a straight-line basis. The annual lease payments through 2023 and the final payment for the principal amount of the bonds are included in the operating lease payments in the contractual obligations table above. For further details, see Note 14, *Commitments, Contingent Liabilities and Uncertainties Guarantees and Off-Balance Sheet Financing*, under *Item 8. Financial Statements and Supplementary Data* in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein.

***Fuel Consortia.*** The Company participates in numerous fuel consortia with other carriers at major airports to reduce the costs of fuel distribution and storage. Interline agreements govern the rights and responsibilities of the consortia members and provide for the allocation of the overall costs to operate the consortia based on usage. The consortia (and in limited cases, the participating carriers) have entered into long-term agreements to lease certain airport fuel storage and distribution facilities that are typically financed through tax-exempt bonds (either special facilities lease revenue bonds or general airport revenue bonds), issued by various local municipalities. In general, each consortium lease agreement requires the consortium to make lease payments in amounts sufficient to pay the maturing principal and interest payments on the bonds. As of December 31, 2008, approximately \$1.2 billion principal amount of such bonds were secured by significant fuel facility leases in which United participates, as to which United and each of the signatory airlines have provided

## **Table of Contents**

indirect guarantees of the debt. United's exposure is approximately \$226 million principal amount of such bonds based on its recent consortia participation. The Company's exposure could increase if the participation of other carriers decreases. The guarantees will expire when the tax-exempt bonds are paid in full, which ranges from 2010 to 2028. The Company did not record a liability at the time these indirect guarantees were made.

## **Other Information**

**Foreign Operations.** The Company's audited consolidated financial statements reflect material amounts of intangible assets related to the Company's Pacific and Latin American route authorities and its operations at London's Heathrow Airport. Because operating authorities in international markets are governed by bilateral aviation agreements between the U.S. and foreign countries, changes in U.S. or foreign government aviation policies can lead to the alteration or termination of existing air service agreements that could adversely impact, and significantly impair, the value of our international route authorities and other assets. Significant changes in such policies could also have a material impact on the Company's operating revenues and expenses and results of operations. For further information, see Note 3, "Asset Impairments and Intangible Assets," under Item 8. Financial Statements and Supplementary Data and Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, and BUSINESS herein for further information on the Company's foreign currency risks associated with its foreign operations.

## **Critical Accounting Policies**

Critical accounting policies are defined as those that are affected by significant judgments and uncertainties which potentially could result in materially different accounting under different assumptions and conditions. The Company has prepared the accompanying financial statements in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates under different assumptions or conditions. The Company has identified the following critical accounting policies that impact the preparation of these financial statements.

**Passenger Revenue Recognition.** The value of unused passenger tickets and miscellaneous charge orders (MCOs) is included in current liabilities as advance ticket sales. United records passenger ticket sales and tickets sold by other airlines for use on United as operating revenues when the transportation is provided or when the ticket expires. Tickets sold by other airlines are recorded at the estimated values to be billed to the other airlines. Non-refundable tickets generally expire on the date of the intended flight, unless the date is extended by notification from the customer on or before the intended flight date. Fees charged in association with changes or extensions to non-refundable tickets are recorded as passenger revenue at the time the fee is collected. Change fees related to non-refundable tickets are considered a separate transaction from the air transportation because they represent a charge for the Company's additional service to modify a previous reservation. Therefore, the pricing of the change fee and the initial customer reservation are separately determined and represent distinct earnings processes. Refundable tickets expire after one year. MCOs can be either exchanged for a passenger ticket or refunded after issuance. United records an estimate of tickets that have been used, but not recorded as revenue due to system processing errors, as revenue in the month of sale based on historical results. United also records an estimate of MCOs that will not be exchanged or refunded as revenue ratably over the redemption period based on historical results. Due to complex industry pricing structures, refund and exchange policies and interline agreements with other airlines, certain amounts are recognized as revenue using estimates both as to the timing of recognition and the amount of revenue to be recognized. These estimates are based on the evaluation of actual historical results.

