

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Fiscal Year Ended December 31, 1994 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-6033

UAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-2675207  
(IRS Employer  
Identification No.)

Location: 1200 Algonquin Road, Elk Grove Township, Illinois 60007  
Mailing Address: P. O. Box 66919, Chicago, Illinois 60666  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (708) 952-4000

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock (\$.01 par value)	New York, Chicago and Pacific Stock Exchanges
Preferred Stock Purchase Rights	New York, Chicago and Pacific Stock Exchanges
Depository Shares representing interests in Registrant's Series B Preferred Stock, without par value	New York Stock Exchange
6-3/8% Convertible Subordinated Debentures due 2025	New York Stock Exchange

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

NONE

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

Yes  No

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

The number of shares of common stock outstanding as of March 1, 1995 was 12,434,865. The aggregate market value of voting stock held by non-affiliates of the Registrant was \$1,178,423,998 as of March 1, 1995.

Part III information shall be incorporated by reference from the Registrant's definitive proxy statement for its 1995 Annual Meeting of Shareholders or shall be added hereto by an amendment to this Form 10-K, in either case within the time required by the instructions to Form 10-K.

## PART I

### ITEM 1. BUSINESS.

#### Introduction

UAL Corporation ("UAL" or the "Company") was incorporated under the laws of the State of Delaware on December 30, 1968. The world headquarters of the Company are located at 1200 Algonquin Road, Elk Grove Township, Illinois 60007. The Company's mailing address is P.O. Box 66919, Chicago, Illinois 60666. The telephone number for the Company is (708) 952-4000.

The Company is a holding company and its principal subsidiary is United Air Lines, Inc., a Delaware corporation ("United"), which is wholly-owned. United accounted for virtually all of the Company's revenues and expenses in 1994. United is a major commercial air transportation company.

#### Employee Investment Transaction and Recapitalization

On July 12, 1994, the stockholders of the Company approved and adopted the Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994, among UAL, the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers (the "Recapitalization"), that provides an approximately 55% equity and voting interest in the Company to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest will be allocated to individual employee accounts through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the Recapitalization. The entire 55% ESOP voting interest generally will be voted by the ESOP trustee at the direction of, and on behalf of, the employees participating in the ESOPs. In connection with the Recapitalization, holders of the Company's old common stock received approximately \$2.1 billion in cash and the remaining 45% of the equity in the form of Common Stock. Each share of old common stock was converted into one-half share of Common Stock and cash in lieu of fractional shares plus a cash payment of \$84.81. In connection with the Recapitalization, United issued \$370 million of 10.67% debentures due in 2004 and \$371 million of 11.21% debentures due 2014 and the Company issued Series B 12-1/4% preferred stock with an aggregate liquidation preference of \$410 million. In addition, in connection with the consummation of the plan of Recapitalization, the Rights Agreement was amended to provide, among other things, for one right to purchase shares of the Company's Series C Junior Participating Preferred Stock to be attached to and issued with each share of Common Stock, including shares of Common Stock into which the preferred stock held in the ESOPs is convertible.

#### Airline Operations

United has been engaged in the air transportation of persons, property and mail since 1934, and certain of its predecessors began operations as early as 1926. United is the world's largest employee-owned airline and one of the world's largest airlines as measured by operating revenues, revenue passengers and revenue passenger miles flown. At the end of 1994, United served 152 airports in the United States and 29 foreign countries. During 1994, United averaged 2,004 departures daily, flew a total of 108 billion revenue passenger miles, and carried an average of 203,400 passengers per day.

United provides its domestic and international service principally through a system of hub airports at major cities. Each hub provides United flights to a network of spoke destinations as well as flights to the other United hubs. This arrangement permits travelers to fly from point of origin to more destinations without changing carriers. Currently, United flies from four U.S. hubs - Chicago-O'Hare International, Denver

International, San Francisco International, and Dulles International near Washington, D.C. - and is the principal carrier at each of these hubs. United also has a Pacific hub operation at Tokyo Narita Airport. During the last several years, United has strengthened the revenue-generating capability of the hub airports by: (1) adding new spokes (routes to new cities and airports); (2) adding frequency on previously operated route segments; and (3) entering into marketing agreements with smaller U.S. air carriers which serve less populated destinations and with foreign carriers which serve destinations that United could not serve itself for economic or regulatory reasons.

United has developed a route system covering North America, Asia, the South Pacific, Europe and Latin America.

Within North America, East-West traffic is served by nonstop transcontinental flights and by the hubs at Chicago O'Hare and Denver, while North-South traffic on the West Coast is served by the San Francisco hub.

In October 1994, United launched a new service designed to be cost competitive on routes under 750 miles. Named "Shuttle by United", this service achieves lower costs through special work rules and wage rates for pilots, high station and aircraft utilization and minimal service amenities. As of February 1995, Shuttle by United was operating daily 342 flights on 15 routes between 10 West Coast cities and, as of April 1995, expects to be operating 378 flights on 16 routes between 11 cities.

United has a marketing program in North America with selected independent regional air carriers, known as the United Express program, which allows United to increase the number of destinations served by its hub-and-spoke network. Six regional carriers currently participate in the United Express marketing program providing connecting schedules to ten major cities also served by United.

United also has marketing agreements that provide for sharing of the "UA" code on certain routes with three other independent domestic air carriers. Code-sharing allows an airline to expand the marketing of its service brand by using its two-letter designator code in computer reservations systems on a connecting flight operated by another airline on the itinerary. Also, North American traffic is served by code-sharing agreements United has with two independent Caribbean air carriers.

Asian traffic is served from six U.S. cities via the Tokyo hub and with nonstop flights from San Francisco to Hong Kong, Osaka, Seoul and Taipei; from Honolulu to Osaka; and from Los Angeles to Hong Kong and Osaka. South Pacific traffic to Sydney is served from Los Angeles and San Francisco, while traffic to Auckland and Melbourne is served from Los Angeles. In December 1994, service began from Guam and Saipan to Osaka and from Guam to Saipan, further strengthening United's presence at Osaka's new Kansai International Airport which opened September 4, 1994. In addition, United plans to initiate service between the U.S. and Ho Chi Minh City via an intermediate point as soon as government approvals are received. United also has code-sharing agreements with two independent South Pacific air carriers. Based on reports filed with the Department of Transportation, United was the leading U.S. carrier in the Pacific in 1994 in terms of revenue passenger miles and available seat miles. During 1994, United's Pacific Division accounted for 22% of United's revenues.

Service between the U.S. and Europe is provided by: flights from six U.S. cities (five after Seattle service is discontinued in April 1995) to London, with connecting service at London to Amsterdam and Brussels; flights from four U.S. cities to Paris; nonstop service from Dulles to Amsterdam, Brussels, Frankfurt, Madrid, Milan/Rome and Zurich; and nonstop service from Chicago to Frankfurt. European traffic is also served by United's code-sharing agreements with three independent air carriers, including Germany's flag carrier, Lufthansa.

United's comprehensive marketing agreement with Lufthansa

began during 1994. This worldwide alliance involves, among other things, coordination of scheduling, ground handling, frequent flyer programs and other passenger services, and allows, among other things, code-sharing between the two airlines on Transatlantic route segments, and permits United to code-share on Lufthansa flights in certain markets beyond Lufthansa's European gateways. Similarly, the agreement permits Lufthansa to code-share on United flights to certain cities in the U.S. As of February 1995, the list of markets includes 43 city pairs in which United places its code on flight segments operated by Lufthansa and Lufthansa places its code on 30 flight segments operated by United. Code-share segments include North America, Europe, Africa and the Middle East.

Service between the U.S. and Latin America is provided by flights to eleven Latin American cities in nine countries from a number of cities in the U.S. Eight Latin American cities are served nonstop from Miami, two nonstop from Los Angeles, and three from New York-Kennedy. In addition, United expects to commence daily nonstop service in the summer of 1995 to Belo Horizonte, Brazil from Miami. United has code-sharing agreements with two independent air carriers in this region.

Operating revenues attributed to United's foreign operations were approximately \$4.9 billion in 1994, \$4.5 billion in 1993 and \$3.9 billion in 1992.

#### Selected Operating Statistics

The following table sets forth certain selected operating data for United:

	Year Ended December 31				
	1994	1993	1992	1991	1990
Revenue Aircraft Miles (millions) (a)	776	756	695	635	597
Revenue Aircraft Departures	731,284	746,665	721,504	691,402	654,555
Available Seat Miles (millions) (b)	152,193	150,728	137,491	124,100	114,995
Revenue Passenger Miles (millions) (c)	108,299	101,258	92,690	82,290	76,137
Revenue Passengers (thousands)	74,241	69,814	66,692	62,003	57,598
Average Passenger Journey (miles)	1,459	1,450	1,390	1,327	1,322
Average Flight Length (miles)	1,062	1,013	964	918	912
Passenger Load Factor(d)	71.2%	67.2%	67.4%	66.3%	66.2%
Break-even Load Factor(e)	68.2%	65.5%	70.6%	69.7%	66.5%
Average Yield Per Revenue Passenger Mile (in cents) (f)	11.3	11.6	11.3	11.5	11.8
Cost Per Available Seat Mile (in cents) (g)	8.8	8.5	8.9	9.0	9.0
Average Fare Per Revenue Passenger	\$165.61	\$169.00	\$157.17	\$153.17	\$156.12
Average Daily Utilization of each Aircraft (hours:minutes) (h)	8:28	8:30	8:19	8:13	8:14

(a) "Revenue aircraft miles" means the number of miles flown in revenue producing service.

(b) "Available seat miles" represents the number of seats available for passengers multiplied by the number of miles those seats are flown.

(c) "Revenue passenger miles" represents the number of miles flown by revenue passengers.

(d) "Passenger load factor" represents revenue passenger miles divided by available seat miles.

(e) "Break-even load factor" represents the number of revenue passenger miles at which operating earnings would have been zero (based on the actual average yield) divided by available seat miles.

(f) "Average yield per revenue passenger mile" represents the average revenue received for each mile a revenue passenger is carried.

(g) "Cost per available seat mile" represents operating expenses divided by available seat miles.

(h) "Average daily utilization of each aircraft" means the average air hours flown in service per day per aircraft for the total fleet of aircraft.

## Industry Conditions

**Seasonal and Other Factors.** The Company's results of operations for interim periods are not necessarily indicative of those for an entire year, since the air travel business is subject to seasonal fluctuations. United's first and fourth quarter results normally are affected by reduced travel demand in the fall and winter, and United's operations, particularly at its O'Hare and Denver hubs, are often affected adversely by winter weather. In the past, these fluctuations have generally resulted in better operating results for United and, thus, the Company, in the second and third quarters. See Item 8, "Financial Statements and Supplementary Data," for summarized unaudited financial data for the four quarters of 1994 and 1993.

The results of operations in the air travel business have also fluctuated significantly in the past in response to general economic conditions. In addition, the airline business is characterized by a high degree of operating leverage. As a result, the economic environment and small fluctuations in United's yield per revenue passenger mile and cost per available seat mile can have a significant impact on operating results. The Company anticipates that seasonal factors and general economic conditions, in addition to industrywide fare levels, labor and fuel costs, the competition from other airlines, international government policies, and other factors, will continue to impact United's operations.

**Competition and Fares.** The airline industry is highly competitive. In domestic markets, new and existing carriers are free to initiate service on any route. United faces competition from other carriers on virtually every route it serves. In United's domestic markets, these competitors include all of the other major U.S. airlines as well as smaller carriers.

United's marketing strategy is driven by four principal competitive factors: schedule convenience, overall customer service, frequent flyer programs and price. United seeks to attract travelers through convenient scheduling, high quality service, frequent flyer programs designed to reward customer loyalty, and competitive pricing.

During the past few years, certain domestic carriers reorganized their operating cost structures. These carriers, together with more recent entrants to the airline business, and a select number of established domestic carriers, have had cost structures which were significantly lower than United's, and therefore may have been able to operate profitably at lower fare levels. Furthermore, certain carriers in the short haul domestic markets have been able to compete against major air carriers, including United, by operating without as great a reliance upon a hub-and-spoke system. These airlines operate efficiently through strategies such as rapid turnaround of flights on a point-to-point basis. United's response to these competitive pressures has been the consummation of the employee investment transaction which allowed United to lower its labor costs and to introduce the Shuttle by United, a low cost point-to-point service operating in the West Coast.

From time to time, excess aircraft capacity and other factors such as the cash needs of financially distressed carriers

induce airlines to engage in "fare wars." Such factors can have a material adverse impact on the Company's revenues. The Company maintains yield and inventory management programs designed to manage the number of seats offered in various fare categories in order to enhance the effectiveness of fare promotions and maximize revenue production on each flight.

In its international markets, United competes with major U.S. carriers as well as investor-owned, government-subsidized and national flag carriers of foreign countries. Competition in certain international markets is subject to varying degrees of governmental regulation (see "Government Regulation"), and in certain instances United's foreign competitors enjoy subsidies and other forms of governmental support which are not available to U.S. carriers.

United and other U.S. carriers have certain advantages over foreign air carriers in their ability to generate U.S.-origin-destination traffic from their integrated domestic route systems. In addition, foreign carriers are prohibited by law from carrying local passengers between two points in the United States.

However, the U.S. carriers are in many cases constrained from carrying passengers to points beyond designated gateway cities in foreign countries due to limitations in the bilateral air service agreements with such countries or restrictions imposed unilaterally by the foreign governments. To the extent that foreign competitors can offer more connecting services to points beyond these gateway cities, they have an advantage in attracting traffic moving between these foreign points and in attracting traffic moving between such cities and points in the United States. Also, several foreign air carriers have sought and obtained access to the U.S. domestic market through substantial equity investments and code sharing arrangements with U.S. airlines. The comprehensive marketing agreement with Lufthansa has enhanced the Company's competitive position in international markets.

To improve profitability, in late 1994 United announced discontinuation of all service to 15 destinations. This included three European, seven domestic and five Latin America destinations.

No material part of the business of United, or of the Company and its subsidiaries, is dependent upon a single customer or very few customers. Consequently, the loss of the few largest customers of United, or of the Company, would not have a material adverse effect on the Company.

**Airport Access.** United's operations at its principal domestic hub, Chicago-O'Hare International Airport ("O'Hare"), as well as at three other airports, Kennedy, New York LaGuardia ("LaGuardia"), and Washington National ("National"), are limited by the "high density traffic airports rule" administered by the Federal Aviation Administration ("FAA"). Under this rule, take-off and landing rights ("slots") required for the conduct of domestic flight operations may be bought, sold or traded. As of December 31, 1994, United held 754 domestic air carrier slots at O'Hare, 34 at National, 62 at LaGuardia and 11 at Kennedy. In addition, Air Wisconsin, Inc., an indirect wholly-owned subsidiary of the Company, held or owned the beneficial interest in 38 air carrier slots and 118 commuter slots at O'Hare which are either operated by United or leased to United Express carriers serving O'Hare. Under the high density rule carriers are required to relinquish slots to the FAA for reallocation if they fail to meet certain minimum use standards.

Slots for international services at O'Hare are allocated by the FAA seasonally to both U.S. and foreign carriers based upon the carriers' historic operations and requests for additional capacity. The FAA holds a certain number of slots in reserve for this purpose. Slots over that number are provided through the withdrawal of domestic slots from carriers at O'Hare and the reallocation of those slots for international operations of requesting carriers. The FAA prohibits domestic carriers with

more than 100 slots from using another carrier's slots for its own international operations. United has lost as many as 33 daily slots - that is, slots that were being used by United three days or more per week - during a single operating season.

Congress capped for fiscal year 1995 the number of slots that could be withdrawn from U.S. carriers for allocation to international operations. United currently has a sufficient number and distribution of slots it holds at airports subject to the high density rule to support its current operations. There can be no assurance, however, that additional slots sufficient to accommodate otherwise desirable service expansions will be available to United on satisfactory terms in the future. The FAA is preparing a comprehensive review of its slot rules, and rulemaking proceedings proposing changes to the rules are expected to follow. If an alternative to the current system were to be adopted, no assurance can be given that such alternative would preserve United's investment in slots already acquired or that slots adequate for future operations would be available.

United currently has a sufficient number of leased gates and other airport facilities at the cities it serves to meet its current and near term needs. From time to time, expansion by United at certain airports may be constrained by insufficient availability of gates on attractive terms. United's ability to expand its international operations in Asia, the South Pacific, Europe and Latin America is subject to restrictions at many of the airports in these regions, including noise curfews, slot controls and absence of adequate airport facilities.

Mileage Plus Program. United operates a frequent flyer marketing program known as "Mileage Plus" wherein credits are earned by flying on United or using the services of one of the other airlines, credit card companies, car rental agencies and hotels (the "Partners") participating in the Mileage Plus program. Mileage Plus, Inc., a wholly-owned subsidiary of the Company, administers frequent flyer bonus programs for United. The program is designed to enable United to retain and increase the business of frequent travelers. Credits earned under the program may be exchanged at certain plateaus for free travel or service upgrades on United or for use with one or more of the Partners.

In November 1994, United implemented a new marketing program, "Mileage Plus Reward Miles", that can be used by companies as incentives for their employees or customers. Reward Miles certificates can be purchased in three denominations: 60 certificates good for 500 miles each for \$600; 30 certificates good for 1,000 miles each for \$600; and 15 certificates good for 5,000 miles each for \$1,500, subject to a minimum purchase requirement and processing fee. Recipients of Reward Miles can generally have the certificates credited to their Mileage Plus personal accounts.

When an award level is attained, a liability is recorded for the incremental costs of accrued credits under the Mileage Plus program based on the expected redemptions. United's incremental costs include the costs of providing service for an otherwise vacant seat including fuel, meals, certain incremental personnel and ticketing costs. The incremental costs do not include any contribution to overhead or profit. Awards earned after July 1989 have an expiration date three years from date earned. The program also contains certain restrictive provisions, including blackout dates and capacity controlled bookings, which substantially limit the use of the awards on certain flights.

Effective February 10, 1995, United increased the mileage levels for Mileage Plus domestic award travel on a prospective basis requiring 25,000 miles, instead of the previous level, 20,000 miles, for award tickets issued for economy class travel within the continental United States. In addition, United made certain other mileage award level changes as well as a change to a bank-account type of system to track mileage.

Lawsuits challenging these changes are pending in Illinois.

United believes that it has the right to make the aforementioned changes to its program and is defending itself vigorously in the pending litigation. However, an adverse court decision could restrict United's ability to alter award levels now or in the future.

At December 31, 1994 and 1993, it was estimated that the total number of outstanding awards was approximately 7.8 million and 7.7 million, respectively. United estimated that 5.8 million and 5.8 million, respectively, of such awards could be expected to be redeemed and, accordingly, had recorded a liability amounting to \$195 million and \$205 million, respectively, at December 31, 1994 and 1993. The difference between the awards expected to be redeemed and the total awards outstanding is the estimate, based on historical data, of awards (1) which will never be redeemed, (2) which will be redeemed for other than free trips, or (3) which will be redeemed on Partner carriers.

The number of awards used on United were 1.9 million, 1.6 million and 1.4 million for the years 1994, 1993 and 1992, respectively. Such awards represented 9.1%, 7.5% and 6.7% of United's total revenue passenger miles for each period, respectively. With these percentages, seat availability and restrictions on the use of free travel awards, the displacement, if any, of revenue passengers by users of Mileage Plus awards is minimal.

United has agreements with certain air carriers and other parties to utilize the Mileage Plus program and receives and makes payments based on the earning and redemption of awards by Mileage Plus participants with such parties.

Computer Reservations Systems. Travel agents account for a substantial percentage of United's sales. The complexity of the various schedules and fares offered by air carriers has fostered the development of electronic distribution systems that display information relating the fares and schedules of United and other airlines to travel agents and others. The use of such systems has been a key factor in the marketing and distribution of airlines' products and has been subject to regulation by the Department of Justice. See "Government Regulation - General".

Before September 1993, United had an ownership interest in two entities which owned and marketed computer reservation system ("CRS") products and services. In September 1993, The Covia Partnership ("Covia"), a 50%-owned affiliate of United, and The Galileo Company Limited, a 25.6%-owned affiliate of United, combined. In the combination Covia was renamed as Galileo International Partnership ("Galileo"), and a second entity, the Apollo Travel Services Partnership ("ATS"), was formed. These two general partnerships are owned 38% and 77%, respectively, by United through a wholly-owned subsidiary.

Galileo owns the Apollo and Galileo CRSs and markets CRS services worldwide through a system of national distribution companies. ATS, directly or through its wholly-owned subsidiaries, is responsible for marketing, sales and support of Apollo CRS products and services in the United States, Mexico and the Caribbean.

Competition among CRS vendors is intense, and services similar to those offered by ATS and Galileo are marketed by several air carriers and other concerns, both in the United States and worldwide. In the European and Pacific CRS market, various consortia of foreign carriers have formed CRSs to be marketed in countries in which the owning carriers have a substantial presence.

In February 1995, United announced that it is introducing a new travel agency commission payment plan that offers a maximum of \$50 for round-trip or multiple stopover domestic tickets and a maximum of \$25 for one-way domestic tickets.

Lawsuits have been filed challenging the reductions by United and other carriers in the commissions paid to travel

agencies for ticketing of air transportation alleging, among other things, a conspiracy to restrain trade among the carriers in violation of antitrust laws. United believes it has the right to make the aforementioned changes to such commissions, and will defend itself vigorously in the pending litigation.

#### Government Regulation

General. All carriers engaged in air transportation in the United States, including United, are subject to regulation by the Department of Transportation ("DOT") and the Federal Aviation Administration ("FAA") under federal aviation laws. The DOT has authority to regulate certain economic and consumer protection aspects of air transportation. It is empowered to issue certificates of public convenience and necessity for domestic air transportation upon a carrier's showing of fitness; to authorize the provision of foreign air transportation by U.S. carriers; to prohibit unjust discrimination; to prescribe forms of accounts and require reports from air carriers; to regulate methods of competition, including the provision and use of computerized reservation systems; and to administer regulations providing for consumer protection, including regulations governing the accessibility of air transportation facilities for handicapped individuals. United's operations require certificates of public convenience and necessity issued by the DOT (or specific exemptions therefrom), and an air carrier operating certificate and related operations specifications issued by the FAA.