**Accounting for Frequent Flyer Program Miles Sold to Third Parties and the Advanced Purchase of Miles.** The Company has an agreement with its co-branded credit card partner that requires our partner to purchase miles in advance of when miles are awarded to the co-branded partner's cardholders (referred to as pre-purchased miles). The pre-purchased miles are deferred when received by United in our audited



## **Table of Contents**

consolidated financial statements as Advanced purchase of miles. The Company amended its agreement with its co-branded credit card partner in 2008. See Note 17, Advanced Purchase of Miles, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for a description of this agreement and its 2008 amendment. Subsequently, when our credit card partner awards pre-purchased miles to its cardholders, we transfer the related air transportation element for the awarded miles from Advanced purchase of miles to Mileage Plus deferred revenue at estimated fair value and record the residual marketing element as Other operating revenue. The deferred revenue portion is then subsequently recognized as passenger revenue when transportation is provided in exchange for the miles awarded. Accounting for the Company's air transportation element and marketing elements are described below.

### ***Other Frequent Flyer Accounting Policies***

*Air Transportation Element.* The Company defers the portion of the sales proceeds that represents estimated fair value of the air transportation and recognizes that amount as revenue when transportation is provided. The fair value of the air transportation component is determined based upon the equivalent ticket value of similar fares on United and amounts paid to other airlines for miles. The initial revenue deferral is presented as Mileage Plus deferred revenue on our audited consolidated financial statements. When recognized, the revenue related to the air transportation component is classified as passenger revenues in our audited consolidated financial statements.

*Marketing-related element.* The amount of revenue from the marketing-related element is determined by subtracting the fair value of the air transportation from the total sales proceeds. The residual portion of the sales proceeds related to marketing activities is recognized when miles are awarded. This portion is recognized as Other operating revenues in our audited consolidated financial statements.

The Company's frequent flyer obligation was recorded at fair value at February 1, 2006, the effective date of the Company's emergence from bankruptcy. The deferred revenue measurement method used to record fair value of the frequent flyer obligation on and after the Effective Date is to allocate an equivalent weighted-average ticket value to each outstanding mile, based upon projected redemption patterns for available award choices when such miles are consumed. Such value is estimated assuming redemptions on both United and other participating carriers in the Mileage Plus program and by estimating the relative proportions of awards to be redeemed by class of service within broad geographic regions of the Company's operations, including North America, Atlantic, Pacific and Latin America.

The estimation of the fair value of each award mile requires the use of several significant assumptions, for which significant management judgment is required. For example, management must estimate how many miles are projected to be redeemed on United, versus on other airline partners. Since the equivalent ticket value of miles redeemed on United and on other carriers can vary greatly, this assumption can materially affect the calculation of the weighted-average ticket value from period to period.

Management must also estimate the expected redemption patterns of Mileage Plus customers, who have a number of different award choices when redeeming their miles, each of which can have materially different estimated fair values. Such choices include different classes of service (first, business and several coach award levels), as well as different flight itineraries, such as domestic and international routings and different itineraries within domestic and international regions of United's and other participating carriers' route networks. Customer redemption patterns may also be influenced by program changes, which occur from time to time and introduce new award choices, or make material changes to the terms of existing award choices. Management must often estimate the probable impact of such program changes on future customer behavior, which requires the use of significant judgment. Management uses historical customer redemption patterns as the best single indicator of future redemption behavior in making its estimates, but changes in customer mileage redemption behavior to patterns which are not consistent with historical behavior can result in material changes to deferred revenue balances, and to recognized revenue.

## **Table of Contents**

The Company measures its deferred revenue obligation using all awarded and outstanding miles, regardless of whether or not the customer has accumulated enough miles to redeem an award. Eventually these customers will accumulate enough miles to redeem awards, or their accounts will deactivate after a period of inactivity, in which case the Company will recognize the related revenue through its revenue recognition policy for expired miles.

The Company recognizes revenue related to expected expired miles over the estimated redemption period. The Company's estimate of the expected expiration of miles requires significant management judgment. In early 2007, the Company announced that it was reducing the expiration period for inactive accounts from 36 months to 18 months effective December 31, 2007. The change in the expiration period increased revenues by \$246 million in 2007. Current and future changes to expiration assumptions or to the expiration policy, or to program rules and program redemption opportunities, may result in material changes to the deferred revenue balance, as well as recognized revenues from the program. In 2008, the Company updated certain of its assumptions related to the recognition of revenue for expiration of miles. Based on additional analysis of mileage redemption and expiration patterns, the Company revised the estimated number of miles that are expected to expire from 15% to 24% of earned miles, including miles that will expire or go unredeemed for reasons other than account deactivation. In 2008, the Company also extended the total time period over which revenue from its expiration of miles is recognized based upon the estimated period of miles redemption. This change did not materially impact the Company's Mileage Plus revenue recognition in 2008.

As of December 31, 2008 and 2007, the Company's outstanding number of miles was approximately 478.2 billion and 488.4 billion, respectively. The Company estimates that approximately 362.0 billion of the outstanding miles at December 31, 2008 will ultimately be redeemed based on assumptions as of December 31, 2008. At December 31, 2008, a hypothetical 1% change in the Company's outstanding number of miles or the weighted-average ticket value has approximately a \$50 million effect on the liability.

**Impairment Testing.** In accordance with SFAS 142 and SFAS 144 as of May 31, 2008, the Company performed an interim impairment test of its goodwill, all intangible assets and certain of its long-lived assets (principally aircraft and related spare engines and spare parts) due to events and changes in circumstances that indicated an impairment might have occurred. The Company also performed annual impairment testing of indefinite-lived intangible assets as of October 1, 2008 and further tested the potential impairment of certain tangible assets as of December 31, 2008.

Factors deemed by management to have collectively constituted a potential impairment triggering event as of May 31, 2008 included record high fuel prices, significant losses in the first and second quarters of 2008, a softening U.S. economy, analyst downgrade of UAUA common stock, rating agency changes in outlook for the Company's debt instruments from stable to negative, the announcement of the planned removal from UAL's fleet of 100 aircraft in 2008 and 2009 and a significant decrease in the fair value of the Company's outstanding equity and debt securities during the first five months of 2008, including a decline in UAL's market capitalization to significantly below book value. The Company's consolidated fuel expense increased by more than 50% during this period.

**Table of Contents**

As a result of the interim impairment testing performed as of May 31, 2008 and December 31, 2008, the Company recorded impairment charges during the year as presented in the table below. All of these impairment charges are within the Mainline segment. All of the impairments other than the goodwill impairment, which is separately identified, are classified as Other impairments and special items in the Company's audited consolidated financial statements.

(In millions)	Year ended December 31, 2008
Goodwill impairment	2,277
Indefinite-lived intangible assets:	
Codeshare agreements	44
Tradenames	20
Intangible asset impairments	64
Tangible assets:	
Pre-delivery advance deposits including related capitalized interest	105
B737 aircraft, B737 spare parts and other	145
	250
Total impairments	\$ 2,591

Discussed below is the methodology used for each type of asset impairment shown in the table above.

**Accounting for Long-Lived Assets.** The net book value of operating property and equipment for UAL was \$10.3 billion and \$11.4 billion at December 31, 2008 and 2007, respectively. In addition to the original cost of these assets, as adjusted by fresh-start reporting as of February 1, 2006, their recorded value is impacted by a number of accounting policy elections, including the estimation of useful lives and residual values and, when necessary, the recognition of asset impairment charges.