United's operations also require licenses issued by the aviation authorities of the foreign countries United serves. Foreign aviation authorities may from time to time impose a greater degree of economic regulation than exists with respect to United domestic operations.

In international markets, United competes against foreign and U.S. carriers that have been granted authority to provide scheduled passenger and freight service between points in the United States and various overseas destinations. In connection with its international services, United is required to file with the DOT and observe tariffs establishing the fares and rates charged and the rules governing the transportation provided. In certain cases, fares, rates and schedules require the approval of the DOT and the relevant foreign governments.

In addition, United's operating authorities in international markets are governed by the aviation agreements between the United States and foreign countries. United's expansion into many foreign markets is presently precluded by lack of an aviation agreement allowing such service. United continually urges the U.S. Government to negotiate increased access to such restricted markets.

Shifts in United States or foreign government aviation policies can lead to the alteration or termination of existing air service agreements that the U.S. has with other governments, which could diminish the value of United's international route authority. While such events are generally the subject of inter-governmental negotiations, there are no assurances that United's operating rights under the bilateral aviation agreements and DOT-issued certificates of public convenience and necessity can be preserved in such cases.

The DOT and the U.S. Congress have engaged from time to time in various regulatory and legislative initiatives, respectively, with respect to CRS activities and issues, such as the level of booking fees, host versus non-host functionality, mandatory dehosting, travel agency connection of third-party hardware and software to a CRS, terms of the contracts between CRS vendors and travel agencies, continued airline ownership of CRS vendors, and the ability to access multiple CRS systems from a single computer terminal. New regulatory or legislative initiatives in many of these areas, if enacted, could have a material adverse effect upon CRS vendors in general and ATS and United in particular.

Safety. The FAA has regulatory jurisdiction over flight

operations generally, including equipment, ground facilities, maintenance, communications and other matters. In order to ensure compliance with its operational and safety standards, the FAA requires air carriers to obtain operating, airworthiness and other certificates.

United's aircraft and engines are maintained in accordance with the standards and procedures recommended and approved by the manufacturers and the FAA. For all of its engines, United utilizes a "condition monitoring" maintenance program so that the schedule for engine removals and overhauls is based on performance trend monitoring of engine operating data. In addition, all engines contain time-limited components, each of which has a maximum amount of time (measured by operating hours) or a maximum number of operating cycles (measured by takeoffs and landings) after which the component must be removed from the engine assembly and overhauled or scrapped. Similarly, United's FAA-approved maintenance program specifies the number of hours or operating cycles between inspections and overhauls of the airframes and their component parts. The nature and extent of each inspection and overhaul is specifically prescribed by the approved maintenance program.

From time to time, the FAA issues airworthiness directives ("ADs") which require air carriers to undertake inspections and to make unscheduled modifications and improvements on aircraft, engines and related components and parts. The ADs sometimes cause United to incur substantial, unplanned expense and occasionally aircraft or engines must be removed from service prematurely in order to undergo mandated inspections or modifications on an accelerated basis. The issuance of any particular AD may have a greater or lesser impact on United compared to its competitors depending upon the equipment covered by the directive.

Since 1988 the airlines, in cooperation with the FAA, have been engaged in an in-depth review of the adequacy of existing maintenance procedures applicable to older versions of most of the aircraft types in general use in the airline industry. These include certain of the Boeing and Douglas aircraft used by United. As a part of this program, the FAA has issued ADs requiring interim inspections and remedial maintenance procedures. While certain of these aging aircraft ADs have necessitated unscheduled removals from service and increased maintenance costs, compliance is not expected to have a material adverse impact on United's costs or operations.

Both the DOT and the FAA have authority to institute administrative and judicial proceedings to enforce federal aviation laws and their own regulations, rules and orders. Both civil and criminal sanctions may be assessed for violations.

Environmental Regulations. The Airport Noise and Capacity Act of 1990 ("ANCA") requires the phase-out by December 31, 1999 of Stage 2 aircraft operations, subject to certain waivers. The FAA has issued final regulations which would require carriers to modify or reduce the number of Stage 2 aircraft operated by 25% by December 31, 1994, 50% by December 31, 1996, 75% by December 31, 1998 and 100% by December 31, 1999. Alternatively, a carrier could satisfy compliance requirements by operating a fleet that is at least 55% Stage 3 by December 31, 1994, 65% Stage 3 by December 31, 1996, 75% Stage 3 by December 31, 1998 and 100% Stage 3 by December 31, 1999. At December 31, 1994, United operated 374 Stage 3 aircraft representing 69% of United's total operating fleet, and thus is in compliance with these regulations.

The ANCA recognizes the rights of operators of airports with noise problems to implement local noise abatement procedures so long as such procedures do not interfere unreasonably with inter state or foreign commerce or the national air transportation system. ANCA generally requires FAA approval of local noise restrictions on Stage 3 aircraft first effective after October 1990, and establishes a regulatory notice and review process for local restrictions on Stage 2 aircraft first proposed after

October 1990. While United has had sufficient scheduling flexibility to accommodate local noise restrictions imposed to the present, United's operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

Federal Aviation Regulation Part 150, which was issued pursuant to Title I of the Aviation Safety and Noise Abatement Act of 1979, provides limited funding to airport operators to formulate noise compatibility programs, and established procedures through which such programs may be approved by the FAA. This rule may encourage the consideration of additional local aircraft and airport usage restrictions.

The Environmental Protection Agency regulates operations, including air carrier operations, which affect the quality of air in the United States. United has made all necessary modifications to its operating fleet to meet emission standards issued by the Environmental Protection Agency ("EPA").

Federal and state environmental laws require that underground storage tanks (USTs) be upgraded to new construction standards and equipped with leak detection by December 22, 1998. These requirements are phased into effect based on the age, construction and use of existing tanks. United operates a number of underground and above ground storage tanks throughout its system, primarily used for the storage of fuels and deicing fluids. A program for the removal or upgrading of USTs and remediation of any related contamination has been ongoing since 1987. Compliance with these federal and state UST regulations is not expected to have a material adverse effect on United's financial condition.

United has been identified by the EPA as a potentially responsible party with respect to Superfund sites involving soil and groundwater contamination at the Bay Area Drum Site in San Francisco, California, the Chemsol, Inc. Site in Piscataway, New Jersey, the Petrochem/Ekotek Site in Salt Lake City, Utah, the Monterey Park Site at Monterey Park, California, the West Contra Costa Sanitary Landfill Site in Richmond, California, and the Douglasville Site in Berks County, Pennsylvania. Because of the limited nature of the volume of pollutants allegedly contributed by United to the above Superfund sites, the outcome of these matters is not expected to have a material adverse effect on United's financial condition.

United is aware of soil and groundwater contamination present on its leaseholds at several U.S. airports, with the most significant locations being San Francisco International Airport, John F. Kennedy International Airport in New York, Seattle Tacoma International Airport and Stapleton International Airport in Denver (which closed on February 28, 1995). United is investigating these sites, assessing its obligations under applicable environmental regulations and lease agreements and, where appropriate, remediating these sites. Remediation of these sites, for which United may be responsible, is not expected to have a material adverse effect on United's financial condition.

Other Government Matters. Besides the DOT and the FAA, other federal agencies with jurisdiction over certain aspects of United's operations are the Department of Justice (Antitrust Division and Immigration and Naturalization Service), the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, the Department of Labor (the Office of Federal Contract Compliance Programs of the Employment Standards Administration), the National Labor Relations Board, the National Mediation Board, the National Transportation Safety Board, the Treasury Department (U.S. Customs Service), the Federal Communications Commission (due to use of radio facilities by aircraft), and the United States Postal Service (carriage of domestic and international mail). In connection with its service to cities in other countries, United is subject to varying degrees of regulation by foreign governments.

In time of war or during an unlimited national emergency or

civil defense emergency declared by the President or the Congress of the United States, or in a situation short of this if approved by the Director of the Office of Emergency Preparedness, the Commander in Chief, Military Airlift Command, or any official designated by the President to coordinate all civil and defense mobilization activities, United may be required to provide airlift services to the Military Airlift Command under the Civil Reserve Air Fleet Program. As of February 1, 1995, up to 34 B747 and 12 DC-10 aircraft operated, or to be operated by United could be subject to such requirements.

#### Fuel

United's results of operations are significantly affected by the price and availability of jet fuel. Based on 1994 fuel consumption, every \$.01 change in the average annual price-per-gallon of jet fuel caused a change of approximately \$27 million in United's annual fuel costs. The table below shows United's fuel expenses, fuel consumption, average price per gallon and fuel as a percent of total operating expenses for annual periods from 1990 through 1994:

	1994	1993	1992	1991	1990
Fuel expense, including tax (in millions)	\$1,585	\$1,718	\$1,679	\$1,674	\$1,811
Gallons consumed (in millions)	2,697	2,699	2,529	2,338	2,253
Average cost per gallon (in cents)	58.8	63.6	66.4	71.6	80.4
% of total operating expenses	12%	13%	14%	15%	18%

United's average fuel cost per gallon in 1994 was 7.5% lower than in 1993. Changes in fuel prices are industry-wide occurrences that benefit or harm United's competitors as well as United. Accordingly, lower fuel prices may be offset by increased price competition and lower revenues for all air carriers, including United. There can be no assurance that United will be able to increase its fares in response to any increases in fuel prices in the future.

In order to assure adequate supplies of fuel and to provide a measure of control over fuel costs, United ships fuel on major pipelines, maintains fuel storage facilities, and trades fuel to locations where it is needed. In 1994, almost all of United's fuel was purchased under contracts with major U.S. and international oil companies. Most of these contracts are terminable by United on short notice. United also purchases minor volumes of fuel on the spot market at some domestic locations. In addition, United purchases foreign fuel on a spot basis from the Middle East, Caribbean and Far East and delivers this to the West Coast. Although United has not experienced any problem with fuel availability in the past few years and does not anticipate any in the near future, it is impossible to predict the future availability of jet fuel. If there were major reductions in the availability of jet fuel, United's business would be adversely affected.

The Omnibus Budget Reconciliation Act of 1993 imposes a 4.3 cent per gallon tax on commercial aviation jet fuel purchased for use in domestic operations. This new fuel tax is scheduled to become effective October 1, 1995 and continue until October 1, 1998. United, through the Air Transportation Association, is actively lobbying for repeal of this tax.

#### Insurance

United carries liability insurance of a type customary in the air transportation industry, in amounts which it deems

adequate, covering passenger liability, public liability and property damage liability. Insurance is subject to price fluctuations from time to time. The amount recoverable by United under aircraft hull insurance covering all damage to its aircraft is not subject to any deductible amount in the event of a total loss. In the event of a partial loss, however, such recovery is subject to a per-occurrence deductible of \$1,000,000 for B747s, B757s, B767s and DC10s, \$750,000 for B737-300s, B737-500s, and A320s, and \$500,000 for all other aircraft.

Employees - Labor Matters

On December 31, 1994, the Company and its subsidiaries had approximately 77,900 employees, of which 76,068 were employed by United (approximately ten percent of whom are part-time employees) and 1,160 were employed by ATS. Approximately 62% of United's employees were represented by various labor organizations.

The employee groups, number of employees, labor organization and current contract status for each of United's major collective bargaining groups as of December 31, 1994 are as follows:

Employee Group	Number of Employees	Union	Contract Open For Amendment
Mechanics, ramp servicemen & other ground employees	22,464	IAM	July 12, 2000
Flight attendants	16,906	AFA	April 1, 1996
Pilots	7,708	ALPA	April 12, 2000 *

\* However, certain provisions regarding Shuttle by United become amendable at a later date.

United's relations with these labor organizations are governed by the Railway Labor Act. Under this Act, collective bargaining agreements between United and these organizations become amendable upon the expiration of their stated term. If either party wishes to modify the terms of any such agreement, it must notify the other party before the contract becomes amendable. After receipt of such notice, the parties must meet for direct negotiations and, if no agreement is reached, either party may request that a mediator be appointed. If no agreement is reached, the National Mediation Board may determine, at any time, that an impasse exists and may proffer arbitration. Either party may decline to submit to arbitration. If arbitration is rejected, a 30-day "cooling off" period commences, following which the labor organization may strike and the airline may resort to "self-help," including the imposition of its proposed amendments and the hiring of replacement workers.

ITEM 2. PROPERTIES.

Flight Equipment

As of December 31, 1994, United's operating aircraft fleet totaled 543 jet aircraft, of which 228 were owned and 315 were leased. These aircraft are listed below:

Aircraft Type	Average No. of Seats	Owned	Leased*	Total	Average Age (Years)
A320-200	144	--	21	21	1
B727-222A	147	50	25	75	16

B737-200	109	45	--	45	26
B737-200A	109	--	24	24	15
B737-300	126	10	91	101	6
B737-500	108	27	30	57	3
B747-100	393	18	--	18	23
B747-200	352	2	7	9	16
B747-400	400	3	21	24	3
B757-200	188	33	55	88	3
B767-200	168	19	--	19	12
B767-300ER	211	3	20	23	2
DC10-10	287	18	13	31	19
DC10-30	298	--	8	8	15
TOTAL OPERATING FLEET		228	315	543	10
		===	===	===	==

\* United's aircraft leases have initial terms of 4 to 26 years, and expiration dates range from 1996 through 2018. Under the terms of leases for 306 of the aircraft in the operating fleet, United has the right to purchase the aircraft at the end of the lease term, in some cases at fair market value and in others at fair market value or a percentage of cost.

As of December 31, 1994, 73 of the 228 aircraft owned by United were encumbered under transaction agreements.

In 1994 United took delivery of 18 new aircraft. United acquired two B747-400s and sixteen A320-200s.

In addition, United retired nineteen widebody aircraft in 1994, ten DC10-10s and nine B747-SPs.

As of December 31, 1994, United had taken delivery of all aircraft on order, with the exception of 34 B777-200 aircraft, which are scheduled to be delivered between 1995 and 1999, and United has arrangements with Airbus and A320 engine manufacturer International Aero Engines to lease an additional 29 A320-200 aircraft, which are scheduled for delivery through 1998. The following table sets forth United's firm aircraft orders, options and expected delivery schedules as of December 31, 1994:

Order Status	Aircraft Type	Number	To Be Delivered	Delivery Rate
Firm Orders	B777-200	34	1995-1999	0-3 per month
Total-Firms		34*		
Options**	A320-200	50	1996-2001	0-3 per month
	B737***	162	1997-2002	0-5 per month
	B747-400	49	1997-2003	0-2 per year
	B757-200	39	1997-1999	0-2 per month
	B767-300ER	8	1997-1999	0-1 per month
	B777-200	34	1998-2000	0-1 per month
Total-Options		342		

\* In addition, United has agreed to lease an additional 29 A320-200 aircraft. Deliveries of these aircraft are expected to occur between 1995 and 1998.

\*\* Rate of deliveries with respect to option aircraft assumes that all options are exercised and that all orders subject to reconfirmation are confirmed by United.

\*\*\* Models 300, 400 and 500, at United's discretion.

Ground Facilities

In the vicinity of O'Hare, United owns a 106 acre complex consisting of over one million square feet of office space for its world headquarters, a computer facility and a training center. United operates reservation centers in or near eight U.S. cities - Chicago, Denver, Detroit, Honolulu, Los Angeles, San Francisco, Seattle and Washington, D.C. United also operates 140 city ticket offices in the U.S., plus offices in the Pacific and European countries served by United.

United's Maintenance Operation Center ("MOC") at San Francisco International Airport occupies 144 acres of land, three million square feet of floor space and 12 aircraft hangar docks, under leases expiring in 2013. Most major aircraft and component maintenance for United's fleet occurs at the MOC, including aircraft acceptance and flight testing, and the installation, testing and repairing of engines, electronics, and interior fittings. United also has a major facility at the Oakland, California airport which is dedicated to airframe maintenance and which includes a hangar with sufficient space to accommodate maintenance work on four wide-bodied aircraft simultaneously. As of December 31, 1994, United employed more than 11,000 mechanics, inspectors, engineers, and maintenance support personnel at the MOC and over 1,600 at the Oakland facility. United also has line aircraft maintenance employees and facilities at 62 domestic and international locations.

In March 1994, United opened a new major aircraft maintenance and overhaul facility in Indianapolis, operating under a lease with the Indianapolis Airport Authority which expires November 30, 2031. Initially, the Indianapolis Maintenance Center ("IMC") is being used for maintenance of Boeing 737 aircraft. In December 1994, United announced that it will significantly expand its operations at IMC by maintaining its fleets of Boeing 757 and 767 aircraft at the facility in the future. Construction of certain Boeing 737 airframe facilities is still in process and construction of facilities for the other fleet types will begin in 1995. In connection with incentives received, United has agreed to reach an \$800 million capital spending target and employ at least 7,500 individuals.

On February 28, 1995, United relocated its Denver hub operations to the new Denver International Airport. Under a new 30-year lease and use agreement, expiring in 2023, United eventually will occupy 44 gates and over one million square feet of exclusive terminal building space. The new airport is located northeast of Stapleton International Airport and approximately 25 miles from downtown Denver. Upon the opening of the new airport, Stapleton will be closed to all aircraft operations. United's flight training center will continue to be located near Stapleton and is under lease, including options to extend, until 2018. This flight training center consists of four buildings with a total of 300,000 square feet located on 22 acres of land adjoining Stapleton. The flight training center accommodates 26 flight simulators and over 90 computer-based training stations, as well as cockpit procedures trainers, autoflight system trainers and emergency evacuation trainers.

United has entered into various leases relating to its use of airport landing areas, gates, hangar sites, terminal buildings and other airport facilities in most of the municipalities it serves. Major leases expire at O'Hare in 2018, San Francisco in 2011 and Washington Dulles in 2015. In many cases United has constructed, at its expense, the buildings it occupies on its leased properties. In general, buildings and fixtures constructed by United on leased land are the property of the lessor upon the expiration of such leases. United also has leased and improved ticketing, sales and general office space in the downtown and outlying areas of most of the larger cities in its system. United believes its facilities are suitable and adequate for its current requirements. United will continue to acquire equipment and facilities as necessary to support its airline operations.

Transfers of Assets

In October 1994, UAL announced an agreement to sell for \$119 million ten Dash 8 aircraft and spare parts owned by Air Wisconsin, Inc. to Mesa Airlines, and United agreed to a ten year extension of its United Express marketing agreement with Mesa Airlines. Two of the sales were completed in January 1995, four more of the sales were completed in February 1995, and the rest should take place by the end of the first quarter of 1995.

### ITEM 3. LEGAL PROCEEDINGS.

The Company is involved from time to time in legal proceedings incidental to the ordinary course of its business. Such proceedings include claims brought by and against the Company or its subsidiaries including claims seeking substantial compensatory and punitive damages. Such claims arise from routine commercial disputes as well as incidents resulting in bodily injury and damage to property. The Company believes that the potential liabilities in all of the bodily injury and property damage actions are adequately insured and none of the other actions are expected to have any material adverse effect on the Company or its subsidiaries.

#### Shareholder Suits

1. Fry, et al. v. UAL Corp. -- On February 21, 1990, a class action complaint was filed in the U.S. District Court for the Northern District of Illinois, Eastern Division, by several UAL shareholders, on behalf of the class of UAL shareholders who sold puts or common stock from October 29, 1987 through December 8, 1987. The complaint alleges that UAL committed common law fraud and violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and the Illinois Deceptive Trade Practices Act by falsely announcing that it intended to distribute proceeds of the sales of non-core businesses as a special dividend, when in fact it was negotiating a cash tender offer for the buyback of shares. Plaintiffs seek unspecified damages, plus fees and other costs. UAL filed a motion for summary judgment which is fully briefed. No trial date has been set.

2. Kaufman v. UAL Corporation and Krasner, et al. v. UAL -- The Company, together with certain officers and directors of the Company and the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers, are parties to two stockholder actions filed in the Court of Chancery of the State of Delaware, New Castle County, captioned Kaufman v. Wolf, C.A. No. 13312, and Krasner v. UAL Corp., C.A. No. 13316 (the "Shareholder Actions"). On June 17, 1994, plaintiffs in these two actions jointly filed an Amended Complaint. The Amended Complaint alleged, among other things, that the Proxy Statement issued by the Company in connection with the proposed plan of Recapitalization of the Company, on which common stockholders voted on July 12, 1994, was false and misleading, and further alleged that the proposed plan of Recapitalization failed to maximize shareholder value. The Amended Complaint sought, among other things, a preliminary and permanent injunction against consummation of the Plan of Recapitalization.

On June 21, 1994, plaintiffs filed a motion for preliminary injunction to enjoin consummation of the Recapitalization. On July 1, 1994, the Company and the plaintiffs entered into a memorandum of understanding relating to a settlement of the Shareholder Actions. On January 24, 1995, following due notice to class member shareholders, the court, after a fairness hearing approved the settlement, dismissed the complaint and awarded plaintiffs' counsel \$5.1 million in costs and attorneys' fees.

#### Noise Proceedings

United may be affected by legal proceedings brought by owners of property located near certain airports. Plaintiffs generally seek to enjoin certain aircraft operations and/or to obtain damages against airport operators and air carriers as a

result of alleged aircraft noise or air pollution. Any liability or injunctive relief imposed against airport operations or air carriers could result in higher costs to United and other air carriers.