For purposes of testing impairment of long-lived assets at May 31, 2008, the Company determined whether the carrying amount of its long-lived assets was recoverable by comparing the carrying amount to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If the carrying value of the assets exceeded the expected cash flows, the Company estimated the fair value of these assets to determine whether an impairment existed. The Company grouped its aircraft by fleet type to perform this evaluation and used data and assumptions through May 31, 2008. The estimated undiscounted cash flows were dependent on a number of critical management assumptions including estimates of future capacity, passenger yield, traffic, operating costs (including fuel prices) and other relevant assumptions. If estimates of fair value were required, fair value was estimated using the market approach. Asset appraisals, published aircraft pricing guides and recent transactions for similar aircraft were considered by the Company in its market value determination. As of May 31, 2008, based on the results of these tests, the Company determined that an impairment of \$36 million existed which was attributable to the Company's fleet of owned B737 aircraft and related spare parts. As described in Three Year Period Ended December 31, 2008 Overview above, the Company is retiring its entire B737 fleet earlier than originally planned. The Company recorded an additional \$2 million of impairment for other assets in the second quarter of 2008. Subsequently in the fourth quarter of 2008, the Company determined it was necessary to perform an impairment test of certain of its operating fleet due to changes in market conditions for aircraft which indicated a potential impairment of value. This impairment analysis resulted in an additional fourth quarter impairment charge of \$107 million related to the Company's B737 fleet. This additional impairment charge was due to changes in market conditions and other conditions, including but not limited to the cancellation of multiple letters of intent that the Company had to sell B737 aircraft, that occurred since the impairment testing performed in the second quarter of 2008.

Due to the unfavorable economic and industry factors described above, the Company also determined in the second quarter of 2008 that it was required to test its \$91 million of pre-delivery aircraft deposits for

## Table of Contents

impairment. The Company determined that these aircraft deposits were completely impaired and recorded an impairment charge to write-off their full carrying value and \$14 million of related capitalized interest. The Company believes that it is highly unlikely that it will take these future aircraft deliveries and will therefore be required to forfeit the \$91 million of deposits, which are not transferable.

As a result of the impairment testing described above, the Company's goodwill and certain of its indefinite-lived intangible assets and tangible assets were recorded at fair value. In accordance with FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, the Company has not applied Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157) to the determination of the fair value of these assets. However, the provisions of SFAS 157 were applied to the determination of the fair value of financial assets and financial liabilities that were part of the SFAS 142 Step Two goodwill fair value determination.

Due to extreme fuel price volatility, tight credit markets, uncertain economic environment, as well as other factors and uncertainties, the Company can provide no assurance that a material impairment charge of aircraft or indefinite-lived intangible assets will not occur in a future period. The value of our aircraft could be impacted in future periods by changes in the market for these aircraft. Such changes could result in a greater supply and lower demand for certain aircraft types as other carriers announce plans to retire similar aircraft. The Company will continue to monitor circumstances and events in future periods to determine whether additional interim asset impairment testing is warranted.

Except for the adoption of fresh-start reporting at February 1, 2006, whereby the Company remeasured long-lived assets at fair value, it is the Company's policy to record assets acquired, including aircraft, at acquisition cost. Depreciable life is determined through economic analysis, such as reviewing existing fleet plans, obtaining appraisals and comparing estimated lives to other airlines that operate similar fleets. Older generation aircraft are assigned lives that are generally consistent with the experience of United and the practice of other airlines. As aircraft technology has improved, useful life has increased and the Company has generally estimated the lives of those aircraft to be 30 years. Residual values are estimated based on historical experience with regard to the sale of both aircraft and spare parts and are established in conjunction with the estimated useful lives of the related fleets. Residual values are based on current dollars when the aircraft are acquired and typically reflect asset values that have not reached the end of their physical life. Both depreciable lives and residual values are revised periodically to recognize changes in the Company's fleet plan and other relevant information. A one year increase in the average depreciable life of our flight equipment would reduce annual depreciation expense on flight equipment by approximately \$18 million.

**Accounting for Goodwill and Intangible Assets.** Upon the implementation of fresh-start reporting (see Note 4, Voluntary Reorganization Under Chapter 11 Fresh-Start Reporting, under Item 8. Financial Statements and Supplementary Data in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein) the Company's assets, liabilities and equity were generally valued at their respective fair values. The excess of reorganization value over the fair value of net tangible and identifiable intangible assets and liabilities was recorded as goodwill in the accompanying audited consolidated financial statements on the Effective Date. The entire goodwill amount of \$2.3 billion at December 31, 2007 was allocated to the Mainline reporting segment. In addition, the adoption of fresh-start reporting resulted in the recognition of \$2.2 billion of indefinite-lived intangible assets.

In accordance with SFAS 142, the Company applies a fair value-based impairment test to the book value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. An impairment charge could have a material adverse effect on the Company's financial position and results of operations in the period of recognition. The Company tested its goodwill and other indefinite-lived intangible assets for impairment during its annual impairment test as of October 1, 2007 and as part of its interim test as of May 31, 2008. The interim testing resulted in the total impairment of the Company's goodwill and partial impairment of other indefinite-lived intangible assets. The Company also performed its annual interim test of indefinite-lived intangible assets as of October 1, 2008.

**Table of Contents*****Goodwill 2008 Interim Impairment Test***

For purposes of testing goodwill, the Company performed Step One of the SFAS 142 test by estimating the fair value of the Mainline reporting unit (to which all goodwill is allocated) utilizing several fair value measurement techniques, including two market estimates and one income estimate, and using relevant data available through and as of May 31, 2008. The market approach is a valuation technique in which fair value is estimated based on observed prices in actual transactions and on asking prices for similar assets. The valuation process is essentially that of comparison and correlation between the subject asset and other similar assets. The income approach is a technique in which fair value is estimated based on the cash flows that an asset could be expected to generate over its useful life, including residual value cash flows. These cash flows are discounted to their present value equivalents using a rate of return that accounts for the relative risk of not realizing the estimated annual cash flows and for the time value of money. Certain variations of the income approach were used to determine certain of the intangible asset fair values.

Under the market approaches, the fair value of the Mainline reporting unit was estimated based upon the fair value of invested capital for UAL, as well as a separate comparison to revenue and EBITDAR multiples for similar publicly traded companies in the airline industry. The fair value estimates using both market approaches included a control premium similar to those observed for historical airline and transportation company market transactions.

Under the income approach, the fair value of the Mainline reporting unit was estimated based upon the present value of estimated future cash flows for UAL. The income approach is dependent on a number of critical management assumptions including estimates of future capacity, passenger yield, traffic, operating costs (including fuel prices), appropriate discount rates and other relevant assumptions. The Company estimated its future fuel-related cash flows for the income approach based on the five-year forward curve for crude oil as of May 31, 2008. The impacts of the Company's aircraft and other tangible and intangible asset impairments, discussed below, were considered in the fair value estimation of the Mainline reporting unit.

Taking into consideration an equal weighting of the two market estimates and the income estimate, which has been the Company's practice when performing annual goodwill impairment tests, the indicated fair value of the Mainline reporting unit was less than its carrying value, and therefore, the Company was required to perform Step Two of the SFAS 142 goodwill impairment test.

In Step Two of the impairment test, the Company determined the implied fair value of goodwill of the Mainline reporting unit by allocating the fair value of the reporting unit determined in Step One to all the assets and liabilities of the Mainline reporting unit, including any recognized and unrecognized intangible assets, as if the Mainline reporting unit had been acquired in a business combination and the fair value of the Mainline reporting unit was the acquisition price. As a result of the Step Two testing, the Company determined that goodwill was completely impaired and therefore recorded an impairment charge to write-off the full value of goodwill.

***Indefinite-lived Intangible Assets***

The Company utilized appropriate valuation techniques to separately estimate the fair values of all of its indefinite-lived intangible assets as of May 31, 2008 and compared those estimates to related carrying values. Tested assets included tradenames, international route authorities, London Heathrow slots and codesharing agreements. The Company used a market or income valuation approach, as described above, to estimate fair values. Based on the preliminary results of this testing, the Company recorded \$80 million of impairment charges during the second quarter of 2008 and in the third quarter of 2008 reduced the impairment charge by \$16 million as a result of the finalization of the impairment testing. No impairments of indefinite-lived intangible assets resulted from the Company's annual impairment test performed as of October 1, 2008.