The ultimate disposition of the matters discussed in Item 3 hereof, and other claims affecting the Company, are not expected to have a material adverse effect on the Company's financial condition or results of operations.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of security holders of the Company during the fourth quarter of 1994.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the executive officers of the Company is as follows:

Name	Age	Office Held Since	Position and Office
Gerald Greenwald	59	1994	Chairman and Chief Executive Officer
John A. Edwardson	45	1994	President
Stuart I. Oran	44	1994	Executive Vice President - Corporate Affairs and General Counsel
Joseph R. O'Gorman, Jr.	51	1991	Executive Vice President
James M. Guyette	50	1988	Executive Vice President
Paul G. George	43	1988	Senior Vice President - People of United Air Lines, Inc. ("United")
Douglas A. Hacker	39	1994	Senior Vice President - Finance

Mr. Greenwald has been Chairman and Chief Executive Officer of the Company and United since July 12, 1994. He previously served as Chairman of Tatra Truck Company, Czech Republic (a truck manufacturer) from March 1993 until July 1994. Mr. Greenwald served as Vice Chairman of the Chrysler Corporation (an automotive manufacturer) from 1989 to 1990. Prior thereto, he was employed by Chrysler for approximately 10 years in a number of senior executive positions. In 1990, Mr. Greenwald was selected to serve as chief executive officer of United Employee Acquisition Corp. in connection with the proposed 1990 employee acquisition of the Company. Following the termination of that proposed transaction, Mr. Greenwald served as a managing director of Dillon Read & Co. Inc. (an investment banking firm) in 1991 and as president of Olympia & York Developments Limited (a real estate development company that was in the process of a financial restructuring at the time Mr. Greenwald agreed to serve as president and certain subsidiaries of which filed for protection under federal bankruptcy laws in connection with such restructuring) from April 1992 until March 1993.

Mr. Edwardson has been President of the Company and United and a member of the board of directors since July 12, 1994. Prior to joining the Company, he served as Executive Vice President and Chief Financial Officer of Ameritech Corporation (a telecommunications company) from June 1991 to July 1994. In July 1990, Mr. Edwardson was elected to serve as Chief Financial Officer of United Employee Acquisition Corp. in connection with

the proposed 1990 employee acquisition of the Company. Previously, he served as Executive Vice President and Chief Financial Officer of Imcera Group, Inc. (a chemical and mineral company), where he was responsible for strategic planning, human resources, and legal and financial functions from November 1988 to July 1990. Mr. Edwardson also served as Executive Vice President and Chief Financial Officer of Northwest Airlines, Inc. (an air carrier) from 1985 to 1988.

Mr. Oran has been Executive Vice President - Corporate Affairs and General Counsel of the Company and United since July 12, 1994. Prior to joining the Company, he was a corporate partner with Paul, Weiss, Rifkind, Wharton and Garrison, a law firm he joined in 1974.

Mr. O'Gorman has been Executive Vice President of the Company since February 18, 1991. He has been Executive Vice President - Operations of United since April 30, 1992. He had served as Executive Vice President - Flight Services of United since February 25, 1991. Previously, Mr. O'Gorman served as Executive Vice President - Operations of USAir Group (an air carrier) from August 1990 until February 1991. He served as United's Senior Vice President - Maintenance Operations from June 1988 to August 1990.

Mr. Guyette has been Executive Vice President of the Company since January 28, 1988. He has been Executive Vice President - Marketing and Planning of United since April 30, 1992.

Mr. George has been Senior Vice President - People of United since April 11, 1988.

Mr. Hacker has been Senior Vice President - Finance and chief financial officer of the Company since July 12, 1994. He has been Senior Vice President - Finance of United since March 8, 1993. Prior to joining United, Mr. Hacker served in various senior management positions at American Airlines, Inc. (an air carrier) since July 1987 including Vice President - Corporate and Fleet Planning, Vice President - Corporate Services, Vice President and Treasurer and Vice President - Corporate Finance and Development.

There are no family relationships among the executive officers of the Company. The executive officers of the Company serve at the discretion of the board of directors.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock, is traded principally on the New York Stock Exchange (the "NYSE") under the symbol UAL, and are also listed on the Chicago Stock Exchange and the Pacific Stock Exchange. The following sets forth for the periods indicated the high and low sales prices per share of the Company's old common stock outstanding immediately prior to the Recapitalization and of the Common Stock on the NYSE Composite Tape.

#### OLD COMMON STOCK:

	High	Low
1993:		
1st quarter	\$132 1/4	\$110 3/4
2nd quarter	149 3/4	118
3rd quarter	150 1/2	121 5/8
4th quarter	155 1/2	135 7/8
1994:		
1st quarter	150	123 3/4
2nd quarter	130 1/2	115 1/8
3rd quarter	130 1/2	125 1/2
(through July 12)		

## COMMON STOCK:

1994:		
3rd quarter	105	86 3/4
(from July 13)		
4th quarter	96 7/8	83 1/8

The Recapitalization was consummated on July 12, 1994. In connection with the Recapitalization, holders of the Company's old common stock received one-half of a share of Common Stock and \$84.81 for each share of old common stock. As a result of the foregoing, the price per share of old common stock is not comparable to the price per share of the Common Stock.

No dividends have been declared on the Company's common stock since 1987. The payment of any future dividends on the Common Stock and the amount thereof will be determined by the Board of Directors of the Company in light of earnings, the financial condition of the Company and other relevant factors. At March 1, 1995, based on reports by the Company's transfer agent for the Company's Common Stock, there were 15,779 common stockholders of record (which includes 4,949 holders of record of the Company's old common stock, \$5 par value, who have not tendered their stock certificates as the result of the Recapitalization).

## ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31				
	1994	1993	1992	1991	1990
	(In Millions, Except Per Share)				
Operating revenues	\$13,950	\$13,325	\$11,853	\$10,706	\$10,296
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	77	(31)	(417)	(332)	94
Extraordinary loss on early extinguishment of debt, net of tax	-	(19)	-	-	-
Cumulative effect of accounting changes	(26)	-	(540)	-	-
Net earnings (loss)	51	(50)	(957)	(332)	94
Per share amounts:					
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	0.76	(2.64)	(17.34)	(14.31)	4.33
Extraordinary loss on early extinguishment of debt	-	(0.76)	-	-	-
Cumulative effect of accounting changes	(1.37)	-	(22.41)	-	-
Net earnings (loss)	(0.61)	(3.40)	(39.75)	(14.31)	4.33
Total assets at year end	11,764	12,840	12,257	9,876	7,983
Long-term debt and capital lease obligations, including current portion, and redeemable preferred stock at year end	4,077	3,735	3,783	2,533	1,329

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## EMPLOYEE INVESTMENT TRANSACTION AND RECAPITALIZATION

On July 12, 1994, the shareholders of UAL Corporation ("UAL") approved a plan of recapitalization that provides an approximately 55% equity and voting interest in UAL to certain employees of United Air Lines, Inc.

("United") in exchange for wage concessions and work-rule changes. The employees' equity interest will be allocated to individual employee accounts through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization. Since the ESOP shares will be allocated over time, the current ownership interest held by employees is substantially less than 55%. The entire 55% ESOP voting interest is currently exercisable, which generally will be voted by the ESOP trustee at the direction of, and on behalf of, the employees participating in the ESOPs. The employee interest may increase to up to 63%, depending on the average market value of UAL common stock in the year after the transaction closed. Based on the average market value of UAL common stock through February 23, 1995, the market value of UAL common stock for the remainder of the measuring period would have to average at least \$204 for any adjustment to be made in the ESOP percentage interest. Pursuant to the terms of the plan of recapitalization, holders of old UAL common stock received approximately \$2.1 billion in cash and the remaining 45% (subject to a possible reduction to not less than 37%) of the equity in the form of new common stock. The conversion of certain convertible securities and the exercise of certain stock options could result in additional cash distributions of up to \$428 million. Distributions on account of stock option exercises would be reduced by cash proceeds received on the exercise of the options. In connection with the recapitalization, United issued \$370 million of 10.67% debentures due in 2004 and \$371 million of 11.21% debentures due in 2014 and UAL issued Series B 12 1/4% preferred stock with an aggregate liquidation preference of \$410 million. Approximately \$169 million of pretax costs were incurred in connection with the recapitalization, including transaction costs and severance payments to certain former United employees.

The employee investment transaction has put in place a lower cost structure which allows United to compete more effectively against low-cost carriers and improve UAL's long-term financial viability. The transaction also facilitated the creation of a low-cost short-haul operation, Shuttle by United ("Shuttle"), which began operating on October 1, 1994. This service achieves lower costs through special work rules and wage rates for pilots, high station and aircraft utilization and minimal service amenities. Based on its initial operations, the Shuttle has been well accepted by the marketplace and its costs are within expectations. As a result, United expects the Shuttle will be able to sustain a competitive presence in the short-haul markets against low cost competitors.

As a result of the recapitalization, UAL's capital structure became more highly leveraged, as UAL's equity decreased by approximately \$1.7 billion and debt increased \$741 million at the time of the transaction. With the increase in debt and reduction in equity resulting from the recapitalization, UAL's exposure to certain industry risks could be greater than might have been the case prior to the recapitalization. In addition, the transaction resulted in new labor agreements for certain employee groups and a new corporate governance structure, which was designed to achieve balance between the various employee-owner groups and public shareholders. The new labor agreements and governance structure could inhibit management's ability to alter strategy in a volatile, competitive industry by restricting certain operating and financing activities, including the sale of assets and the issuance of equity securities and the ability to furlough employees. UAL's ability to react to competition may be hampered further by the fixed long-term nature of these various agreements. The success of the recapitalization is dependent upon a number of factors, including the state of the competitive environment in the airline industry, competitive responses to United's efforts, United's ability to achieve enduring cost savings through productivity improvements and the renegotiation of labor agreements at the end of the investment period.

The employee investment transaction and recapitalization had an initial adverse effect on UAL's cash position as a result of the cash consideration paid to holders of old UAL common stock and certain other recapitalization costs. However, the transaction is expected to result in an improvement to cash flow through the term of the employee investment. This improvement is expected to result from the employee concessions which reduce cash expenses, partially offset by the additional interest expense on the debentures, dividends on the preferred stock and foregone interest on the cash consideration distributed to holders of old UAL common stock.

The employee investment transaction will reduce UAL's cash operating expenses due to wage and benefit reductions and work-rule changes. These cash expense reductions will be offset by non-cash compensation charges for

stock periodically committed to be released to employees under the ESOPs, additional interest expense on the debentures and foregone interest on the cash distributed to shareholders. The amount of the non-cash compensation expense cannot be predicted, because it is based on the future fair value of UAL's stock.

The ESOPs consist of two tax-qualified plans, as defined under the Internal Revenue Code, and one plan that is not tax qualified. Tax deductions related to the ESOPs are partially based on factors unrelated to the future fair value of UAL's stock. Accordingly, it is anticipated that tax provisions (credits) in future periods could be impacted by permanent differences between tax deductions and book expenses related to the ESOPs. Additionally, timing differences between tax deductions and book expenses related to the ESOPs could impact the balance of the net deferred tax asset in the future.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity -

UAL's total of cash and cash equivalents and short-term investments was \$1.532 billion at December 31, 1994, compared to \$1.828 billion at December 31, 1993. Cash flows during the year were considerable. The most significant was the distribution of \$2.1 billion to holders of old UAL common stock under the recapitalization, which was partially funded by net proceeds of \$735 million on the issuance of debentures and \$400 million on the issuance of Series B preferred stock. Subsequent to issuance, UAL repurchased \$87 million of the Series B preferred stock to be held in treasury. Other financing activities included principal payments under debt and capital lease obligations of \$305 million and \$87 million, respectively, and a \$46 million reduction of short-term borrowings. Cash flows from operating activities amounted to \$1.334 billion. Investing activities resulted in cash flows of \$198 million.

In 1994, United took delivery of 16 A320 aircraft and two B747 aircraft. With the exception of one B747, these aircraft were acquired under operating leases. Property additions, including the B747 and spare parts, amounted to \$636 million. Property dispositions, including the sale and leaseback of the B747 aircraft purchased in 1994, five B737 aircraft and one B757 aircraft, resulted in proceeds of \$432 million.

As of December 31, 1994, UAL had a working capital deficit of \$1.714 billion as compared to \$1.183 billion at December 31, 1993. Historically, UAL has operated with a working capital deficit and, as in the past, UAL expects to meet all of its obligations as they become due.

During 1993, UAL's balance of cash and cash equivalents decreased \$85 million while short-term investments increased \$430 million. Operating activities resulted in cash flows of \$858 million, which more than offset cash used for net property additions and financing activities. Investing activities, including the short-term investment increase and net property additions, used \$740 million. Property additions amounted to \$1.496 billion, including the purchase of 34 aircraft, and property dispositions resulted in proceeds of \$1.165 billion, including the sale and leaseback of 18 aircraft. In all, 10 B737 aircraft, 16 B757 aircraft, four B747 aircraft, eight B767 aircraft and five A320 aircraft were acquired, including purchases and leases. Financing activities used \$203 million. Reductions in short-term borrowings, capital lease obligations and long-term debt, including the early extinguishment of \$500 million of senior subordinated notes, more than offset cash proceeds from the issuance of Series A preferred stock and long-term debt.

Operating activities in 1992 generated cash flows of \$575 million, which more than offset cash used for net additions to property, resulting in a \$306 million increase in cash, cash equivalents and short-term investments. During 1992, \$2.519 billion was spent on property additions, principally aircraft. United acquired 25 B737 aircraft, 25 B757 aircraft, 10 B767 aircraft and six B747 aircraft in 1992. Of these, 18 aircraft were purchased, 38 were purchased and then sold and leased back and 10 were acquired in capital lease transactions. Property dispositions provided cash proceeds of \$2.367 billion. In 1992, United also acquired certain Latin American route authorities and other related assets from Pan American World Airways, Inc.

## Capital Commitments -

At December 31, 1994, commitments for the purchase of property and equipment, principally aircraft, approximated \$3.9 billion, after deducting advance payments. An estimated \$1.2 billion will be spent in 1995, \$0.7 billion in 1996, \$1.3 billion in 1997, \$0.5 billion in 1998 and \$0.2 billion in 1999 and thereafter. The major commitments are for the purchase of thirty-four B777 aircraft which are expected to be delivered between 1995 and 1999.

In addition to the B777 order, United has arrangements with Airbus Industrie and International Aero Engines to lease 29 A320 aircraft, which are scheduled for delivery through 1998. At December 31, 1994, United also had options for an additional 162 B737 aircraft, 39 B757 aircraft, 34 B777 aircraft, 49 B747 aircraft, 8 B767 aircraft and 50 A320 aircraft. Under the terms of certain of these options which are exercisable during the period 1995 through 1997, United would forfeit significant deposits on such options it does not exercise. United continually reviews its fleet to determine whether aircraft acquisitions will be used to expand the fleet or to replace older aircraft, depending on market and regulatory conditions at the time of delivery.

## Capital Resources -

Funds necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds, irrevocable external financing arrangements or other external sources.

At December 31, 1994, UAL and United had an effective shelf registration statement on file with the Securities and Exchange Commission to offer up to \$1.035 billion of securities, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof. UAL's ability to issue equity securities is limited by its certificate of incorporation, which was restated in connection with the recapitalization.

United's senior unsecured debt is rated BB by Standard and Poor's ("S & P") and Baa3 by Moody's Investors Service Inc. ("Moody's"). UAL's Series A and Series B preferred stocks are rated B+ by S & P and ba3 by Moody's.

On February 3, 1995, UAL filed a registration statement with the Securities and Exchange Commission offering to exchange up to \$600 million aggregate principal amount of convertible subordinated debentures, due 2025, for up to all shares of the outstanding Series A cumulative 6.25% convertible preferred stock. Each \$1,000 principal amount of debentures issued would be convertible into a combination of cash in the amount of \$541.90 and approximately 3.192 shares of UAL common stock (equivalent to a conversion price of \$143.50 per share of common stock). To the extent that shares of Series A preferred stock are exchanged for the debentures, UAL's shareholders' equity will be reduced on a net basis by the aggregate fair value of the debentures issued. A reduction in shareholders' equity will reduce surplus as defined under Delaware General Corporation Law ("DGCL"). DGCL requires that dividends on outstanding capital stock may only be made from surplus or the net profits of the Company for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

## RESULTS OF OPERATIONS

The results of operations in the airline business historically fluctuate significantly in response to general economic conditions. This is because small fluctuations in yield (passenger revenue per revenue passenger mile) and cost per available seat mile can have a significant effect on operating results. UAL anticipates industrywide fare levels, increasing low-cost competition, general economic conditions, fuel costs, international governmental policies and other factors will continue to affect its operating results.

## Summary of Results and Impact of Recapitalization -

UAL's results of operations improved in 1994 as compared to 1993. In 1994, UAL recorded net earnings of \$51 million, representing a loss per share of \$0.61 after preferred stock dividends, compared to a 1993 net loss of \$50 million, or \$3.40 per share after preferred stock dividends. Included in 1994 were \$169 million of pretax expenses incurred in connection with the recapitalization, of which \$48 million were recorded in operating

expenses. The 1994 results also include an after tax charge of \$26 million (\$1.37 per share) for the cumulative effect of adopting Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which UAL adopted effective January 1, 1994. The 1993 results include an extraordinary loss of \$19 million, \$0.76 per share, on the early extinguishment of debt.

In connection with the recapitalization, each share of old common stock was converted to one half share of new common stock (and cash in lieu of fractional shares) and \$84.81 in cash. As a result, the number of outstanding shares was reduced proportionately. Accordingly, the weighted average shares in the earnings per share calculations are based on the number of old common shares outstanding prior to the recapitalization and the reduced number of new common shares outstanding subsequent to the transaction. Thus, a direct comparison of the earnings per share in 1994 versus 1993 is not meaningful. The earnings per share calculations subsequent to the transaction also include those ESOP shares which have been committed to be released to employees, if doing so is dilutive.

Management believes that a more complete understanding of UAL's results can be gained by viewing them on a pro forma, "fully distributed" basis. This approach considers all ESOP shares which will ultimately be distributed to employees throughout the ESOP (rather than just the shares committed to be released) to be immediately outstanding and thus fully distributed. Consistent with this method, the ESOP compensation expense and the one-time costs associated with the completion of the transaction, are excluded from fully distributed expenses. On a fully distributed basis, UAL's net earnings for the 1994 third and fourth quarters would have been \$233 million (\$6.86 per share) and \$67 million (\$1.47 per share), respectively. UAL's net earnings for the 1994 third and fourth quarters, as reported under generally accepted accounting principles, were \$82 million (\$4.21 per share fully diluted) and \$11 million (loss of \$0.98 per share), respectively.

#### Other Factors Affecting Comparability -

In 1994, United began recording certain air transportation price adjustments, which were previously recorded as commissions, as adjustments to revenue. Operating revenue and expense amounts and related operating statistics for 1993 and prior periods have been adjusted to conform with the current presentation.

Prior to the September 1993 merger of the Covia Partnership ("Covia") and Galileo Ltd., United's investments in these companies were carried on the equity basis. United now owns 77% of Apollo Travel Services Partnership ("ATS"), one of the companies formed in the merger, and its accounts are consolidated with those of United. As a result, United's consolidated operating revenues and expenses have increased. In 1993, UAL also transferred the operations of Air Wisconsin, Inc. to other parties, the effect of which was to reduce UAL's gross operating revenues and expenses. In addition, the sales of flight kitchen assets in late 1993 and early 1994 had the effect of reducing United's salaries and related costs and increasing, to a lesser degree, food and beverage expense. These changes have affected the 1994 comparisons to 1993 as indicated in the discussion which follows.

#### 1994 Compared with 1993 -

Operating Revenues. Operating revenues increased \$625 million (5%). United's revenue per available seat mile increased 4% to 9.12 cents. Passenger revenues increased \$337 million (3%) due primarily to a 7% increase in United's revenue passenger miles, partially offset by a 3% decrease in yield to 11.31 cents. Domestic revenue passenger miles increased by 4.1 billion (7%) while international increased by 2.9 billion (8%). Available seat miles increased 1% systemwide, as increases of 6% in the Pacific and 2% in the Atlantic were partially offset by decreases of 1% on domestic routes and 3% in Latin America. As a result, United's system passenger load factor increased 4.0 points to 71.2%. In addition, Air Wisconsin, Inc., which accounted for \$159 million of passenger revenues in 1993, accounted for no passenger revenue in 1994 as previously discussed.

Cargo revenues increased \$26 million (4%), due to increased freight revenues partially offset by decreased mail revenues. Freight and mail revenue ton miles increased 3%; however, freight yield increased 5% while mail yield decreased 8%. Other operating revenues increased \$262 million

(37%) primarily as a result of the consolidation of ATS, revenues resulting from the lease of Air Wisconsin, Inc. assets to other parties and an increase in fuel sales.

**Operating Expenses.** Operating expenses increased \$367 million (3%). United's cost per available seat mile also increased 3% from 8.54 cents to 8.79 cents, which includes certain one-time costs relating to the recapitalization and ESOP compensation expense. Without these costs, United's cost per available seat mile would have been 8.64 cents. Food and beverage costs increased \$162 million (51%) due to the new catering arrangements resulting from the flight kitchen sales as discussed above. Commissions increased \$96 million (7%) due principally to increased commissionable revenues. An increase of \$50 million (3%) in rentals and landing fees reflects rent associated with a higher number of aircraft on operating leases, including new aircraft acquired in the past year. Aircraft maintenance increased \$25 million (6%) as a result of increased vendor-provided maintenance due to the timing of maintenance cycles. Other operating expenses increased \$169 million (20%) due to the consolidation of ATS, depreciation in 1994 on Air Wisconsin, Inc. assets leased to others and higher fuel sales.

Aircraft fuel expense decreased \$148 million (9%), due to an 8% decrease in United's average price per gallon of fuel to 58.8 cents and a slight decrease in United's consumption. Salaries and related costs decreased \$81 million (2%) primarily due to lower wage rates for employees participating in the ESOPs and a lower number of employees as a result of the flight kitchen sales, partially offset by higher average wage rates for other employee groups, higher costs associated with medical benefits and \$48 million of one-time costs related to the recapitalization. Depreciation and amortization decreased \$39 million (5%) due principally to the transfer of Air Wisconsin, Inc. assets to other parties and the subsequent classification of depreciation on those assets in other expenses. Purchased services decreased \$36 million (4%), as certain services, principally computer reservations and communications, have been provided by ATS since the time of the merger.