***Other Postretirement Benefit Accounting.*** The Company accounts for other postretirement benefits using Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* (SFAS 106) and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements*

## **Table of Contents**

No. 87, 88, 106 and 132(R) ( SFAS 158 ). For the year ended December 31, 2006, the Company adopted SFAS 158, which requires the Company to recognize the difference between plan assets and obligations, or the plan's funded status, in its audited consolidated financial statements. Under these accounting standards, other postretirement benefit expense is recognized on an accrual basis over employees' approximate service periods and is generally calculated independently of funding decisions or requirements. The Company has not been required to pre-fund its current and future plan obligations, which has resulted in a significant net obligation, as discussed below.

The fair value of plan assets at December 31, 2008 and 2007 was \$57 million and \$56 million, respectively, for the other postretirement benefit plans. The benefit obligation was \$2.0 billion for the other postretirement benefit plans at both December 31, 2008 and 2007. The difference between the plan assets and obligations has been recorded in the *Statements of Consolidated Financial Position*. Detailed information regarding the Company's other postretirement plans, including key assumptions, is included in Note 9, Retirement and Postretirement Plans, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein.

The following provides a summary of the methodology used to determine the assumptions disclosed in Note 9, Retirement and Postretirement Plans, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein. The calculation of other postretirement benefit expense and obligations requires the use of a number of assumptions, including the assumed discount rate for measuring future payment obligations and the expected return on plan assets. The discount rates were based on the construction of theoretical corporate bond portfolios, adjusted according to the timing of expected cash flows for the payment of the Company's future postretirement obligations. A yield curve was developed based on a subset of these bonds (those with yields between the 10th and 90th percentiles). The projected cash flows were matched to this yield curve and a present value developed, which was then calibrated to develop a single equivalent risk-adjusted discount rate.

Actuarial gains or losses are triggered by changes in assumptions or experience that differ from the original assumptions. Under the applicable accounting standards, those gains and losses are not required to be recognized currently as other postretirement expense, but instead may be deferred as part of accumulated other comprehensive income and amortized into expense over the average remaining service life of the covered active employees. The Company's accounting policy is to not apply the corridor approach available under SFAS 106 with respect to amortization of amounts included in accumulated other comprehensive income. Under the corridor approach, amortization of any gain or loss in accumulated other comprehensive income is only required if, at the beginning of the year, the accumulated gain or loss exceeds 10% of the greater of the benefit obligation or the fair value of assets. If amortization is required, the minimum amount outside the corridor divided by the average remaining service period of active employees is recognized as expense. The corridor approach is intended to reduce volatility of amounts recorded in pension expense each year. Since the Company has elected not to apply the corridor approach, all gains and losses in accumulated other comprehensive income are amortized and included in pension expense each year. At December 31, 2008 and 2007, the Company had unrecognized actuarial gains of \$286 million and \$254 million, respectively, recorded in accumulated other comprehensive income for its other postretirement benefit plans.

**Valuation Allowance for Deferred Tax Assets.** At December 31, 2008, the Company had valuation allowances against its deferred tax assets of approximately \$2.9 billion. In accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, a valuation allowance is required to be recorded when it is more likely than not that deferred tax assets will not be realized. Future realization depends on the existence of sufficient taxable income within the carry forward period available under the tax law. Sources of future taxable income include future reversals of taxable temporary differences, future taxable income exclusive of reversing taxable differences, taxable income in carry back years and tax planning strategies. These sources of positive evidence of realizability must be weighed against negative evidence, such as cumulative losses in recent years. A recent history of losses would make difficult a determination that a valuation allowance is not needed.

## **Table of Contents**

In forming a judgment about the future realization of our deferred tax assets, management considered both the positive and negative evidence of realizability and gave significant weight to the negative evidence from our cumulative losses for recent years. Management will continue to assess this situation and make appropriate adjustments to the valuation allowance based on its evaluation of the positive and negative evidence existing at that time. We are currently unable to forecast when there will be sufficient positive evidence for us to reverse the remainder of the valuation allowances that we have recorded. Through December 31, 2008, any reversals of valuation allowance would have reduced goodwill, if any, then intangible assets. See Note 1(p), Summary of Significant Accounting Policies New Accounting Pronouncements, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for information regarding the effect of changes to this method of accounting for valuation allowance reversals, if any, on the Company's results of operations and financial condition after it adopts Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*, on January 1, 2009. See Note 8, Income Taxes, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein, for additional information.