**Other Income and Expense.** Other expense amounted to \$350 million in 1994 compared to \$310 million in 1993. Interest expense increased \$14 million (4%) due to higher average interest rates resulting from the debentures issued in July 1994, partially offset by the benefit of the extinguishment of \$500 million of subordinated debt in 1993. Interest capitalized decreased \$10 million (20%) as a result of lower average advance payments on new aircraft and lower capitalized interest rates. Interest income decreased \$13 million (13%) due primarily to interest received in 1993 in connection with the final settlement of certain pension benefits. United's equity in results of affiliates changed from a loss of \$30 million in 1993 to earnings of \$20 million in 1994 due primarily to a charge recorded by Galileo International in 1993 for the cost of eliminating duplicate facilities and operations after the merger of Covia and Galileo Ltd. Included in "Miscellaneous, net" in 1994 were charges of \$121 million for fees and costs incurred in connection with the employee investment transaction and recapitalization, a \$22 million charge for minority interests in ATS and foreign exchange gains of \$15 million. Included in 1993 was a \$59 million charge to reduce the net book value of 15 DC-10 aircraft to estimated realizable value, a \$17 million gain resulting from the final settlement of certain pension benefits and foreign exchange losses of \$20 million.

**Income Tax Provision.** The income tax provision for 1994 was significantly impacted by the nondeductibility of certain recapitalization costs and the statutory change in the deductibility of other expenses.

1993 Compared with 1992 -

**Operating Revenues.** Operating revenues increased \$1.472 billion (12%). Passenger revenues increased \$1.280 billion (12%) due to a 9% increase in United's revenue passenger miles and a 3% increase in yield to 11.61 cents. United's domestic revenue passenger miles increased 6% on an increase of 8% in domestic available seat miles, resulting in a decrease of 1.0 point in domestic passenger load factor to 65.2%. International revenue passenger miles increased 14%. Passenger traffic increased in substantially all international markets, especially in Latin America, where United began service in the first quarter of 1992. Passenger load factors increased in Latin America, the Atlantic and the Pacific. On a system basis, United's available seat miles increased 10% and passenger load factor decreased 0.2

points to 67.2%.

Cargo revenues increased \$54 million (9%), due to increases of \$31 million in freight revenues and \$23 million in mail revenues. The freight revenue increase reflects volume increases largely attributable to increased international operations. Contract services and other revenues increased \$138 million (24%) primarily as a result of revenues generated by ATS in the 1993 period subsequent to the merger.

Operating Expenses. Operating expenses increased \$671 million (5%). United's cost per available seat mile decreased 4% to 8.54 cents. The decrease in unit cost was largely due to the implementation of a cost reduction program in early 1993. Salaries and related costs increased \$198 million (4%) primarily due to higher average wage rates and higher costs associated with pensions and health insurance. Rentals and landing fees increased \$163 million (12%) primarily reflecting rent associated with a larger number of aircraft on operating leases. Commissions increased \$136 million (11%) due to increased revenues and slightly higher cargo commission rates. Aircraft maintenance increased \$55 million (17%) due principally to higher outside maintenance costs. Purchased services increased \$47 million (5%) due principally to higher computer reservations fees and higher costs associated with international operations, such as communications, navigation charges and security. Depreciation and amortization increased \$38 million (5%) due principally to newly acquired aircraft. Aircraft fuel expense increased \$34 million, as a 7% increase in fuel consumption was partially offset by a 4% decrease in the average price per gallon of fuel to 63.6 cents. Other operating expenses increased \$85 million (11%) due principally to the consolidation of ATS after the merger. Advertising and promotion decreased \$52 million (24%) and food and beverages decreased \$25 million (7%) due to cost reduction efforts.

Other Income and Expense. Other expense amounted to \$310 million in 1993 compared to \$118 million in 1992. Interest expense increased \$30 million due primarily to increased debt and capital lease obligations incurred in connection with aircraft financings. Interest capitalized decreased \$41 million (45%) due to lower advance payments on new aircraft. United's equity in the results of affiliates shifted from income of \$42 million in 1992, representing United's share of Covia earnings, to losses of \$30 million in 1993, primarily due to a charge recorded by Galileo International for the cost of eliminating duplicate facilities and operations after the merger of Covia and Galileo Ltd. Included in "Miscellaneous, net" were foreign exchange losses of \$20 million in 1993 compared to gains of \$2 million in 1992. Also included in 1993 was a charge of \$59 million to reduce the net book value of 15 DC-10 aircraft to estimated net realizable value and a \$17 million gain resulting from the final settlement for overpayment of annuities purchased in 1985 to cover certain vested pension benefits. Interest income increased \$29 million due principally to interest received in connection with the same settlement. In 1992, "Miscellaneous, net" also included gains on disposition of property of \$32 million, a charge of \$13 million to record the cash settlement of class action claims resulting from litigation relating to the use of airline fare data and charges of \$8 million related to other litigation.

#### OTHER INFORMATION

##### Deferred Tax Asset -

UAL's consolidated balance sheet at December 31, 1994 includes a net cumulative deferred tax asset of \$631 million, compared to \$714 million at December 31, 1993. The net deferred tax asset is composed of approximately \$1.9 billion of deferred tax assets and approximately \$1.3 billion of deferred tax liabilities. The deferred tax assets include, among other things, \$537 million related to obligations for postretirement and other employee benefits, \$472 million related to gains on sales and leasebacks, \$262 million related to alternative minimum tax ("AMT") credit carryforwards and \$58 million of federal and state net operating loss ("NOL") carryforwards. The AMT credit carryforwards do not expire; the federal NOL carryforwards begin to expire in 2006 if not utilized prior to that time.

The majority of the deferred tax assets will be realized through reversals of existing deferred tax liabilities with similar reversal patterns. To realize the benefits of the remaining deferred tax assets relating to temporary differences, UAL needs to generate approximately \$1.2 billion in future taxable income.

Although United experienced book and tax losses in both 1993 and 1992, 1994 resulted in book and taxable income.

Following is a summary of UAL's pretax book income and taxable income, and the significant differences between them, for the last three years (in millions):

	1994	1993	1992
Pretax book income (loss)	\$ 171	\$ (47)	\$ (656)
Gains on sale and leasebacks	79	15	304
Depreciation, capitalized interest and transfers of tax benefits	(300)	(348)	(319)
Rent expense	122	142	127
Nondeductible employee meals	57	22	22
Pension expense	(46)	(156)	(95)
Other employee benefits	91	37	36
Gains on asset dispositions	(4)	(34)	(3)
ESOP transaction costs	55	-	-
Other, net	19	54	33
Taxable income (loss)	\$ 244	\$ (315)	\$ (551)

While the losses in 1992 and 1993 were largely attributable to events beyond management's control, including the unanticipated duration of the recession in both the U. S. and other areas of the world and the proliferation of numerous low-cost air carriers, UAL has taken several steps to reduce costs and improve profitability. Most notably, the employee investment transaction and recapitalization was partially responsible for UAL's improved operating results in 1994 versus 1993, and is expected to continue to improve the financial stability and profitability of the company. The recapitalization put in place a lower cost structure which is designed to allow United to compete effectively against low-cost carriers. The transaction also facilitated the creation of a low-cost short-haul operation, Shuttle by United, the benefits of which are expected to increase as it expands into additional markets. Other actions taken by UAL to improve profitability include the discontinuance of service at 15 unprofitable domestic and international stations and the planned reduction of capacity in 1995 on certain unprofitable routes such as those to Hawaii. Resources are expected to be re-allocated to areas that currently benefit the company the most - the Shuttle and the expanding Denver hub.

Severe competition in the airline industry, particularly by new entry and low-fare carriers, and the general economic outlook could continue to negatively affect United's operating results. However, the benefits expected to be derived from the recapitalization and the new era of employee ownership, should further improve UAL's financial results.

UAL's ability to generate sufficient amounts of taxable income from future operations is dependent upon numerous factors, including general economic conditions, inflation, oil prices, the state of the industry and other factors beyond management's control. There can be no assurances that UAL will meet its expectation of future taxable income. However, based on the above factors, including the extended period over which postretirement benefits will be recognized, and the indefinite carryforward period for AMT credits, management believes it is more likely than not that future taxable income will be sufficient to utilize the cumulative deferred tax assets at December 31, 1994.

#### Contingencies -

United has been named as a Potentially Responsible Party at certain Environmental Protection Agency ("EPA") cleanup sites which have been designated as Superfund Sites. At sites where the EPA has commenced remedial litigation, potential liability is joint and several. United's alleged proportionate contributions at the sites are minimal. Additionally, United has participated and is participating in remediation actions at certain other sites, primarily airports. The estimated cost of these actions is accrued when it is determined that it is probable that United is liable. Such accruals have not been material. Environmental regulations and remediation processes are subject to future change, and determining the actual cost of remediation will require further investigation and remediation experience. Therefore, the ultimate cost cannot be determined

at this time. However, while such cost may vary from United's current estimate, United believes the difference between its accrued reserve and the ultimate liability will not be material.

UAL has certain other 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 views of legal counsel, the nature of such contingencies and prior experience, that the ultimate disposition of these contingencies is not likely to materially affect UAL's financial condition, operating results or liquidity.

#### Energy Tax -

The Omnibus Budget Reconciliation Act of 1993 signed into law on August 10, 1993, imposes a 4.3 cent per gallon tax on commercial aviation jet fuel purchased for use in domestic operations. This new fuel tax is scheduled to become effective October 1, 1995, and continue until October 1, 1998. Based on United's 1994 domestic fuel consumption of 1.7 billion gallons, the new fuel tax, when effective, is expected to increase United's operating expenses by approximately \$75 million annually. United, through the Air Transportation Association, is actively lobbying for repeal of this tax.

#### Foreign Currency Transactions -

United generates revenues and incurs expenses in numerous foreign currencies; however, United mitigates its exposure to foreign exchange rate fluctuations by converting excess local currencies generated to U.S. dollars. In addition, United has exposure to transaction gains and losses resulting from rate fluctuation. The foreign exchange gains and losses recorded by UAL result from the impact of exchange rate changes on foreign currency-denominated assets and liabilities, primarily Japanese yen-denominated balances. To the extent such balances are predictable, United attempts to minimize transaction gains and losses by investing in yen-denominated time deposits to offset the impact of rate changes on certain liabilities. In addition, United entered into a foreign currency swap contract in 1994 to reduce exposure to currency fluctuations in connection with other long-term yen-denominated obligations. Foreign currency gains and losses on the swap contract are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations being hedged.

#### Changes Expected to Impact 1995 -

In October 1994, United announced that it will discontinue service to 15 unprofitable destinations by early 1995 and will reallocate resources elsewhere, including the Shuttle. United will incur certain route restructuring costs, which are expected to be immaterial. However, this restructuring is expected to result in improvements to operating earnings of approximately \$25 million annually. Also in October 1994, UAL announced an agreement to sell for \$119 million ten Dash 8 aircraft and spare parts owned by Air Wisconsin, Inc. to Mesa Airlines, and United agreed to a ten year extension of its United Express marketing agreement with Mesa Airlines. The sales are expected to take place in the first quarter of 1995. In addition, increased rent associated with new airport facilities in Denver and Osaka is expected to increase 1995 operating expenses by approximately \$140 million.

In February 1995, United announced that it would put in place a new travel agency commission payment plan that offers a maximum of \$50 for round-trip domestic tickets and a maximum of \$25 for one-way domestic tickets. The new commission plan will be implemented in the first quarter of 1995, and will apply to all tickets issued by U. S. travel agents for travel within and between the continental United States, Alaska, Hawaii, Puerto Rico and the U. S. Virgin Islands. Litigation has been initiated challenging this payment plan.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

To the Shareholders and Board of Directors,  
UAL Corporation:

We have audited the accompanying statement of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1994 and 1993, and the related statements of consolidated operations, consolidated cash flows and consolidated shareholders' equity for each of the three years in the period ended December 31, 1994. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UAL Corporation and subsidiary companies as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in notes 7 and 16 to the consolidated financial statements, effective January 1, 1992, the Company changed its methods of accounting for income taxes and postretirement benefits other than pensions.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule referenced in Item 14(a)(2) herein is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois  
February 23, 1995

UAL CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED OPERATIONS

(In Millions, Except Per Share)

	Year Ended December 31		
	1994	1993	1992
Operating revenues:			
Passenger	\$12,295	\$11,958	\$10,678
Cargo	685	659	605
Other operating revenues	970	708	570
	13,950	13,325	11,853

Operating expenses:			
Salaries and related costs	4,679	4,760	4,562
ESOP compensation expense	182	-	-
Aircraft fuel	1,585	1,733	1,699
Rentals and landing fees	1,555	1,505	1,342
Commissions	1,426	1,330	1,194
Purchased services	947	983	936
Depreciation and amortization	725	764	726
Food and beverages	479	317	342
Aircraft maintenance	410	385	330
Personnel expenses	248	263	271
Advertising and promotion	165	163	215
Other operating expenses	1,028	859	774
	13,429	13,062	12,391
Earnings (loss) from operations	521	263	(538)
Other income (expense):			
Interest expense	(372)	(358)	(328)
Interest capitalized	41	51	92
Interest income	85	98	69
Equity in earnings (loss) of affiliates	20	(30)	42
Miscellaneous, net	(124)	(71)	7
	(350)	(310)	(118)
Earnings (loss) before income taxes, extraordinary item and cumulative effect of accounting changes	171	(47)	(656)
Provision (credit) for income taxes	94	(16)	(239)
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	77	(31)	(417)
Extraordinary loss on early extinguishment of debt, net of tax	-	(19)	-
Cumulative effect of accounting changes	(26)	-	(540)
Net earnings (loss)	\$ 51	\$ (50)	\$ (957)
Per share:			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	\$ 0.76	\$ (2.64)	\$ (17.34)
Extraordinary loss on early extinguishment of debt, net of tax	-	(0.76)	-
Cumulative effect of accounting changes	(1.37)	-	(22.41)
Net loss	\$ (0.61)	\$ (3.40)	\$ (39.75)

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION  
(In Millions)

	December 31	
Assets	1994	1993
Current assets:		
Cash and cash equivalents	\$ 500	\$ 437
Short-term investments	1,032	1,391
Receivables, less allowance for doubtful accounts (1994 - \$22; 1993 - \$22)	889	1,095
Aircraft fuel, spare parts and supplies, less obsolescence allowance (1994 - \$44;		

1993 - \$70)	285	278
Refundable income taxes	-	26
Deferred income taxes	151	124
Prepaid expenses	335	362
	3,192	3,713
Operating property and equipment:		
Owned -		
Flight equipment	7,480	7,899
Advances on flight equipment	713	589
Other property and equipment	2,631	2,673
	10,824	11,161
Less - Accumulated depreciation and amortization	4,786	4,691
	6,038	6,470
Capital leases -		
Flight equipment	1,028	1,027
Other property and equipment	104	104
	1,132	1,131
Less - Accumulated amortization	447	395
	685	736
	6,723	7,206
Other assets:		
Intangibles, less accumulated amortization (1994 - \$267; 1993 - \$213)	814	866
Deferred income taxes	480	590
Other	555	465
	1,849	1,921
	\$11,764	\$12,840

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION  
(In Millions, Except Share Data)

	December 31	
Liabilities and Shareholders' Equity	1994	1993
Current liabilities:		
Short-term borrowings	\$ 269	\$ 315
Long-term debt maturing within one year	384	144
Current obligations under capital leases	76	62
Advance ticket sales	1,020	1,036
Accounts payable	651	599
Accrued salaries, wages and benefits	843	943
Accrued aircraft rent	825	893
Other accrued liabilities	838	904
	4,906	4,896
Long-term debt	2,887	2,702
Long-term obligations under capital leases	730	827
Other liabilities and deferred credits:		
Deferred pension liability	520	571
Postretirement benefit liability	1,148	1,058
Deferred gains	1,363	1,400
Other	477	148
	3,508	3,177
Minority interest	49	35
Shareholders' equity:		
Preferred stock (Note 12) -		
Series A convertible preferred stock, \$600 million aggregate liquidation value	-	30
Series B preferred stock, \$327 million aggregate liquidation value	-	-
Class 1 ESOP convertible preferred stock,		

\$227 million aggregate liquidation value	-	-
Common stock, \$0.01 par value in 1994 and \$5 par value in 1993; authorized, 100,000,000 shares; issued, 13,013,217 shares in 1994 and 25,489,745 shares in 1993	-	127
Additional capital invested	1,287	932
Retained earnings (deficit)	(1,335)	249
Unearned ESOP preferred stock	(83)	-
Stock held in treasury-		
Preferred (Note 12)	(87)	-
Common, 574,111 shares in 1994 and 920,808 shares in 1993	(74)	(65)
Other	(24)	(70)
	(316)	1,203
Commitments and contingent liabilities (Note 19)		
	\$11,764	\$12,840

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

UAL CORPORATION AND SUBSIDIARY COMPANIES  
STATEMENT OF CONSOLIDATED CASH FLOWS  
(In Millions)

	Year Ended December 31		
	1994	1993	1992
Cash and cash equivalents at beginning of year	\$ 437	\$ 522	\$ 449
Cash flows from operating activities:			
Net earnings (loss)	51	(50)	(957)
Adjustments to reconcile to net cash provided by operating activities -			
ESOP compensation expense	182	-	-
Cumulative effect of accounting change	26	-	540
Extraordinary loss on debt extinguishment	-	19	-
Deferred pension expense	276	242	165
Deferred postretirement benefit expense	145	89	75
Depreciation and amortization	725	764	726
Provision (credit) for deferred income taxes	78	(67)	(146)
Undistributed (earnings) losses of affiliates	(19)	42	(27)
Decrease (increase) in receivables	207	11	(133)
Decrease (increase) in other current assets	40	24	(67)
Increase (decrease) in advance ticket sales	(16)	(31)	183
Increase (decrease) in accrued income taxes	(11)	8	164
Increase (decrease) in accounts payable and accrued liabilities	(389)	(163)	142
Amortization of deferred gains	(85)	(83)	(82)
Other, net	124	53	(8)
	1,334	858	575
Cash flows from investing activities:			
Additions to property and equipment	(636)	(1,496)	(2,519)
Proceeds on disposition of property and equipment	432	1,165	2,367
Decrease (increase) in short-term investments	376	(414)	(238)
Acquisition of intangibles	-	-	(150)
Other, net	26	5	3
	198	(740)	(537)
Cash flows from financing activities:			
Issuance of preferred stock	400	591	-
Reacquisition of preferred stock	(87)	-	-
Proceeds from issuance of long-term debt	735	99	198
Repayment of long-term debt	(305)	(695)	(115)
Principal payments under capital leases	(87)	(55)	(50)
Recapitalization distribution	(2,070)	-	-
Increase (decrease) in short-term borrowings	(46)	(135)	1
Cash dividends	(53)	(27)	-
Other, net	44	19	1
	(1,469)	(203)	35
Increase (decrease) in cash and cash equivalents during the year	63	(85)	73
Cash and cash equivalents at end of year	\$ 500	\$ 437	\$ 522

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

UAL CORPORATION AND SUBSIDIARY COMPANIES  
STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY  
(In Millions, Except Per Share)

	Preferred Stock	Common Stock	Additional Capital Invested	Retained Earnings	Unearned ESOP Preferred Stock	Treasury Stock	Other	Total
Balance at December 31, 1991	\$ -	\$126	\$ 304	\$ 1,289	\$ -	\$(105)	\$(17)	\$ 1,597
Year ended December 31, 1992:								
Net loss	-	-	-	(957)	-	-	-	(957)
Exercises of stock options	-	-	5	-	-	-	-	5
Issuance of treasury stock pursuant to Air Wis acquisition	-	-	33	-	-	31	-	64
Pension liability adjustment	-	-	-	-	-	-	(8)	(8)
Other	-	-	(1)	-	-	-	6	5
Balance at December 31, 1992	-	126	341	332	-	(74)	(19)	706
Year ended December 31, 1993:								
Net loss	-	-	-	(50)	-	-	-	(50)
Cash dividends declared on preferred stock (\$5.54 per share)	-	-	-	(33)	-	-	-	(33)
Issuance of Series A preferred stock	30	-	561	-	-	-	-	591
Exercises of stock options	-	1	25	-	-	-	-	26
Issuance of treasury stock under restricted stock plan	-	-	6	-	-	10	(16)	-
Pension liability adjustment	-	-	-	-	-	-	(45)	(45)
Other	-	-	(1)	-	-	(1)	10	8
Balance at December 31, 1993	30	127	932	249	-	(65)	(70)	1,203
Year ended December 31, 1994:								
Net earnings	-	-	-	51	-	-	-	51
Cash dividends declared on preferred stock (\$6.25 per Series A share, \$1.44 per Series B share)	-	-	-	(59)	-	-	-	(59)
Change in Series A stated value	(30)	-	30	-	-	-	-	-
Issuance of ESOP preferred stock	-	-	227	-	(227)	-	-	-
Issuance of Series B preferred stock	-	-	400	-	-	-	-	400
Exercises of stock options	-	1	46	-	-	-	-	47
Issuance of treasury stock under restricted stock plan	-	-	(7)	-	-	17	(10)	-
Acquisition of treasury shares	-	-	-	-	-	(113)	-	(113)
Amortization of unearned compensation under ESOPs and restricted stock plan	-	-	38	-	144	-	21	203
Recapitalization	-	(128)	(378)	(1,576)	-	-	-	(2,082)
Pension liability adjustment	-	-	-	-	-	-	37	37
Other	-	-	(1)	-	-	-	(2)	(3)
Balance at December 31, 1994	\$ -	\$ -	\$1,287	\$ (1,335)	\$ (83)	\$(161)	\$(24)	\$ (316)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation-

UAL Corporation ("UAL") is a holding company whose principal subsidiary is United Air Lines, Inc. ("United"). The consolidated financial statements include the accounts of UAL and all of its subsidiaries (collectively "the Company"). All significant intercompany transactions are eliminated. Investments in affiliates are carried on the equity basis.

(b) Accounting Changes-

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits," resulting in a cumulative after-tax charge of \$26 million (see Note 16) and SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (see Note 17).

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions" (see Note 16) and SFAS No. 109, "Accounting for Income Taxes" (see Note 7).

(c) Reclassification-

In 1994, United began recording certain air transportation price

adjustments, which were previously recorded as commissions, as adjustments to revenue. Certain amounts in the Statements of Consolidated Operations for 1993 and 1992 and these Notes to Consolidated Financial Statements have been reclassified to conform with the current presentation.

(d) Airline Revenues-

Passenger fares and cargo revenues are recorded as operating revenues when the transportation is furnished. The value of unused passenger tickets is included in current liabilities.

(e) Foreign Currency Transactions-

Monetary assets and liabilities denominated in foreign currencies are converted at exchange rates in effect at the balance sheet date. The resulting foreign exchange gains and losses are charged or credited directly to income. United has entered into a foreign currency swap contract to reduce exposure to certain currency fluctuations. Foreign currency gains and losses on the contract are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations. Foreign exchange gains and losses on foreign currency call options which were previously used to hedge foreign currency obligations were also charged or credited directly to income.

(f) Cash and Cash Equivalents and Short-term Investments-

Cash in excess of operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with an original maturity of three months or less on their acquisition date are classified as cash and cash equivalents. Other investments are classified as short-term investments.

(g) Aircraft Fuel, Spare Parts and Supplies-

Aircraft fuel and maintenance and operating supplies are stated at average cost. Flight equipment spare parts are stated at average cost less an obsolescence allowance.

(h) Operating Property and Equipment-

Owned operating property and equipment is stated at cost. Property under capital leases, and the related obligation for future minimum lease payments, are initially recorded at an amount equal to the then present value of those lease payments.

Depreciation and amortization of owned depreciable assets is based on the straight-line method over their estimated service lives. Leasehold improvements are amortized over the remaining period of the lease or the estimated service life of the related asset, whichever is less. Aircraft are depreciated to estimated salvage values, generally over lives of 10 to 25 years; buildings are depreciated over lives of 25 to 45 years; and other property and equipment are depreciated over lives of three to 15 years.

Properties under capital leases are amortized on the straight-line method over the life of the lease, or in the case of certain aircraft, over their estimated service lives. Lease terms are 10 to 19 years for aircraft and flight simulators and 25 years to 40 years for buildings. Amortization of capital leases is included in depreciation and amortization expense.

Maintenance and repairs, including the cost of minor replacements, are charged to maintenance expense accounts. Costs of additions to and renewals of units of property are charged to property and equipment accounts.

(i) Intangibles-

Intangibles consist primarily of route acquisition costs, slots and intangible pension assets (see Note 15). Route acquisition costs and slots are amortized over 40 years and 5 years, respectively.

(j) Mileage Plus Awards-

United accrues the estimated incremental cost of providing free travel awards earned under its Mileage Plus frequent flyer program when such award levels are reached.

(k) Deferred Gains-

Gains on aircraft sale and leaseback transactions are deferred and amortized over the lives of the leases as a reduction of rental expense.

(l) Interest Rate Swap Agreements-

United enters into interest rate swap agreements to hedge interest rate exposure on certain obligations. The differential to be paid or received under the swap agreements is charged or credited to interest expense or rental expense depending on the obligation.

(2) Employee Investment Transaction and Recapitalization

On July 12, 1994, the shareholders of UAL approved a plan of recapitalization to provide an approximately 55% equity interest in UAL to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest will be allocated to individual employees through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization. The employee interest may increase to up to 63%, depending on the average market value of UAL common stock in the year after the transaction closed. Based on the average market value of UAL common stock through February 23, 1995, the market value of UAL common stock for the remainder of the measuring period would have to average at least \$204 for any adjustment to be made in the ESOP percentage interest. Pursuant to the terms of the plan of recapitalization, holders of old UAL common stock received approximately \$2.1 billion in cash and the remaining 45% (subject to decrease down to 37%) of the equity in the form of new common stock, which was issued at the rate of one half share of new common stock for each share of old common stock. The cash distribution was recorded as a \$1.6 billion reduction in retained earnings, a \$0.4 billion reduction in additional capital invested and a \$0.1 billion reduction in common stock. In connection with the recapitalization, United issued \$370 million of 10.67% debentures due in 2004 and \$371 million of 11.21% debentures due in 2014 and UAL issued Series B 12 1/4% preferred stock with an aggregate liquidation preference of \$410 million. Pretax costs of \$169 million were incurred in connection with the recapitalization, including transaction costs and severance payments to certain former United employees. Of these costs, \$48 million were recorded as operating expenses while the remaining \$121 million were recorded in "Miscellaneous, net."

(3) Employee Stock Ownership Plans

The ESOPs established as part of the recapitalization cover the pilots, U.S. management and salaried employees, and U.S. union ground employees. The ESOPs include a "Leveraged ESOP", a "Non-Leveraged ESOP" and a "Supplemental ESOP". Both the Leveraged ESOP and the Non-Leveraged ESOP are tax qualified plans while the Supplemental ESOP is not a tax qualified plan. The purpose of having the three ESOPs is to deliver the agreed-upon shares to employees in a manner which utilizes the tax incentives available to tax qualified ESOPs to the greatest degree possible. Accordingly, shares are delivered to employees primarily through the Leveraged ESOP, secondly, through the Non-Leveraged ESOP, and lastly, through the Supplemental ESOP.

The equity interests are being delivered to employees through two classes of preferred stock (Class 1 and Class 2 ESOP Preferred Stock, collectively "ESOP Preferred Stock") and the voting interests are being delivered through three separate classes of preferred stocks (Class P, M and S Voting Preferred Stock, collectively "Voting Preferred Stock"). The Class 1 ESOP Preferred Stock will be issued to an ESOP trust in seven separate sales through January 1, 2000 under the Leveraged ESOP, one of which took place at the time of the recapitalization. Based on Internal Revenue Code limitations, shares of the Class 2 ESOP Preferred Stock will either be contributed to the Non-Leveraged ESOP or allocated as "book-entry shares" to the Supplemental ESOP, annually through the year 2000. The classes of preferred stock are described more fully in Note 12, Preferred Stock.

The Leveraged ESOP and Non-Leveraged ESOP are being accounted for under AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, as shares of the Class 1 ESOP Preferred Stock are sold to an ESOP trust, the Company reports the issuance as a credit to additional capital invested and a corresponding charge to unearned ESOP preferred stock. As the shares are earned by employees in exchange for services performed, the shares are committed to be released. ESOP compensation expense is recorded for the average fair value

of the shares committed to be released during the period with a corresponding credit to unearned ESOP preferred stock for the cost of the shares. Any difference between the fair value of the shares and the cost of the shares is charged or credited to additional capital invested. For the Non-Leveraged ESOP, the Class 2 ESOP Preferred Stock is recorded as additional capital invested as the shares are committed to be contributed in exchange for employee services, with the offsetting entry to ESOP compensation expense. The ESOP compensation expense is based on the average fair value of the shares committed to be contributed, in accordance with the SOP. The Supplemental ESOP is being accounted for under Accounting Principle Board Opinion 25, "Accounting for Stock Issued to Employees."

For the Class 2 ESOP Preferred Stock committed to be contributed to employees under the Supplemental ESOP, employees can elect to receive their "book entry" shares in cash upon termination of employment. The fair value of such shares at December 31, 1994 was insignificant.

Shares of ESOP Preferred Stock are legally released or allocated to employee accounts as of year end. Dividends on the ESOP Preferred Stock are also paid at the end of the year. Dividends on unallocated shares are used by the ESOP to pay down the loan from UAL and are not considered dividends for financial reporting purposes. Dividends on allocated shares are satisfied by releasing shares from the ESOP's suspense account to the employee accounts and are charged to equity.

During 1994, the Company recorded \$182 million of ESOP compensation expense for the period July 13 through December 31, 1994. At December 31, 1994, the year-end allocation of Class 1 ESOP Preferred Stock to employee accounts had not yet been completed. There were 1,131,912 shares of Class 1 ESOP Preferred Stock committed to be released and 657,673 shares held in suspense by the ESOP as of December 31, 1994. For the Class 2 ESOP Preferred Stock, 316,472 shares were committed to be contributed to employees at December 31, 1994. The fair value of the unearned ESOP shares recorded on the balance sheet at December 31, 1994 was \$79 million.

(4) Affiliates

United owns 38% of the Galileo International Partnership ("Galileo") through a wholly-owned subsidiary. United's investment in Galileo, which owns the Apollo and Galileo computer reservations systems, is carried on the equity basis. United also owns 77% of the Apollo Travel Services Partnership ("ATS"), which markets the Apollo computer reservations systems to travel agencies in the U. S. and Mexico, and its accounts are consolidated. Prior to a September 1993 merger, United owned 50% of the Covia Partnership ("Covia") and 25.6% of Galileo Ltd., Galileo's and ATS's predecessor companies, which were accounted for on the equity basis. The consolidation of ATS resulted in non-cash increases of \$78 million in assets, \$46 million in liabilities and \$34 million in minority interests as of the date of the merger.

Under operating agreements with Covia prior to the merger, United provided certain computer support services for, and purchased computer reservation services, communications and other information from, Covia. Revenues derived from the sale of services to Covia amounted to approximately \$21 million in 1993 and \$22 million in 1992. The cost to United of services purchased from Covia amounted to approximately \$168 million in 1993 and \$219 million in 1992. Under operating agreements with Galileo subsequent to the merger, United purchases computer reservation services from Galileo and provides marketing, sales and communication services to Galileo. Revenues derived from the sale of services to Galileo amounted to approximately \$233 million in 1994 and \$58 million in 1993. The cost to United of services purchased from Galileo amounted to approximately \$94 million in 1994 and \$47 million in 1993.

Summarized financial information of Galileo follows (in millions):

	December 31,	
	1994	1993
Current assets	\$134	\$141
Non-current assets	421	467
Total assets	555	608

Current liabilities	195	173
Long-term liabilities	321	440
Total liabilities	516	613
Net assets	\$ 39	\$ (5)

	Twelve Months Ended December 31, 1994	Period From September 16, 1993 Through December 31, 1993
Services revenues	\$801	\$ 186
Costs and expenses	752	327
Net earnings (loss)	\$ 49	\$(141)

During 1993, Galileo recorded \$114 million of charges which included the cost of eliminating duplicate facilities and operations.

(5) Other Income (Expense) - Miscellaneous

Other income (expense) - miscellaneous, net consisted of the following:

	1994	1993	1992
	(In Millions)		
Foreign exchange gains or losses	\$ 15	\$(20)	\$ 2
Amortization of hedge transaction costs	(6)	(6)	(5)
Net gains on disposition of property or rights	10	3	41
Minority interests	(22)	(1)	-
Recapitalization transaction costs	(121)	-	-
Write down of aircraft to net realizable value	-	(59)	-
Gain on settlement of 1985 annuity purchases	-	17	-
Settlement of class action claims regarding airline fare data	-	-	(13)
Other	-	(5)	(18)
	\$ (124)	\$(71)	\$ 7

(6) Per Share Amounts

Per share amounts were based on weighted average common shares outstanding - 18,791,587 in 1994, 24,345,857 in 1993 and 24,069,786 in 1992. Common stock equivalents, including ESOP shares committed to be released, were not included in the computations as they did not have a dilutive effect. Per share amounts were calculated after providing for preferred stock dividends of \$59 million in 1994 and \$33 million in 1993. Earnings available to common stockholders were also reduced by \$3 million in 1994 for the excess of amounts paid to reacquire UAL preferred stock over the liquidation preference of such stock.

In connection with the July 1994 recapitalization, each old common share was exchanged for one half new common share. As required under generally accepted accounting principles for transactions of this type, the historical weighted average shares outstanding have not been restated. Thus, direct comparisons between 1994 and prior years' per share amounts are not meaningful.

(7) Income Taxes

In 1994, the Company was subject to the alternative minimum tax ("AMT"). The federal income tax liability is the greater of the tax computed using the regular tax system or the tax under the AMT system. Certain preferences, mainly depreciation adjustments, have caused alternative minimum taxable income and the resulting AMT liability to exceed regular taxable income and the regular tax liability. The excess

of the AMT liability over the regular tax liability produces AMT credits which are carried forward indefinitely.

The provision (credit) for income taxes is summarized as follows:

	1994	1993	1992
	(In Millions)		
Current-			
Federal	\$ 12	\$ 52	\$ (90)
State	4	(1)	(3)
	16	51	(93)
Deferred-			
Federal	73	(75)	(129)
State	5	8	(17)
	78	(67)	(146)
	\$ 94	\$ (16)	\$ (239)

The income tax provision (credit) differed from amounts computed at the statutory federal income tax rate, as follows:

	1994	1993	1992
	(In Millions)		
Income tax provision (credit) at statutory rate	\$ 60	\$ (17)	\$ (223)
State income taxes, net of federal income tax benefit	6	5	(13)
Nondeductible employee meals	22	8	8
Nondeductible ESOP transaction costs	21	-	-
Foreign sales corporation benefit	(1)	(1)	(6)
Foreign tax credits	(3)	(3)	(2)
Rate change effect	(14)	(9)	-
Other, net	3	1	(3)
Income tax provision (credit) as reported	\$ 94	\$ (16)	\$ (239)

The Company adopted SFAS No. 109 "Accounting for Income Taxes," effective January 1, 1992. This statement provides for an asset and liability approach to accounting for income taxes. The Company recognized a tax benefit of \$40 million for the cumulative effect of adopting SFAS No. 109. Deferred income taxes (credit) reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. These temporary differences are determined in accordance with SFAS No. 109 and are more inclusive in nature than "timing differences" as determined under previously applicable accounting principles.

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities for 1994 and 1993 are as follows:

	1994		1993	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	(In Millions)			
Employee benefits, including postretirement medical	\$ 537	\$ 13	\$ 599	\$ 31
Prepaid commissions	-	52	-	49
Depreciation, capitalized interest and transfers of tax benefits	-	1,074	-	1,119

Gains on sale and leasebacks	472	-	480	-
Rent expense	254	-	207	-
AMT credit carryforward	262	-	195	-
Foreign exchange				
gains and losses	98	-	84	-
Frequent flyer accrual	70	-	72	-
Net operating loss				
carryforwards	58	-	74	-
Other	134	115	272	70
	\$1,885	\$1,254	\$1,983	\$1,269

The Company has determined, based on its history of operating earnings and expectations of future taxable income, that it is more likely than not that the deferred tax assets at December 31, 1994 will be realized.

At December 31, 1994, UAL and its subsidiaries had \$262 million of federal AMT credit carryforwards available for an indefinite period, \$4 million of general business credit carryforwards which expire between 2004 and 2009, \$40 million of state tax benefit from net operating loss carryforwards expiring between 1997 and 2009 and \$18 million of federal tax benefit from net operating loss carryforwards expiring between 2006 and 2009.

#### (8) Short-Term Borrowings

At December 31, 1994 and 1993, United had outstanding \$269 million and \$315 million, respectively, in short-term borrowings, bearing average interest rates of 5.63% and 3.34%, respectively. Receivables amounting to \$426 million at December 31, 1994 and \$367 million at December 31, 1993 were pledged by United to secure repayment of such outstanding borrowings. The maximum available amount of borrowings under this arrangement is \$360 million.

#### (9) Long-Term Debt

A summary of long-term debt, excluding current maturities, as of December 31 is as follows (interest rates are as of December 31, 1994):

	1994	1993
	(In Millions)	
Secured notes, 5.525% to 11.54%, averaging 8.38%, due through 2014	\$ 1,087	\$ 1,462
Debentures, 6.75% to 11.21%, averaging 10.03%, due 1997 to 2021	1,591	1,000
Deferred purchase certificates, Japanese yen-denominated, 7.75%, due through 1998	169	178
Convertible debentures, 7.75%, due 2000 through 2010	26	36
Promissory notes, 5.75% to 6.82%, averaging 6.03%, due through 1998	34	41
	2,907	2,717
Unamortized discount on debt	(20)	(15)
	\$ 2,887	\$ 2,702

In connection with the July 1994 recapitalization, United issued \$370 million of 10.67% debentures due in 2004 and \$371 million of 11.21% debentures due in 2014. The debentures are unsecured obligations.

In the second quarter of 1993, United retired \$500 million of senior subordinated notes. The notes were scheduled to mature in 1995 (\$150 million) and 1998 (\$350 million). An extraordinary loss of \$19 million, after tax benefits of \$9 million, was recorded in the first quarter of 1993, based on United's stated intention to retire the notes.

The convertible debentures, which are obligations of Air Wisconsin Services, Inc. ("Air Wis"), are convertible into shares of old UAL common

stock, at the conversion price of \$259.08 (equivalent to approximately \$348.54 per share of new UAL common stock). In addition, \$4 million of these debentures and \$3 million of similar debentures with a conversion price of \$198.02 (equivalent to approximately \$226.42 per share of new UAL common stock) are classified in current maturities. In 1994, Air Wis reacquired \$3 million of these debentures, resulting in an insignificant loss.

In addition to scheduled principal payments, in 1994 the Company repaid secured notes in the principal amount of \$218 million. In January and February 1995, United repaid an additional \$101 million in principal amount of secured notes and \$150 million in principal amount of debentures, respectively, resulting in an insignificant loss. At December 31, 1994, United had outstanding a total of \$316 million of long-term debt bearing interest at rates 85 to 128 basis points over the London interbank offered rate ("LIBOR"). In connection with certain of these debt financings, United has entered interest rate swap agreements to effectively fix interest rates at December 31, 1994 between 8.554% and 8.6% on \$71 million of notional amount (See Note 18).

Maturities of long-term debt for each of the four years after 1995 are: 1996 -- \$119 million; 1997 -- \$220 million; 1998 -- \$188 million; and 1999 -- \$48 million. Various assets, principally aircraft, having an aggregate book value of \$1.409 billion at December 31, 1994, were pledged under various loan agreements.

At December 31, 1994, UAL and United had an effective shelf registration statement on file with the Securities and Exchange Commission to offer up to \$1.035 billion of securities, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof. UAL's ability to issue equity securities is limited by its certificate of incorporation, which was restated in connection with the recapitalization.

#### (10) Lease Obligations

The Company leases aircraft, airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, other airport facilities, real estate, office and computer equipment and vehicles.

Future minimum lease payments as of December 31, 1994, under capital leases and operating leases having initial or remaining noncancelable lease terms of more than one year are as follows:

	Operating Leases	Capital Leases
	(In Millions)	
Payable during-		
1995	\$ 1,337	\$ 142
1996	1,358	144
1997	1,343	139
1998	1,377	144
1999	1,199	119
After 1999	20,099	558
Total minimum lease payments	\$26,713	1,246
Imputed interest (at rates of 5.3% to 12.2%)		(440)
Present value of minimum lease payments		806
Current portion		(76)
Long-term obligations under capital leases		\$ 730

As of December 31, 1994, United leased 315 aircraft, 45 of which were under capital leases. These leases have terms of four to 26 years, and expiration dates range from 1996 through 2018. Under the terms of leases for 306 of the aircraft, United has the right of first refusal to

purchase, at the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of cost. United has 21 Airbus A320-200 aircraft under 24-year operating leases which are cancelable upon eleven months notice during the initial 10 years of the leases.

Amounts charged to rent expense, net of minor amounts of sublease rentals, were \$1.222 billion in 1994, \$1.208 billion in 1993, and \$1.060 billion in 1992. Included in rent expense were insignificant amounts of contingent rentals, resulting from changes in interest rates for operating leases under which the rent payments are based on variable interest rates.

In connection with certain of these leases, United has entered interest rate swap agreements (See Note 18).

#### (11) Foreign Operations

United conducts operations in various foreign countries, principally in the Pacific, Europe and Latin America. Operating revenues from foreign operations were approximately \$4.920 billion in 1994, \$4.500 billion in 1993 and \$3.890 billion in 1992.

#### (12) Preferred Stock

UAL is authorized to issue up to 16,000,000 shares of serial preferred stock, 25,000,000 shares each of Class 1 and Class 2 ESOP Preferred Stock, and an aggregate 25,100,000 shares of Class P, M, and S Voting Preferred Stock.

At December 31, 1994, there were outstanding 5,999,900 shares of Series A cumulative 6.25% convertible preferred stock. Effective March 31, 1994, UAL changed the stated capital of the Series A preferred stock from \$30 million (\$5.00 per preferred share) to \$60,000 (\$0.01 per preferred share), with the difference being attributed to additional capital invested. Subsequent to the recapitalization, each share of Series A preferred stock is convertible into \$54.19 in cash and approximately 0.3195 shares of UAL common stock (equivalent to a conversion price of \$143.38 per common share). In December 1994, 100 shares of Series A preferred stock were converted, resulting in the issuance of 31 shares of UAL common stock. Under its terms, any portion of the convertible preferred stock is redeemable after April 30, 1996, at UAL's option, at \$100 per share plus a premium which begins at 4.375% declining to zero ratably over seven years. The Series A shares have an aggregate liquidation preference of \$600 million, or \$100 per share.

On February 3, 1995, the Company filed a registration statement with the Securities and Exchange Commission offering to exchange up to \$600 million aggregate principal amount of convertible subordinated debentures, due 2025, for up to all shares of the outstanding Series A cumulative 6.25% convertible preferred stock. Each \$1,000 principal amount of debentures issued would be convertible into a combination of cash in the amount of \$541.90 and approximately 3.192 shares of new UAL common stock (equivalent to a conversion price of \$143.50 per share of new common stock). To the extent that shares of Series A preferred stock are exchanged for the debentures, the Company's shareholders' equity will be reduced on a net basis by the aggregate fair value of the debentures issued. A reduction in shareholders' equity will reduce surplus as defined under Delaware General Corporation Law ("DGCL"). DGCL requires that dividends on outstanding capital stock may only be made from surplus or the net profits of the Company for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

In connection with the July 1994 recapitalization, UAL issued 16,416,000 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock, resulting in net proceeds of \$400 million, which was recorded as additional capital invested. The shares issued had an aggregate liquidation preference of \$410 million, or \$25 per depositary share (\$25,000 per Series B preferred share), and a stated capital of \$164 (\$0.01 per Series B preferred share). Under its terms, any portion of the Series B preferred stock or the depositary shares is redeemable for cash after July 11, 2004, at UAL's option, at the equivalent of \$25 per depositary share, plus accrued dividends. The Series B preferred stock is not convertible into any other securities, has no stated maturity and is not subject to mandatory redemption. In the fourth quarter of 1994, UAL repurchased 3,336,400 depositary shares, representing 3,336.4 shares of Series B preferred stock, at an aggregate

cost of \$87 million to be held in treasury. At December 31, 1994, there were outstanding 13,079,600 depository shares representing 13,079.6 shares of Series B preferred stock.