### **New Accounting Pronouncements**

For detailed information, see Note 1(p), Summary of Significant Accounting Policies New Accounting Pronouncements, under Item 8. Financial Statements and Supplementary Data in Exhibit 99.1 to our Current Report on Form 8-K dated May 1, 2009, incorporated by reference herein.

## **Quarters Ended June 30, 2009 and 2008**

### **Overview**

United is one of the largest passenger airlines in the world. The Company offers approximately 3,300 flights a day to more than 200 destinations through its Mainline and United Express services, based on its flight schedule from July 2009 to July 2010. United offers approximately 1,200 average daily Mainline departures to approximately 120 destinations in 27 countries and two U.S. territories. United provides regional service, connecting primarily via United's domestic hubs, through marketing relationships with United Express carriers, which provide more than 2,000 average daily departures to approximately 175 destinations. United serves virtually every major market around the world, either directly or through its participation in the Star Alliance®, the world's largest airline network.

**Company Operational Plans.** Since the second quarter of 2008, the Company has implemented certain operational plans to address significant unfavorable fuel price volatility, industry over-capacity and a weak economic environment. The Company is reducing capacity and permanently removing 100 aircraft from its Mainline fleet by the end of 2009, including its entire B737 fleet and six B747 aircraft. As of June 30, 2009, the Company has removed 74 of these aircraft from its fleet. In addition, the Company has converted 18 of its 56 Ted aircraft into its Mainline fleet configuration as of June 30, 2009 and remaining conversions are expected to be completed by the end of 2009. See Note 3, Company Operational Plans, under Item 1. Financial Statements in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, incorporated by reference herein, for additional information. In connection with the capacity reductions discussed above, the Company is further streamlining its operations and corporate functions in order to match the size of its workforce to the reduced size of its operations. The Company anticipates these efforts will result in a cumulative reduction in workforce of approximately 9,000 by the end of 2009. The workforce reduction has occurred through a combination of furloughs and furlough-mitigation programs, such as early-out options.

### **Recent Developments for the Quarter Ended June 30, 2009**

During the second quarter of 2009, the Company initiated a fleet modernization review with a request for proposal that has the potential to result in a large order of next-generation wide body and narrow

## **Table of Contents**

body aircraft to replace its older fleet types. This process could present a unique opportunity for the Company to improve its cost structure and fleet strategy.

The Company has completed the upgrade of its entire fleet of international B767 aircraft with new first and business class premium seats, entertainment systems and other product enhancements. This new international premium travel product features, among other improvements, 180-degree, lie flat beds in business class. In addition, the Company has upgraded 18 of 24 aircraft in its B747 fleet with expected completion in October 2009. In addition, the reconfiguration of its international B777 fleet will commence in early 2010.

The Company is taking appropriate actions to respond to the current economic environment as indicated by its significant capacity reductions. However, consolidated passenger revenue per available seat mile was also down 17.2% and 14.4% in the second quarter and first six months of 2009, respectively, as compared to the year-ago comparable periods as a result of the severe global recession.

In July 2009, the Company announced plans to reduce its international capacity by an additional 7% during the last four months of 2009. The Company continues to monitor its capacity levels and will make additional reductions, as appropriate.

During the second quarter and first six months of 2009, the Company maintained its momentum on cost control with a Mainline unit cost per available seat mile decrease of 50.2% and 36.2%, respectively, compared to the second quarter and the first half of 2008, respectively, reflecting the impact of lower fuel prices year-over-year and the Company's cost savings initiatives. The Company's consolidated fuel expense decreased \$1.4 billion and \$2.3 billion, or 62% and 56%, respectively, compared to the second quarter and the first half of 2008, respectively, including hedge impacts.