The Series A and B preferred stocks rank senior to all other preferred and common stocks as to receipt of dividends and amounts distributed upon liquidation. The Series A and B preferred stocks have voting rights only to the extent required by law and with respect to charter amendments that adversely affect the preferred stock or the creation or issuance of any security ranking senior to the preferred stock. Additionally, if dividends are not paid for six cumulative quarters, the Series A and Series B preferred shareholders together are entitled to elect two additional members to the UAL Board of Directors until all dividends are paid in full.

At December 31, 1994, 1,789,585 shares of Class 1 ESOP Preferred Stock and no shares of Class 2 ESOP Preferred Stock were issued. An aggregate of 17,675,345 shares of Class 1 and Class 2 ESOP Preferred Stock will be issued in connection with the recapitalization and establishment of the ESOPs (see notes 2 and 3). Each share of ESOP Preferred Stock is convertible into one share of UAL common stock, subject to adjustment under certain conditions. The stock has a par value of \$0.01 per share, is nonvoting, and has a liquidation value of \$126.96 per share plus all accrued and unpaid dividends. The Class 1 ESOP Preferred Stock provides a fixed annual dividend of \$8.8872 per share, which ceases on March 31, 2000; the Class 2 does not pay a fixed dividend.

Class P, M, and S Voting Preferred Stocks were established to provide the voting power to the employee groups participating in the ESOPs. As of December 31, 1994, one share each of Class P, M and S Voting Preferred Stock were outstanding. Additional Voting Preferred Stock will be issued as shares of the Class 1 and Class 2 ESOP Preferred Stock are allocated to employees. In the aggregate, 17,675,345 shares of Voting Preferred Stock will be issued through the year 2000. The Voting Preferred Stock at any time outstanding commands voting power for approximately 55% (subject to increase to up to 63%) of the vote of all classes of capital stock in all matters requiring a shareholder vote, other than for the election of members of the Board of Directors. The Voting Preferred Stock will generally continue to represent approximately 55% (subject to increase to up to 63%) of the aggregate voting power until the "Sunset". The "Sunset" will occur when the common shares issuable upon conversion of the outstanding Class 1 and Class 2 ESOP Preferred Stock, plus any common equity and available unissued ESOP shares held in the ESOPs or any other employee benefit plans sponsored by the Company for the benefit of its employees, represent, in the aggregate less than 20% of the common equity and available unissued ESOP shares of the Company. Under current actuarial assumptions, the Company estimates that the "Sunset" will occur in the year 2016 if no additional purchases are made by eligible employee retirement plans. The Voting Preferred Stock has a par value and liquidation preference of \$0.01 per share. The stock is not entitled to receive any dividends and is convertible into one ten-thousandth of a share of UAL common stock.

(13) Common Shareholders' Equity

In connection with the July 1994 recapitalization, each share of old common stock was converted to one half share of new common stock (and cash in lieu of fractional shares) and \$84.81 in cash. As a result, the number of outstanding shares was reduced proportionately.

Changes in the number of shares of UAL common stock outstanding during the years ended December 31 were as follows:

	1994	1993	1992
Old shares -			
Shares outstanding at beginning of year	24,568,937	24,238,482	23,758,106
Shares issued in connection with Air Wis merger	-	-	443,593
Stock options exercised	79,764	205,075	40,464
Shares issued from treasury			

under compensation arrangements	1,100	142,003	3,165
Shares acquired for treasury	(88,261)	(7,623)	(346)
Forfeiture of restricted stock	(9,800)	(9,000)	(6,500)
Other	(379)	-	-
	24,551,361	24,568,937	24,238,482
Effect of recapitalization	(12,275,680)	-	-
New shares -			
Stock options exercised	237,505	-	-
Shares issued from treasury under compensation arrangements	112,767	-	-
Shares acquired for treasury	(186,898)	-	-
Other	51	-	-
Shares outstanding at end of year	12,439,106	24,568,937	24,238,482

At December 31, 1994 and 1993, UAL held 574,111 and 920,808 shares, respectively, of common stock in treasury.

There is a preferred share purchase right associated with each share of outstanding UAL common stock. As long as the rights are associated with the shares of UAL common stock, each new share of common stock issued by UAL, including shares of common stock into which the ESOP convertible preferred stock and the Series A preferred stock are convertible, will include one right. Upon the occurrence of certain events, each right will entitle its holder to purchase one one-hundredth of a share of Series C junior participating preferred stock, without par value, for \$185 (subject to antidilution provisions). The rights will become exercisable ten business days after any person or group announces its beneficial ownership of 15% or more of UAL common stock, or announces an offer for 30% or more of UAL common stock. If any person or group acquires 15% or more of UAL common stock (other than the ESOP trustee, ALPA, the IAM and the beneficial owners of UAL common stock eligible to report and reporting on Schedule 13G under the Securities Exchange Act of 1934), each right will entitle its holder (except the acquiring party) to buy common stock of UAL having a market value of three times the exercise price of the right. If, after the rights become exercisable, UAL is involved in a merger or sells more than 50% of its assets or earning power, each right will entitle its holder to buy common stock of the surviving entity having a market value of three times the exercise price of the right. UAL has the right to redeem the rights for \$0.05 per right prior to the time they become exercisable. The rights expire on December 31, 1996. The rights agreement provides that the transactions associated with the recapitalization did not and will not cause the rights to become exercisable as a result thereof.

#### (14) Stock Options and Awards

The Company has granted options to purchase common stock to various officers and employees. The option price for all stock options is at least 100% of the fair market value of UAL common stock at the date of grant. Options generally vest and become exercisable in up to five equal, annual installments beginning one year after the date of grant, and generally expire in 10 years.

Prior to 1992, stock appreciation rights ("SARs") were granted in tandem with certain stock options. On exercise of these SARs, holders would receive, in cash, 100% of the appreciation in fair market value of the shares subject to the SAR. The estimated payment value of SARs, net of market value adjustments, was charged to earnings over the vesting period. In 1992, all active officers relinquished their SARs but retained the tandem stock options. As a result of the 1994 recapitalization, all outstanding options became fully vested at the time of the transaction and the holders of such options became eligible to exercise the cashless exercise features of stock options. Under a cashless exercise, the Company withholds, at the election of the optionee, from shares that would otherwise be issued upon exercise that number of shares having a fair market value equal to the exercise price and related income taxes. For outstanding options eligible for cashless exercise, changes in the market price of the stock are charged to earnings currently. At December 31, 1994, 12,927 SARs were outstanding with an average exercise price of \$75.70 per old share and option holders were eligible for cashless exercise in connection with 1,068,173 outstanding options with an average exercise price of \$133.76 per old share. The expense (credit) recorded

for SARs and cashless exercises was \$15 million in 1994, \$1 million in 1993 and \$(1) million in 1992.

Stock options which were outstanding at the time of the recapitalization are exercisable for shares of old common stock, each of which is in turn converted into one half share of new common stock and \$84.81 in cash upon exercise. Subsequent to the recapitalization, the Company granted stock options which are exercisable for shares of new common stock.

Stock option activity for the past three years was as follows:

	New Share Options 1994	Old Share Options 1994	1993	1992
Outstanding at beginning of year	-	1,673,782	1,864,555	1,318,603
Granted	959,500	-	65,750	686,500
Exercised	-	(554,771)	(205,075)	(40,464)
Surrendered upon exercise of SARs	-	(1,000)	(16,198)	(8,334)
Terminated	(13,500)	(36,911)	(35,250)	(91,750)
Outstanding at end of year	946,000	1,081,100	1,673,782	1,864,555
Exercisable at end of year	150,000	1,081,100	733,782	603,180
Reserved for future grants at end of year	454,000	-	300,111	330,611
Average option price:				
Per old share -				
Exercised	N/A	\$ 95.32	\$ 87.61	\$ 88.16
Outstanding at end of year	N/A	\$ 132.77	\$ 120.21	\$ 116.11
Per new share -				
Exercised	-	\$ 21.02 (1)	N/A	N/A
Outstanding at end of year	\$ 90.36	\$ 95.92 (1)	N/A	N/A

(1) Represents the new share equivalent of the old share options.

The expiration dates for options outstanding as of December 31, 1994 ranged from January 12, 1995 to December 15, 2004. At December 31, 1994, outstanding options were held by 199 officers and key employees.

The Company has also awarded shares of restricted stock to key officers and employees. These restricted shares generally vest over a five-year period. Unvested shares are subject to certain transfer restrictions and forfeiture under certain circumstances. Unearned compensation, representing the fair market value of the stock on the date of award, is amortized to salaries and related costs over the vesting period. During 1993, 138,500 restricted shares were issued from treasury stock and awarded to employees. No restricted shares were issued during 1992. In 1994, 1993 and 1992, 9,800, 9,000 and 6,500 shares, respectively, were forfeited and returned to treasury stock. As a result of the 1994 recapitalization, all outstanding restricted shares became vested at the time of the transaction and \$12 million of compensation expense was recorded for the remaining balance of unearned compensation attributable to the outstanding shares. In 1994, subsequent to the recapitalization, 112,767 restricted shares of new common stock were issued from treasury, of which 66,500 were still restricted as of December 31, 1994. Additionally, 29,733 shares were reserved for future award.

#### (15) Retirement Plans

The Company has various retirement plans which cover substantially all employees. Defined benefit plans covering certain employees (primarily union ground employees) provide a stated benefit for specified periods of service, while defined benefit plans for other employees provide benefits based on employees' years of service and average compensation for a specified period

of time before retirement. Pension costs are funded to at least the minimum level required by the Employee Retirement Income Security Act of 1974. The company also provides several defined contribution plans which cover substantially all U. S. employees who have completed one year of service. For certain groups of employees (primarily pilots), the company contributes an annual amount on behalf of each participant, calculated as a percentage of the participants' earnings or a percentage of the participants' contributions.

The following table sets forth the defined benefit plans' funded status and amounts recognized in the statement of consolidated financial position as of December 31:

	1994	1993
	Accumulated	Accumulated
	Benefits	Benefits
	Exceed	Exceed
	Assets	Assets
	(In Millions)	
Actuarial present value of accumulated benefit obligation	\$4,191	\$4,200
Actuarial present value of projected benefit obligation	\$4,577	\$5,025
Plan assets at fair value	3,785	3,589
Projected benefit obligation in excess of plan assets	792	1,436
Unrecognized net gain (loss)	(13)	(624)
Prior service cost not yet recognized in net periodic pension cost	(523)	(455)
Remaining unrecognized net asset	(3)	16
Adjustment required to recognize minimum liability	302	346
Pension liability recognized in the statement of consolidated financial position	\$ 555	\$ 719

For the valuation of pension obligations as of December 31, 1994 and 1993, the weighted average discount rates used were 8.75% and 7.5%, respectively, and the rates of increase in compensation were 3.15% and 4.0%, respectively. Substantially all of the accumulated benefit obligation is vested.

Total pension expense for all retirement plans (including defined contribution plans) was \$350 million in 1994, \$346 million in 1993, and \$324 million in 1992.

Plan assets are invested primarily in governmental and corporate debt instruments and corporate equity securities. The expected average long-term rate of return on plan assets at December 31 was 9.75% for 1994, 9.75% for 1993 and 10.25% for 1992.

The net periodic pension cost of defined benefit plans included the following components:

	1994	1993	1992
	(In Millions)		
Service cost - benefits earned during the year	\$ 216	\$ 186	\$ 180
Interest cost on projected benefit obligation	379	356	320
Actual (return) loss on plan assets	28	(310)	(289)
Net amortization and deferral	(351)	19	24
Net periodic pension cost	\$ 272	\$ 251	\$ 235

(16) Other Employee Benefits

The Company provides certain health care benefits, primarily in the U. S., to retirees and eligible dependents. Benefits are generally funded from company assets on a current basis, although amounts sufficient to pay claims incurred, but not yet paid, are held in trust. Certain plan benefits are subject to co-payments, deductibles and other limits described in the plans and the benefits are reduced once a retiree becomes eligible for Medicare. The Company also provides certain life insurance benefits to retirees. The assets to fund retiree life insurance benefits are being held in a deposit trust administration fund with a major insurance company. The Company has reserved the right, subject to collective bargaining agreements, to modify or terminate the health care and life insurance benefits for both current and future retirees.

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". This standard requires that the expected cost of postretirement benefits be charged to expense during the years in which employees render service. Upon adoption, the Company recorded a one-time pretax charge of \$925 million (\$580 million after tax) as the cumulative effect of accounting change.

Information on the plans' funded status, on an aggregate basis at December 31, follows (in millions):

	1994	1993
Accumulated postretirement benefit obligation:		
Retirees	\$ 383	\$ 416
Other fully eligible participants	183	236
Other active participants	590	679
Total accumulated postretirement benefit obligation	1,156	1,331
Unrecognized net gain (loss)	138	(149)
Fair value of plan assets	(95)	(91)
Accrued postretirement benefit obligation	\$1,199	\$1,091

Net postretirement benefit costs included the following components (in millions):

	1994	1993	1992
Service cost - benefits attributed to service during the period	\$ 46	\$ 38	\$ 28
Amortization of unrecognized net loss	3	3	-
Interest cost on benefit obligation	95	92	83
Net postretirement benefit costs	\$144	\$133	\$111

The discount rate used to estimate the accumulated postretirement benefit obligation as of December 31, 1994 and 1993 was 8.75% and 7.5%, respectively. The assumed health care cost trend rate was 10% and 11% for 1994 and 1993, respectively, declining annually to a rate of 4% by the year 2001 and remaining level thereafter. The effect of a 1% increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation at December 31, 1994, by \$150 million and the aggregate of the service and interest cost components of net postretirement benefit cost for 1994 by \$22 million.

The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1994. SFAS No. 112 requires

recognition of the liability for postemployment benefits during the period of employment. Such benefits include company paid continuation of group life insurance and medical and dental coverage for certain employees after employment but before retirement. The effect of adopting SFAS No. 112 was a cumulative charge for recognition of the transition liability of \$42 million, before tax benefits of \$16 million. The ongoing expenses related to postemployment benefits will vary based on actual claims experience.

(17) Investments in Debt Securities

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective January 1, 1994. The Company's investments in such securities are included in "Cash and cash equivalents" and "Short-term investments." The following information pertains to the Company's investments in such securities at December 31, 1994 (in millions):

	Aggregate Fair Value	Gross Unrealized Holding Losses	Cost Basis	Average Maturity (Months)
Available-for-sale:				
U.S. government agency debt securities	\$ 334	\$ 2	\$ 336	9
Corporate debt securities	\$ 341	\$ 2	\$ 343	10
Other debt securities	\$ 146	\$ 1	\$ 147	8
Held-to-maturity:				
U.S. government agency debt securities	\$ 97	\$ -	\$ 97	6
Corporate debt securities	\$ 222	\$ -	\$ 222	4
Other debt securities	\$ 384	\$ -	\$ 384	2

The net unrealized holding loss on available-for-sale securities of \$5 million has been recorded as a component of shareholders' equity, net of related tax benefits. The proceeds from sales of available-for-sale securities were \$255 million in 1994. Such sales resulted in insignificant gross realized gains and losses, based on the cost of the specific securities sold. These gains and losses were included in interest income for the year.

(18) Financial Instruments and Off-Balance-Sheet Risk

Balance Sheet Financial Instruments: Fair Values

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, short-term investments classified as "held-to-maturity", and short-term borrowings approximate fair value due to the immediate or short-term maturities of these financial instruments. Investments in debt securities classified as "available-for-sale" are stated at fair value based on the quoted market prices for the securities (see note 17).

The fair value of long term debt, including debt due within one year, is primarily based on the quoted market prices for the same or similar issues or on the then current rates offered for debt with similar terms and maturities. The fair value of long-term debt, including debt due within one year, at December 31, 1994 and 1993 was \$2.983 billion and \$3.041 billion, respectively, compared with carrying values of \$3.271 billion and \$2.846 billion.

Off Balance Sheet Financial Instruments: Risks and Fair Values

United has entered interest rate swap agreements in order to manage the interest rate exposure associated with certain variable rate debt and leases. The swap agreements have remaining terms averaging 16 years, corresponding to the terms of the related debt or lease obligations. Under the agreements, United makes payments to counterparties at fixed rates and in return receives payments based on LIBOR. United's theoretical risk in the swaps is the cost of replacing

the contracts at current market interest rates in the event of default by any of the counterparties; however, United does not anticipate such default since the counterparties are major financial institutions with investment grade ratings by all rating agencies. In addition, the risk of such default is mitigated by provisions in the contracts which require either party to post increasing amounts of collateral as the value of the contract moves against them. Counterparty credit risk is further minimized by periodic settlements throughout the duration of the contract. At December 31, 1994, a notional amount of \$479 million of interest rate swap agreements effectively fixed interest rates between 8.02% and 8.65% on such obligations. The fair values to United of interest rate swap agreements at December 31, 1994 and 1993 were \$26 million and \$(8) million, respectively, taking into account interest rates in effect at the time.

In the first quarter of 1994, United entered into a ten-year foreign currency swap contract to reduce exposure to currency fluctuations in connection with 29 billion of Japanese yen-denominated obligations. The currency swap contract, which was designated as a hedge, effectively fixed, at then current exchange rates, future principal, interest and lease payments. The currency swap contract exactly matches the cash flows and maturities of the obligations it hedges. At December 31, 1994, the swap contract had a notional amount of \$293 million, which will reduce periodically as payments are made. The fair value of the currency swap contract to United at December 31, 1994 was approximately \$23 million based on the reduction in the yen to dollar exchange rate since United entered into the contract.

United's theoretical risk in the currency swap is the cost of replacing the contract at current market rates in the event of default by the counterparty; however, United does not anticipate such default since the counterparty is a major money center bank with an investment grade rating by all rating agencies. Furthermore, the risk of such default is mitigated by provisions in the contract which require either party to post increasing amounts of collateral as either their credit rating deteriorates or the value of the contract moves against them. Counterparty credit risk is minimal since currency is exchanged simultaneously throughout the duration of the contract.

The currency swap replaced short-term foreign currency call options and forward contracts which expired under their own terms, resulting in an insignificant loss that was included in income, offsetting the insignificant gain recorded from the related obligations that were being hedged. In October 1994, United terminated the portion of the foreign currency swap contract hedging future interest payments in connection with the Japanese yen-denominated obligations. While this portion of the contract was in effect, foreign currency gains and losses on it were deferred and included in interest as it accrued. The gain resulting from the contract termination, net of losses previously deferred in connection with the interest payments, is being deferred and amortized over the remaining life of the obligations.

#### Financial Guarantees

As of December 31, 1994, United had guaranteed \$77 million of indebtedness of affiliates.

Special facility revenue bonds have been issued by certain municipalities to build or improve airport facilities leased by United. Under the lease agreements, United is required to make rental payments in amounts sufficient to pay the maturing principal and interest payments on the bonds. At December 31, 1994, \$860 million principal amount of such bonds was outstanding. As of December 31, 1994, UAL and United had jointly guaranteed \$35 million of such bonds and United had guaranteed \$834 million of such bonds, including accrued interest. Included in this amount are bonds issued by the City of Denver in connection with the construction of certain United facilities at Denver International Airport, which will replace Stapleton International Airport in 1995.

Transfers of the tax benefits of accelerated depreciation and investment tax credits associated with the acquisition of certain equipment have been made previously by United to various tax lessors through tax lease transactions. Proceeds from tax benefit transfers were recognized as income in the year the lease transactions were

consummated. The subject equipment is being depreciated for book purposes. United has agreed to indemnify (guaranteed in some cases by UAL) the tax lessors against loss of such benefits in certain circumstances and has agreed to indemnify others for loss of tax benefits in limited circumstances for certain used aircraft purchased by United subject to previous tax lease transactions. Certain tax lessors have required that letters of credit be issued in their favor by financial institutions as security for United's indemnity obligations under the leases. The outstanding balance of such letters of credit totaled \$58 million at December 31, 1994. At that date, United had granted mortgages on aircraft and engines having a total book value of \$238 million as security for indemnity obligations under tax leases and letters of credit.

#### Concentration of Credit Risk

The Company does not believe it is subject to any significant concentration of credit risk. Most of the Company's receivables result from sales of tickets to individuals through travel agents, company outlets or other airlines, often through the use of major credit cards. These receivables are short term, generally being settled shortly after the sale.

#### (19) Commitments and Contingent Liabilities

The Company has certain contingencies resulting from litigation and claims (including environmental issues) incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the views of legal counsel, the nature of contingencies to which the Company is subject and its prior experience, that the ultimate disposition of these contingencies is not expected to materially affect UAL's consolidated financial position or results of operations.

At December 31, 1994, commitments for the purchase of property and equipment, principally aircraft, approximated \$3.9 billion after deducting advance payments. An estimated \$1.2 billion is expected to be expended during 1995, \$0.7 billion in 1996, \$1.3 billion in 1997, \$0.5 billion in 1998 and \$0.2 billion in 1999 and thereafter. The major commitments are for the purchase of thirty-four B777 aircraft, which are expected to be delivered between 1995 and 1999.

In addition to the B777 order, United has arrangements with Airbus and International Aero Engines to lease an additional 29 A320 aircraft, which are scheduled for delivery through 1998. Under the agreement, United is making advance payments through 1998 which are refundable upon delivery of each aircraft.

At December 31, 1994, United also had purchase options for 162 B737 aircraft, 39 B757 aircraft, 34 B777 aircraft, 49 B747 aircraft, 8 B767 aircraft and 50 A320 aircraft. Under the terms of certain of these options which are exercisable during the period 1995 through 1997, United would forfeit significant deposits on such options it does not exercise. Consistent with its revised capital spending plan, United has recently cancelled options on certain aircraft.

United's Indianapolis Maintenance Center began operation in March 1994, initially performing maintenance on B737 aircraft. In December 1994, the UAL Board of Directors approved the relocation of B757 and B767 airframe maintenance to the Indianapolis Maintenance Center. Construction of certain B737 airframe facilities is still in process and construction of facilities for the other fleet types will begin in 1995.

The facilities are being financed primarily with tax-exempt bonds and other capital sources. In connection with incentives received, United has agreed to reach an \$800 million capital spending target and employ at least 7,500 individuals.

#### (20) Statement of Consolidated Cash Flows - Supplemental Disclosures

Supplemental disclosures of cash flow information and non-cash investing and financing activities were as follows:

	1994	1993	1992
	(In Millions)		
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$302	\$330	\$200
Income taxes	\$ 69	\$135	\$ 30
Non-cash transactions:			
Capital lease obligations incurred	\$ -	\$ 70	\$276
Long-term debt incurred in connection with additions to equipment	\$ 21	\$487	\$755
Increase in pension intangible	\$ 13	\$ 19	\$ 8
Net unrealized loss on investments	\$ 3	\$ -	\$ -
Issuance of treasury stock in exchange for Air Wisconsin common stock	\$ -	\$ -	64

(21) Other Matters

In April 1993, UAL transferred the Air Wisconsin, Inc. operations at Dulles to Atlantic Coast Airlines. In September 1993, UAL transferred certain Air Wisconsin, Inc. operations at O'Hare to United Feeder Services. In December 1993, UAL transferred the jet operations of Air Wisconsin, Inc. to CJT Holdings. These operations are being conducted by the counterparties in these agreements under the United Express trade name. In October 1994, UAL announced an agreement to sell for \$119 million ten Dash 8 aircraft and spare parts owned by Air Wisconsin, Inc. to Mesa Airlines, and United agreed to a ten year extension of its United Express marketing agreement with Mesa Airlines. The sales will take place in the first quarter of 1995.

In 1993, United reached agreements to sell assets related to the operation of 16 of its flight kitchens to Dobbs International Services, Inc. and Caterair International Corp. for \$119 million. These asset sales were completed by June 1994 and resulted in an insignificant gain. Under the agreements, the purchasers are providing catering services for United at the airports served by the flight kitchens for seven years.

(22) Selected Quarterly Financial Data (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
	(In Millions)				
1994:					
Operating revenues	\$3,195	\$3,502	\$3,814	\$3,439	\$13,950
Earnings (loss) from operations	(36)	167	312	78	521
Earnings (loss) before cumulative effect of accounting changes	(71)	55	82	11	77
Cumulative effect of accounting changes	(26)	-	-	-	(26)
Net earnings (loss)	\$ (97)	\$ 55	\$ 82	\$ 11	\$ 51
Per share amounts, primary:					
Earnings (loss) before cumulative effect of accounting changes	\$ (3.31)	\$ 1.89	\$ 4.24	\$ (0.98)	\$ 0.76
Cumulative effect of accounting changes	(1.06)	-	-	-	(1.37)
Net earnings (loss)	\$ (4.37)	\$ 1.89	\$ 4.24	\$ (0.98)	\$ (0.61)
Net earnings (loss) per share, fully diluted	\$ (4.37)	\$ 1.89	\$ 4.21	\$ (0.98)	\$ (0.61)
1993:					
Operating revenues	\$3,053	\$3,296	\$3,629	\$3,347	\$13,325

Earnings (loss) from operations	(121)	84	281	19	263
Earnings (loss) before extraordinary item	(138)	22	149	(64)	(31)
Extraordinary loss on early extinguishment of debt	(19)	-	-	-	(19)
Net earnings (loss)	\$ (157)	\$ 22	\$ 149	\$ (64)	\$ (50)
Per share amounts, primary:					
Earnings (loss) before extraordinary item	\$ (5.92)	\$ 0.54	\$ 5.74	\$ (3.02)	\$ (2.64)
Extraordinary loss on early extinguishment of debt	(0.77)	-	-	-	(0.76)
Net earnings (loss)	\$ (6.69)	\$ 0.54	\$ 5.74	\$ (3.02)	\$ (3.40)
Net earnings (loss) per share, fully diluted	\$ (6.69)	\$ 0.54	\$ 5.21	\$ (3.02)	\$ (3.40)

In 1994, United began recording certain air transportation price adjustments, which were previously recorded as commissions, as adjustments to revenue. The revenue amounts for 1993 above have been reclassified to conform with the current presentation.

The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1994. The effect of adopting SFAS No. 112 was a cumulative charge for recognition of the transition liability of \$42 million, before tax benefits of \$16 million.

In connection with the July 1994 recapitalization, the Company incurred pretax costs of \$19 million, \$22 million and \$128 million in the first, second and third quarters, respectively, including transaction costs and severance payments to certain former United employees. Of these costs, \$48 million were recorded as operating expenses in the third quarter, while the remaining costs were recorded in "Miscellaneous, net."

In the second quarter of 1993, United retired \$500 million of senior subordinated notes. An extraordinary loss of \$19 million, net of tax benefits of \$8 million, was recorded in the first quarter of 1993, based on United's stated intention to retire the notes.

In the third quarter of 1993, United recorded a charge of \$59 million to reduce the net book value of 15 DC-10 aircraft to estimated net realizable value. In addition, third quarter earnings included a \$17 million gain and interest income of \$27 million resulting from the final settlement for overpayment of annuities purchased in 1985 to cover certain vested pension benefits. The 1993 fourth quarter included \$53 million of equity in the loss of Galileo, which primarily reflects United's share of a charge recorded by Galileo for the cost of eliminating duplicate facilities and operations.

Earnings per share were calculated after providing for the following preferred stock dividend requirements (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1994	\$ 9	\$ 9	\$20	\$21	\$59
1993	\$ 6	\$ 9	\$ 9	\$ 9	\$33

Earnings available to common stockholders were also reduced by \$3 million in the 1994 fourth quarter and twelve-month period for the excess of amounts paid to reacquire UAL preferred stock over the liquidation preference of such stock. In the 1994 and 1993 third quarters, primary per share amounts were based on weighted average common shares and common equivalents outstanding, including ESOP shares committed to be released. Fully diluted per share amounts assume the exercise of stock options and vesting of restricted stock at the beginning of the periods and, for the 1993 third quarter, the conversion of convertible preferred stock and elimination of related dividends. The fully diluted per share amount for

the 1994 third quarter does not assume conversion of convertible preferred stock since the effect is antidilutive. In the computations for the 1994 and 1993 first, second and fourth quarters and year, common stock equivalents were not included as they did not have a dilutive effect.

In connection with the July 1994 recapitalization, each old common share was exchanged for one half new common share. As required under generally accepted accounting principles for transactions of this type, the historical weighted average shares outstanding have not been restated. Thus, direct comparisons between 1994 and 1993 per share amounts are not meaningful.

The sum of quarterly earnings per share amounts is not the same as annual earnings per share amounts because of changing numbers of shares outstanding.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

No reportable event has occurred.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding the directors of the Company and the information required by Item 405 of Regulation S-K shall be incorporated by reference from the Company's definitive proxy statement for its 1995 Annual Meeting of Stockholders or shall be added hereto by an amendment to this Form 10-K, in either case within the time required by the instructions to Form 10-K. Information regarding the executive officers of the Company is included in Part I of this Form 10-K under the caption "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION.

Information regarding this Item shall be incorporated by reference from the Company's definitive proxy statement for its 1995 Annual Meeting of Stockholders or shall be added hereto by an amendment to this Form 10-K, in either case within the time required by the instructions to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information regarding this Item shall be incorporated by reference from the Company's definitive proxy statement for its 1995 Annual Meeting of Stockholders or shall be added hereto by an amendment to this Form 10-K, in either case within the time required by the instructions to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information regarding this Item shall be incorporated by reference from the Company's definitive proxy statement for its 1995 Annual Meeting of Stockholders or shall be added hereto by an amendment to this Form 10-K, in either case within the time required by the instructions to Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

- (a) 1. The financial statements required by this item are listed in Item 8, "Financial Statements and Supplementary Data" herein.
2. The financial statement schedule required by

this item is listed below:

For the years ended December 31, 1994, 1993 and 1992:

II--Valuation and qualifying accounts

All other schedules are omitted because they are not applicable, not required or the required information is shown in the consolidated financial statements or notes thereto.

3. The exhibits required by this item are listed in "Index to Exhibits" herein.

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the fourth quarter of 1994.

UAL Corporation and Subsidiary Companies  
Schedule II--Valuation and Qualifying Accounts  
For the Year Ended December 31, 1994

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses (In Millions)	Other Accounts	Deductions	Balance at End of Year
Reserve deducted from asset to which it applies:					
Allowance for doubtful accounts	\$ 22	\$ 25	\$ -	\$ 25 (1)	\$ 22
Obsolescence allowance - Flight equipment spare parts	\$ 70	\$ 12	\$ 4	\$ 42 (2)	\$ 44

(1) Deduction from reserve for purpose for which reserve was created.

(2) Includes deduction from reserve for parts dispositions and write-offs and \$22 million of reserves transferred in connection with parts transferred to fixed asset accounts.

UAL Corporation and Subsidiary Companies  
Schedule II--Valuation and Qualifying Accounts  
For the Year Ended December 31, 1993

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses (In Millions)	Other Accounts	Deductions	Balance at End of Year
Reserve deducted from asset to which it applies:					
Allowance for doubtful accounts	\$ 12	\$ 19	\$ 7	\$ 16 (1)	\$ 22
Obsolescence allowance - Flight equipment spare parts	\$ 46	\$ 12	\$ 27	\$ 15 (1)	\$ 70

(1) Deduction from reserve for purpose for which reserve was created.

Schedule II--Valuation and Qualifying Accounts

For the Year Ended December 31, 1992

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses (In Millions)	Other Accounts	Deductions	Balance at End of Year
Reserve deducted from asset to which it applies:					
Allowance for doubtful accounts	\$ 13	\$18	\$ -	\$ 19(1)	\$ 12
Obsolescence allowance - Flight equipment spare parts	\$ 67	\$12	\$ 2	\$ 35(2)	\$ 46

(1) Deduction from reserve for purpose for which reserve was created.

(2) Includes deduction from reserve for parts dispositions and write-offs and \$15 million of reserves transferred in connection with parts transferred to non-operating property.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation as filed in Delaware on July 12, 1994, as corrected on February 2, 1995 (filed as Exhibit 3.1 to Registrant's Form S-4 Registration Statement (Registration No. 33-57579 and incorporated herein by reference).
3.2	By-laws, as amended on July 12, 1994 (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).
4.1	Rights Agreement dated as of December 11, 1986 between Registrant and First Chicago Trust Company of New York, as Rights Agent, as amended.
4.2	Deposit Agreement dated as of July 12, 1994 between UAL Corporation and holders from time to time of Depositary Receipts described herein (filed as Exhibit 4.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).
	Registrant's indebtedness under any single instrument does not exceed 10% of Registrant's total assets on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.
10.1	Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994 (the "Recapitalization Agreement"), as amended, among UAL Corporation, the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers (filed as Exhibit A to Exhibit 10.1 of UAL Corporation's (File No. 1-6033) Form 8-K dated June 2, 1994 and incorporated herein by reference; amendment thereto filed as Exhibit 10.1 of UAL Corporation's (File 1-6033) Form 8-K dated June 29, 1994 and incorporated herein by reference).
10.2	Waiver and Agreement, dated as of December 23, 1994, to the Recapitalization Agreement

among UAL Corporation, the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers.

- 10.3 Third Amendment, dated as of March 15, 1995, to the Recapitalization Agreement among UAL Corporation, the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers.
- 10.4 UAL Corporation Employee Stock Ownership Plan, effective as of July 12, 1994 (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.5 UAL Corporation Employee Stock Ownership Plan Trust Agreement between UAL Corporation and State Street Bank and Trust Company, effective July 12, 1994 (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.6 UAL Corporation Supplemental ESOP, effective as of July 12, 1994 (filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.7 UAL Corporation Supplemental ESOP Trust Agreement between UAL Corporation and State Street Bank and Trust Company, effective July 12, 1994 (filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.8 Preferred Stock Purchase Agreement, dated as of March 25, 1994, between UAL Corporation and State Street Bank and Trust Company (filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.9 Amendment No. 1 to Preferred Stock Purchase Agreement, dated as of June 2, 1994, between UAL Corporation and State Street Bank and Trust Company (filed as Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.10 Class I Junior Preferred Stockholders' Agreement dated as of June 12, 1994 (filed as Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.11 Class SAM Preferred Stockholders' Agreement dated as of July 12, 1994 (filed as Exhibit 10.13 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).
- 10.12 First Refusal Agreement dated as of July 12, 1994, as amended by First Amendment dated as of February 24, 1995.
- 10.13 UAL Corporation 1981 Incentive Stock Plan, as

amended.

- 10.14 UAL Corporation 1988 Restricted Stock Plan,  
as amended.
- 10.15 UAL Corporation Incentive Compensation Plan,  
as amended.
- 10.16 UAL Corporation Retirement Plan for Outside  
Directors, as amended (filed as Exhibit 10.1  
to Registrant's Quarterly Report on Form 10-Q  
for the quarter ended March 31, 1994 and  
incorporated herein by reference).
- 10.17 Description of Complimentary Travel and Cargo  
Carriage Benefits for UAL Directors (filed as  
Exhibit 10.1 to Registrant's Quarterly Report  
on Form 10-Q for the quarter ended March 31,  
1994 and incorporated herein by reference).
- 10.18 UAL Corporation 1992 Stock Plan for Outside  
Directors, as amended on December 15, 1994.
- 10.19 UAL Corporation 1995 Directors Plan.
- 10.20 Employment Agreement between UAL Corporation  
and Gerald Greenwald (filed as Exhibit 10.5  
to Registrant's Quarterly Report on Form 10-Q  
for the quarter ended June 30, 1994 and  
incorporated herein by reference).
- 10.21 Amendment No. 1 to Employment Agreement  
between UAL Corporation and Gerald Greenwald  
(filed as Exhibit 10.6 to Registrant's  
Quarterly Report on Form 10-Q for the quarter  
ended June 30, 1994 and incorporated herein  
by reference).
- 10.22 Restricted Stock Deposit Agreement between  
UAL Corporation and Gerald Greenwald (filed  
as Exhibit 10.7 to Registrant's Quarterly  
Report on Form 10-Q for the quarter ended  
June 30, 1994 and incorporated herein by  
reference).
- 10.23 1988 Restricted Stock Plan Deposit Agreement  
between UAL Corporation and Gerald Greenwald  
(filed as Exhibit 10.8 to Registrant's  
Quarterly Report on Form 10-Q for the quarter  
ended June 30, 1994 and incorporated herein  
by reference).
- 10.24 Non-Qualified Stock Option Agreement between  
UAL Corporation and Gerald Greenwald (filed  
as Exhibit 10.9 to Registrant's Quarterly  
Report on Form 10-Q for the quarter ended  
June 30, 1994 and incorporated herein by  
reference).
- 10.25 Restricted Stock Deposit Agreement between  
UAL Corporation and John A. Edwardson  
(filed as Exhibit 10.10 to Registrant's  
Quarterly Report on Form 10-Q for the quarter  
ended June 30, 1994 and incorporated herein  
by reference).
- 10.26 Restricted Stock Deposit Agreement between  
UAL Corporation and Stuart I. Oran (filed as  
Exhibit 10.12 to Registrant's Quarterly  
Report on Form 10-Q for the quarter ended  
June 30, 1994 and incorporated herein by  
reference).
- 10.27 Letter Agreement No. 6-1162-JCM-500 dated  
December 9, 1994 to Agreement dated December

18, 1990 between The Boeing Company, as seller, and United Air Lines, Inc., and United Worldwide Corporation, as buyer, for the acquisition of Boeing 777-200 aircraft (as previously amended and supplemented, "777-200 Purchase Agreement" (filed as Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990 and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.1, 10.2 and 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, (ii) Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, and (iii) Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)). (Exhibit 10.27 hereto is filed with a request for confidential treatment of certain portions.)

10.28 Letter Agreement 6-1171-FT-831 dated February 22, 1995 to 777-200 Purchase Agreement. (Exhibit 10.28 hereto is filed with a request for confidential treatment of certain portions.)

10.29 Letter Agreements dated January 31, 1995 to Agreement dated December 18, 1990 between The Boeing Company, as seller, and United Air Lines, Inc., and United Worldwide Corporation, as buyer, for the acquisition of Boeing 747-400 aircraft (as previously amended and supplemented, "747-400 Purchase Agreement" (filed as Exhibit 10.8 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.4 and 10.5 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, (ii) Exhibits 10.3, 10.4, 10.5, 10.6 and 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, (iii) Exhibit 10.3 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, and (iv) Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)). (Exhibit 10.29 hereto is filed with a request for confidential treatment of certain portions.)

10.30 Letter Agreement dated February 28, 1995 to 747-400 Purchase Agreement. (Exhibit 10.30 hereto is filed with a request for confidential treatment of certain portions.)

10.31 Letter Agreement dated February 10, 1995 to A320 Purchase Agreement dated August 10, 1992 between AVSA, S.A.R.L., as seller, and United Air Lines, Inc., as buyer, for the acquisition of Airbus Industrie A320-200 model aircraft (as previously amended and supplemented, "A320-200 Purchase Agreement" (filed as Exhibit 10.14 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.4 and 10.5 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, and (ii) Exhibits 10.15 and 10.16 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)).

(Exhibit 10.31 hereto is filed with a request for confidential treatment of certain portions.)

- 10.32 Agreement dated March 1, 1990 between The Boeing Company and United Air Lines, Inc., as amended and supplemented, for the acquisition of Boeing 767-300ER aircraft (filed as Exhibit (10)L to Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.7, 10.8, 10.9 and 10.10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, (ii) Exhibits 10.7, 10.8, 10.9, 10.10, 10.11, 10.12, 10.13 and 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and (iii) Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference).
- 10.33 Agreement dated April 26, 1989 between The Boeing Company and United Air Lines, Inc., as amended and supplemented, for the acquisition of Boeing 757-200 and 737 aircraft (filed as Exhibit (10)K to Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.12 and 10.13 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, (ii) Exhibits 10.14, 10.15, 10.16, 10.17, 10.18, 10.19 and 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and (iii) Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference).
- 10.34 An amended and restated agreement, dated March 19, 1992, between The Boeing Company and United Air Lines, Inc., for the acquisition of Boeing 737 aircraft (filed as Exhibit 10.15 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.20, 10.21 and 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and (ii) Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference).
- 10.35 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated as of December 1, 1994, amending the Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated November 21, 1991, concerning United's aircraft maintenance facility (filed as Exhibit 10.29 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference; supplements thereto filed as Exhibits 10.9 and 10.10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference).
- 10.36 United Supplemental Retirement Plan (filed as Exhibit 10.42 to Registrant's Annual Report

on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

- 10.37 Description of Officer Benefits.
- 10.38 Form of Severance Agreement between UAL Corporation and certain officers of United Air Lines, Inc. (filed as Exhibit 10.27 to Registrant's Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
- 11 Calculation of fully diluted net earnings per share.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 12.2 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.
- 21 List of Registrant's subsidiaries.
- 23.1 Consent of Independent Public Accountants.
- 24 Power of Attorney (included as a part of the signature page of the Registrant's report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).
- 27 Financial Data Schedule.
- 99.1 Annual Report on Form 11-K for Employees' Stock Purchase Plan of UAL Corporation.

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UAL CORPORATION

By: /s/ Gerald Greenwald  
Gerald Greenwald  
Chairman and Chief Executive  
Officer and a Director  
(Principal Executive Officer)

By: /s/ Douglas A. Hacker  
Douglas A. Hacker  
Senior Vice President - Finance  
(Principal Financial Officer  
and Principal Accounting Officer)

March 8, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant as Directors as of March 8, 1995. Each person whose signature appears below constitutes and appoints Gerald Greenwald and Douglas A. Hacker, and each of them, the true and lawful attorneys-in-fact and agents of the undersigned, with full power of substitution and resubstitution, for and in the name, place and stead of the undersigned, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grant to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Gerald Greenwald  
Gerald Greenwald

/s/ Harlow Osteboe  
Harlow Osteboe

/s/ John A. Edwardson  
John A. Edwardson

/s/ John F. Peterpaul  
John F. Peterpaul

/s/ Duane D. Fitzgerald  
Duane D. Fitzgerald

/s/ Paul E. Tierney, Jr.  
Paul E. Tierney, Jr.

/s/ Richard D. McCormick  
Richard D. McCormick

/s/ John K. Van de Kamp  
John K. Van de Kamp

/s/ John F. McGillicuddy  
John F. McGillicuddy

/s/ Joseph V. Vittoria  
Joeseph V. Vittoria

/s/ James J. O'Connor  
James J. O'Connor

/s/ Paul A. Volcker  
Paul A. Volcker

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RIGHTS AGREEMENT

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UAL CORPORATION

And

First Chicago Trust Company of New York

Rights Agent

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Dated as of December 11, 1986

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EXHIBIT A -- Certificate of Designation, Preferences and Rights

EXHIBIT B -- Form of Right Certificate

RIGHTS AGREEMENT

This Agreement, dated as of December 11, 1986, between UAL Corporation, a Delaware corporation (the "Company"), and First Chicago Trust Company of New York, a New York corporation (the "Rights Agent").