Since January 1, 2009, the Company has raised more than \$650 million in new liquidity through various activities, including aircraft and engine financings, the July 2009 spare parts financing discussed below, airport facility relocations, equity issuances and asset sales. The Company had an unrestricted cash balance of \$2.6 billion as of June 30, 2009.

**Continental Alliance.** During 2008, United, Continental and eight other airlines submitted a request to the DOT to allow Continental to join United, Air Canada, Lufthansa and six other carriers in their already established anti-trust immunized alliance. This immunity will enable United, Air Canada, Continental and Lufthansa to implement a joint venture covering transatlantic routes that would deliver highly competitive flight schedules, fares and service. On April 7, 2009, the DOT issued an order to show cause, inviting comments on a preliminary decision to grant the application. Subsequently, the U.S. Department of Justice (the DOJ) filed comments urging the DOT to limit its grant of immunity. On July 10, 2009, the DOT issued a final grant of immunity, which addressed the DOJ's concerns by imposing certain conditions to limit cooperation on specified routes. None of the conditions affect implementation of the 4-party joint venture. The alliance will enable United, Continental and the other Star Alliance members to offer travelers greater choice, lower fares and improved access to the combined carriers route networks. In addition, this alliance will also enable the carriers to establish more efficient and comprehensive global networks, helping to level the competitive playing field in our industry.

**Summary of Financial Results.** The air travel business is subject to seasonal fluctuations and, historically, the Company's results of operations are better in the second and third quarters as compared to the first and fourth quarters of each year, since our first and fourth quarter results normally reflect weaker travel demand. The Company's results of operations can be impacted by fuel price volatility, an outbreak of a disease impacting travel behavior, adverse weather, air traffic control delay, economic conditions and other factors in any period.



**Table of Contents**

The table below highlights significant changes in the Company's results in the three and six months ended June 30, 2009 as compared to the year-ago period. Capacity reductions and the severe global recession significantly reduced operating revenues in 2009 as compared to 2008. Revenues were particularly impacted by a drop in business travel and premium service demand as well as by the structure of our network and international performance. This negative impact was offset by lower fuel cost, which was due to a decrease in market prices for fuel and lower consumption resulting from capacity reductions, and lower non-fuel expenses due to cost savings programs and capacity reductions. Impairment charges also had a significant impact in both the current and year-ago periods. The table below highlights that the Company, through its past and on-going cost reduction initiatives, was able to effectively manage costs in non-fuel and other areas.

	Three months ended June 30,				Six months ended June 30,			
			Favorable (unfavorable)				Favorable (unfavorable)	
(In millions)	2009	2008 (Adjusted <sup>(a)</sup> )	\$ Change	% Change	2009	2008 (Adjusted <sup>(a)</sup> )	\$ Change	% Change
<b>UAL Information</b>								
Total revenues	\$ 4,018	\$ 5,371	\$ (1,353)	(25.2)	\$ 7,709	\$ 10,082	\$ (2,373)	(23.5)
Mainline fuel purchase cost	813	2,086	1,273	61.0	1,561	3,702	2,141	57.8
Operating non-cash fuel hedge gains <sup>(b)</sup>	(305)	(187)	118	63.1	(496)	(216)	280	129.6
Operating cash fuel hedge (gains) losses <sup>(b)</sup>	157	(51)	(208)		399	(63)	(462)	
Regional Affiliates fuel expense <sup>(c)</sup>	178	355	177	49.9	342	633	291	46.0
Asset impairment and special charges (see below)	88	2,500	2,412	96.5	207	2,500	2,293	91.7
Severance and other charges (see below)	15	109	94	86.2		115	115	100.0
Other operating expenses	2,965	3,253	288	8.9	5,871	6,546	675	10.3
Nonoperating non-cash fuel hedge gains <sup>(b)</sup>	(135)	(21)	114	NM	(207)	(21)	186	NM
Nonoperating cash fuel hedge (gains) losses <sup>(b)</sup>	95	(1)	(96)		176	(1)	(177)	
Other nonoperating expense <sup>(d)</sup>	132	97	(35)	(36.1)	252	208		