W I T N E S S E T H

WHEREAS, the Board of Directors of the Company has authorized and declared a dividend (the "Dividend") of one Right for each outstanding share of Common Stock, par value \$0.01 per share, of the Company outstanding on the record date for the Dividend, each Right representing the right to purchase one one-

hundredth of a share of Series C Junior Participating Preferred Stock of the Company having the rights and preferences set forth in the form of Certificate of Designation, Rights and Preferences attached hereto as Exhibit A ("Preferred Stock") upon the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) "Acquiring Person" means any Person who, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding (after giving effect to full conversion into Common Stock of outstanding shares of ESOP Convertible Preferred Stock and, upon issuance, of the Available Unissued ESOP Shares), but shall not include the Company, any of its Subsidiaries, any employee benefit plan formed by the Company or any of its Subsidiaries or any Person organized, appointed or established by the Company or any of its Subsidiaries for or pursuant to the terms of any such plan; provided that (i) in the event that the Company repurchases shares of Common Stock pursuant to a tender offer, and solely as a result thereof, such Person, together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding (after giving effect to full conversion into Common Stock of outstanding shares of ESOP Convertible Preferred Stock and, upon issuance, of the Available Unissued ESOP Shares), such Person shall not be an Acquiring Person if immediately after ten days after the completion of the Company's repurchases of shares pursuant to the tender offer, such Person is no longer the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding (after giving effect to full conversion into Common Stock of outstanding shares of ESOP Convertible Preferred Stock and, upon issuance, of the Available Unissued ESOP Shares), and (ii) any Person that, together with all Affiliates and Associates of such Person is as of the date of Amendment No. 2 to this Agreement the Beneficial Owner of 15% or more but less than 20% of the shares of Common Stock outstanding as of such date shall not be an Acquiring Person until such time, if any, as such Person acquires one or more additional shares of Common Stock; and provided further that each of the ESOP Trustee and each of the Unions (as such terms are defined in the Agreement and Plan of Recapitalization, dated March 25, 1994 (as amended, the "Recapitalization Agreement"), among the Company, Air Line Pilots Association International ("ALPA") and International Association of Machinists and Aerospace Workers ("IAM")) shall not be deemed to be an Acquiring Person by reason of either the effectiveness of the Recapitalization Agreement or the undertaking or consummation of any transactions contemplated by the Recapitalization Agreement or the Schedules or other attachments thereto; and provided further that any Person who becomes a Beneficial Owner of Common Stock and is eligible to report, and reports, such Beneficial Ownership on Schedule 13G promulgated under the Securities Exchange Act of 1934 shall not be deemed an Acquiring Person so long as such Person continues to be eligible to report, and reports, such Beneficial Ownership on a Schedule 13G.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on the date hereof.

(c) A Person shall be deemed the "Beneficial Owner" of any securities:

(i) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly;

(ii) which such Person or any of such Person's Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, rights (other than these Rights), warrants or options, or otherwise, or (B) the right to vote pursuant to any agreement, arrangement or understanding; and

(iii) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any securities of the Company;

provided, however, that no Person shall be deemed the Beneficial Owner of any securities solely because such Person has been granted a revocable proxy to vote such shares.

(d) "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(e) "Close of Business" on any given date shall mean 5:00 p.m., New York time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 p.m., New York time, on the next succeeding Business Day.

(f) "Common Stock" shall mean the Common Stock, par value \$0.01 per share, of the Company, except that "Common Stock" when used with reference to any Person other than the Company shall mean the class of common stock with the greatest aggregate voting power of the outstanding classes of common stock with respect to the election of directors of such Person or, if such Person is a subsidiary of another Person, the Person which ultimately controls such first-mentioned Person.

(g) "Continuing Director" shall mean (i) any member of the Board of Directors of the Company, while such Person is a member of the Board, who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and was a member of the Board prior to the date of this Agreement, or (ii) any Person who subsequently becomes a member of the Board, while such Person is a member of the Board, who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, if such Person's nomination for election or election to the Board is recommended or approved by a majority of the Continuing Directors.

(h) "Person" shall mean any individual, firm, trust, association, corporation, partnership or other entity.

(i) "Stock Acquisition Date" shall mean the first date of public announcement by the Company or an Acquiring Person that an Acquiring Person has become such.

(j) "Subsidiary" of any Person means any other Person of which securities or other ownership interests having ordinary voting power, in the absence of contingencies, to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by such first Person.

(k) "Triggering Event" shall mean any Section 11(a) (ii) event or any Section 13 event.

(l) "Available Unissued ESOP Shares" shall have the same meaning as the term "Available Unissued ESOP Shares" in Article FIFTH, Section 1.5 of the Restated Certificate of Incorporation of the Company (the "Restated Certificate").

(m) "ESOP Convertible Preferred Stock" shall mean, collectively, the Class 1 ESOP Convertible Preferred Stock, par value \$0.01 per share, of the Company, together with the Class 2 ESOP Convertible Preferred Stock, par value \$0.01 per share, of the Company.

(n) "Voting Preferred Stock" shall have the same meaning as the term "Voting Preferred Stocks" in Article FOURTH, Part II Section 2.41 of the Restated Certificate.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agents as it may deem necessary or desirable.

Section 3. Issue of Right Certificates. Until the Close of Business on the tenth day following the Stock Acquisition Date (such date being hereinafter referred to as the "Distribution Date") (x) the Rights will be evidenced by the certificates for the Common Stock and the certificates for the Voting Preferred Stock, as the case may be, registered in the names of the holders of the Common Stock and the Voting Preferred Stock, respectively (which certificates shall be deemed also to be Right Certificates) and not by separate Right Certificates, and (y) the right to receive Right Certificates will be transferable only in connection with the transfer of Common Stock and Voting Preferred Stock, as the case may be. As soon as practicable after the Distribution Date, the Rights Agent will mail, by registered, insured, postage prepaid mail, to each record holder of the Common Stock and the Voting Preferred Stock, as the case may be, as of the Close of Business on the Distribution Date, as shown by the records of the Company, at the address of such holder shown on such records, a Right Certificate, in the form of Exhibit B hereto, evidencing: (a) with respect to each share of Common Stock - one Right for each share of Common Stock, and (b) with respect to each share of Voting Preferred Stock - a number of Rights equal to the result of dividing (x) the sum of (A) the number of shares of Common Stock into which the ESOP Convertible Preferred Stock then outstanding is convertible and (B) the number of Available Unissued ESOP Shares by (y) the number of shares of Voting Preferred Stock then outstanding (such result, the "Voting Preferred Stock Fraction").

#### Section 4. Form of Right Certificates.

(a) The Right Certificates (and the forms of election to purchase shares and of assignment to be printed on the reverse thereof) shall be substantially the same as Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 22 hereof, the Right Certificates, whenever issued, shall be dated as of the date hereof and on their face shall entitle the holders thereof to purchase such number of shares of Preferred Stock as shall be set forth therein at the price per share set forth therein (the "Purchase Price"), but the number of such shares and the Purchase Price shall be subject to adjustments as provided herein.

(b) Any Right Certificate representing Rights beneficially owned by any Person referred to in clauses (i), (ii) or (iii) of the first sentence of Section 7(e) shall (to the extent feasible) contain the following legend:

The Rights represented by this Right Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the

Rights Agreement). This Right Certificate and the Rights represented hereby may be or may become null and void in the circumstances specified in Section 7(e) of such Agreement.

Section 5. Countersignature and Registration. The Right Certificates shall be executed on behalf of the Company by its Chairman, President and Chief Executive Officer, its Vice Chairman and Chief Financial Officer, or any Vice President, either manually or by facsimile signature, and have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Right Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Right Certificates, nevertheless, may be countersigned by the Rights Agent, issued and delivered with the same force and effect as though the person who signed such Right Certificates had not ceased to be such officer of the Company; and any Right Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

Following the Distribution Date, the Rights Agent will keep or cause to be kept, at one of its offices in New York City, New York, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced on its face by each of the Right Certificates, the Certificate number, and the date of each of the Right Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates. At any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the Expiration Date (as such term is hereinafter defined), any Right Certificate or Certificates, may be transferred, split up, combined or exchanged for another Right Certificate or Right Certificates, entitling the registered holder to purchase a like number of shares of Preferred Stock as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Right Certificate shall make such request in writing delivered to the Rights Agent, and shall surrender the Right Certificate or Right Certificates to be transferred, split up, combined or exchanged at the principal office of the Rights Agent. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Right Certificate or Certificates until the registered holder of the Rights has complied with the requirements of Section 7(f). Upon satisfaction of the foregoing requirements, the Rights Agent shall, subject to Sections 4(b), 7(e) and 14, countersign and deliver to the Person entitled thereto a Right Certificate or Certificates as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Right Certificates.

Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Company will make and deliver a new Right Certificate of like tenor to the Rights Agent for delivery

to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to Section 23(a), the registered holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein, including Sections 7(e) and (f), 9(e) and 11(a)(iii)) in whole or in part at any time after the Distribution Date upon surrender of the Right Certificate, with the form of election to purchase on the reverse side thereof duly executed, to the Rights Agent at the principal office of the Rights Agent in Chicago, Illinois, together with payment of the Purchase Price for each one one-hundredth of a share of Preferred Stock as to which the Rights are exercised, at or prior to the Close of Business on the earlier of (i) December 31, 1996 (the "Final Expiration Date"), or (ii) the date, if any, on which the Rights are redeemed as provided in Section 23; such earlier date being herein referred to as the "Expiration Date".

(b) The Purchase Price for each share of Preferred Stock shall initially be \$18,500 (i.e., \$185 for each one one-hundredth of a share of Preferred Stock pursuant to the exercise of a Right), shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America.

(c) Subject to Section 20(j), upon receipt of a Right Certificate, with the form of election to purchase duly executed, accompanied by payment of the Purchase Price for the shares to be purchased and an amount equal to any applicable transfer tax in cash, or by certified check or money order payable to the order of the Company, the Rights Agent shall thereupon promptly (i) requisition from any transfer agent of the Preferred Stock of the Company certificates for the number of shares of Preferred Stock to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, (ii) as provided in Section 14(b), at the election of the Company, cause depositary receipts in lieu of fractional shares of Preferred Stock in integral multiples of one-hundredth of a share to be issued, (iii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof and (iv) promptly after receipt of such certificates and/or depositary receipts cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder, and, when appropriate, after receipt promptly deliver such cash to or upon the order of the registered holder of such Right Certificate. If the Company is obligated to deliver Common Stock, other securities or assets pursuant to this Agreement, the Company will make all arrangements necessary so that such other securities and assets are available for delivery by the Rights Agent, if and when appropriate.

(d) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Right Certificate or to his duly authorized assigns, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person (or any such

Associate of Affiliate) to holders of equity interests in such Acquiring Person (or in any such Associate or Affiliate) or to any Person with whom the Acquiring Person (or any such Associate or Affiliate) has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action, and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to insure that the provisions of this Section 7(e) and Section 4(b) are complied with, but shall have no liability to any holder of Right Certificates or other Person as a result of its failure to make any determinations with respect to an Acquiring Person or its Affiliates and Associates or any transferee of any of them hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder of Rights upon the occurrence of any purported transfer pursuant to Section 6 or exercise pursuant to this Section 7 unless such registered holder (i) shall have completed and signed the certificate contained in the form of assignment or election to purchase, as the case may be, set forth on the reverse side of the Right Certificate surrendered for such transfer or exercise, as the case may be, (ii) shall not have indicated an affirmative response to clause 1 or 2 thereof and (iii) shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Rights Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Right Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Right Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Shares of Preferred Stock.

(a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock or its authorized and issued shares of Preferred Stock held in its treasury, the number of shares of Preferred Stock that will be sufficient to permit the exercise in full of all outstanding Rights.

(b) So long as the Preferred Stock issuable upon the exercise of Rights may be listed on any national securities exchange, the Company shall use its best efforts, from and after such time as the Rights become exercisable, to cause all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company covenants and agrees that it will take all such action as may be necessary to insure that all shares of Preferred Stock delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

(d) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Right Certificates or of any shares of Preferred Stock upon the exercise of Rights. The Company shall, not, however, be required to pay any transfer tax which may be payable in respect of any transfer involved in the transfer or delivery of Right Certificates or the issuance or delivery of certificates for Preferred Stock in a name other than that of the registered holder of the Right Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates for shares of Preferred Stock upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

(e) The Company shall use its best efforts (i) to file, as soon as practicable following the earliest date after the occurrence of a Section 11(a)(ii) event as of which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iii), or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the securities issuable upon exercise of the Rights, (ii) to cause such registration statement to become effective as soon as practicable after such filing and (iii) to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the Expiration Date. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or blue sky laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed 90 days after the date set forth in clause (i) of the first sentence of this Section 9(e), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any such provision of this Agreement to the contrary, the Rights shall not be exercisable for securities in any jurisdiction if the requisite qualification in such jurisdiction shall not have been obtained, such exercise therefor shall not be permitted under applicable law or a registration statement in respect of such securities shall not have been declared effective.

Section 10. Preferred Stock Record Date. Each person in whose name any certificate for shares of Preferred Stock is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Preferred Stock represented thereby on, and such certificate shall be dated, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Preferred Stock transfer books of the Company are closed, such person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding business day on which the Preferred Stock transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate shall not be entitled to any rights of a stockholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights. The Purchase Price, the

number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a)(i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide the outstanding Preferred Stock, (C) combine the outstanding Preferred Stock into a smaller number of shares or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), except as otherwise provided in this Section 11(a), the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of capital stock issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be (except as otherwise provided herein, including Section 7(e)) entitled to receive the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately prior to such date and at a time when Preferred Stock transfer books of the Company were open, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification.

(ii) If any Person, alone or together with its Affiliates and Associates, shall, at any time after the date of this Agreement, become the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding (after giving effect to full conversion into Common Stock of outstanding shares of ESOP Convertible Preferred Stock and, upon issuance, of the Available Unissued ESOP Shares), then proper provision shall promptly be made so that each holder of a Right shall (except as otherwise provided herein, including Section 7(e)) thereafter be entitled to receive, upon exercise thereof at the Purchase Price in effect immediately prior to the first occurrence of a Section 11(a)(ii) event, in lieu of Preferred Stock, such number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock of the Company (such number of shares being referred to herein as the "Adjustment Shares") as shall be equal to the result obtained by dividing (x) the product obtained by multiplying the Purchase Price in effect immediately prior to the first occurrence of a Section 11(a)(ii) event by the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such first occurrence by (y) 33 1/3% of the current market price (determined pursuant to Section 11(d)(i)) per share of Common Stock on the date of such first occurrence; provided that if the transaction that would otherwise give rise to the foregoing adjustment is also subject to the provisions of Section 13, then only the provisions of Section 13 shall apply and no adjustment shall be made pursuant to this Section 11(a)(ii). After any Section 11(a)(ii) event the Purchase Price shall be adjusted to equal the product obtained under clause (x) above. After any Person has become an Acquiring Person, the Company shall not enter into any transaction if at the time of or immediately after such transaction there are any rights, warrants, instruments or securities outstanding or any agreements or arrangements which, as a result of the consummation of such transaction, would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights.

(iii) If the number of shares of Common Stock which are authorized by the Company's certificate of incorporation but not outstanding or reserved for issuance other than upon exercise of the Rights is not sufficient to permit the exercise in full of the Rights in accordance with Section 11(a)(ii), the Company shall, with respect to each

Right, make adequate provision to substitute for the Adjustment Shares, upon payment of the Purchase Price then in effect, (A) (to the extent available) Common Stock and then, (B) (to the extent available) other equity securities of the Company which the Board of Directors of the Company (or, if at such time there is an Acquiring Person, a majority of the Continuing Directors) has determined to be essentially equivalent to shares of Common Stock in respect to dividend, liquidation and voting rights (such securities being referred to herein as "common stock equivalents") and then, if necessary, (C) other equity or debt securities of the Company, cash or other assets, a reduction in the Purchase Price or any combination of the foregoing, having an aggregate value (as determined by the Board of Directors of the Company based upon the advice of a nationally recognized investment banking firm selected by the Board of Directors of the Company) equal to the value of the Adjustment Shares; provided that (x) the Company may, and (y) if the Company shall not have made adequate provision as required above to deliver value within 30 days following the later of the first occurrence of a Section 11(a)(ii) event and the first date that the right to redeem the Rights pursuant to Section 23 shall expire, then the Company shall be obligated to, deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, shares of Common Stock, common stock equivalents, other equity or debt securities of the Company, cash or other assets or any combination of the foregoing, having an aggregate value (as determined by the Board of Directors of the Company based upon the advice of a nationally recognized investment banking firm selected by the Board of Directors of the Company) equal to the excess of the value of the Adjustment Shares over the Purchase Price. If the Board of Directors of the Company shall determine in good faith that it is likely that sufficient additional shares of Common Stock could be authorized for issuance upon exercise in full of the Rights, the 30 day period set forth above (such period, as it may be extended, being referred to herein as the "Substitution Period") may be extended to the extent necessary, but not more than 90 days following the first occurrence of a Section 11(a)(ii) event, in order that the Company may seek stockholder approval for the authorization of such additional shares. To the extent that the Company determines that some action is to be taken pursuant to the first and/or second sentence of this Section 11(a)(iii), the Company (X) shall provide, subject to Section 7(e), that such action shall apply uniformly to all outstanding Rights and (Y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares and/or to decide the appropriate form and value of any consideration to be delivered as referred to in such first and/or second sentence. If any such suspension occurs, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of the Common Stock shall be the current market price per share of Common Stock (as determined pursuant to Section 11(d)) on the later of the date of the first occurrence of a Section 11(a)(ii) event and the first date that the right to redeem the Rights pursuant to Section 23 shall expire; any "common stock equivalent" shall be deemed to have the same value as the Common Stock on such date; and the value of other securities or assets shall be determined pursuant to Section 11(d)(iii).

(b) In case the Company shall fix a record date for the issuance of rights or warrants to all holders of Preferred Stock entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Preferred Stock (or having the same rights, privileges and preferences as the Preferred Stock (an "equivalent preferred stock") or securities convertible into Preferred Stock or equivalent preferred stock) at a price per share of Preferred

Stock or equivalent preferred stock (or having a conversion price per share, if a security convertible into Preferred Stock or equivalent preferred stock) less than the current market price per share of Preferred Stock (as defined in Section 11(d)) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, of which the numerator shall be the number of shares of Preferred Stock outstanding on such record date plus the number of shares of Preferred Stock which the aggregate offering price of the total number of shares of Preferred Stock and/or equivalent preferred stock so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price and of which the denominator shall be the number of shares of Preferred Stock outstanding on such record date plus the number of additional shares of Preferred Stock or equivalent preferred stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent. Shares of Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for the making of a distribution to all holders of Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of indebtedness or assets (other than a regular periodic cash dividend at a rate not in excess of 125% of the rate of the last cash dividend theretofore paid or a dividend payable in Preferred Stock) or subscription rights or warrants (excluding those referred to in Section 11(b)), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, of which the numerator shall be the current market price per share of Preferred Stock (as defined in Section 11(d)) on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one share of Preferred Stock and of which the denominator shall be such current market price per share of Preferred Stock. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder other than computations made pursuant to Section 11(a)(iii) or 14, the "current market price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the 30 consecutive Trading Days immediately prior to such date; for purposes of computations made pursuant to Section 11(a)(iii), the "current market price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the 10 consecutive Trading Days immediately following such date; and for purposes of computations made pursuant to Section 14, the "current market price" per share of Common Stock for any Trading Day shall be deemed to be the closing price per share of Common Stock for such Trading Day; provided that if the current market price per share of the

Common Stock is determined during a period following the announcement by the issuer of such Common Stock of (A) a dividend or distribution on such Common Stock payable in shares of such Common Stock or securities exercisable for or convertible into shares of such Common Stock (other than the Rights), or (B) any subdivision, combination or reclassification of such Common Stock, and prior to the expiration of the requisite 30 Trading Day or 10 Trading Day period, as set forth above, after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the "current market price" shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Common Stock are not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or such other system then in use or, if on any such date the shares of Common Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Stock selected by the Board of Directors of the Company. If on any such date no market maker is making a market in the Common Stock, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company shall be used. If the Common Stock is not publicly held or not so listed or traded, the "current market price" per share means the fair value per share as determined in good faith by the Board of Directors of the Company, or, if at the time of such determination there is an Acquiring Person, by a majority of the Continuing Directors or if there are no Continuing Directors, by a nationally recognized investment banking firm selected by the Board of Directors, which determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(ii) For the purpose of any computation hereunder, the "current market price" per share of Preferred Stock shall be determined in the same manner as set forth above for the Common Stock in Section 11(d)(i) (other than the last sentence thereof). If the "current market price" per share of Preferred Stock cannot be determined in such manner, the "current market price" per share of Preferred Stock shall be conclusively deemed to be an amount equal to 100 (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock occurring after the date of this Agreement) multiplied by the current market price per share of Common Stock (as determined pursuant to Section 11(d)(i) (other than the last sentence thereof)). If neither the Common Stock nor the Preferred Stock is publicly held or so listed or traded, the "current market price" per share of the Preferred Stock shall be determined in the same manner as set forth in the last sentence of Section 11(d)(i). For all purposes of this Agreement, the "current market price" of one one-hundredth of a share of Preferred Stock shall be equal to the "current market price" of one share of Preferred Stock divided by 100.

(iii) For the purpose of any computation hereunder, the value of any securities or assets other than Common

Stock or Preferred Stock shall be the fair value as determined in good faith by the Board of Directors of the Company, or, if at the time of such determination there is an Acquiring Person, by a majority of the Continuing Directors then in office, or, if there are no Continuing Directors, by a nationally recognized investment banking firm selected by the Board of Directors, which determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(e) No adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a share as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 but postponed under such sentence shall be made no later than the earlier of (i) three years from the date of the transaction which mandates such adjustment or (ii) the date of the expiration of the right to exercise any Rights.

(f) In the event that at any time, as a result of an adjustment made pursuant to Section 11(a), the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than shares of Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares contained in Section 11(a) through (c), inclusive, and the provisions of Sections 7, 9, 10 and 13 with respect to the shares of Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of shares of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of shares (calculated to the nearest ten-thousandth) obtained by (i) multiplying (x) the number of shares covered by a Right immediately prior to this adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in substitution for any adjustment in the number of shares of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for one one-hundredth of a share of Preferred Stock. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase

Price is adjusted on any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i) the Company shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of shares of Preferred Stock issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price per share and the number of shares which were expressed in the initial Right Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value, if any, of the shares of Preferred Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of such Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date the shares of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the shares of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reduction in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any consolidation or subdivision of the Preferred Stock, issuance wholly for cash of any Preferred Stock at less than the current market price, issuance wholly for cash of Preferred Stock or securities which by their terms are convertible into or exchangeable for Preferred Stock, stock dividends or issuance of rights, options or warrants referred to hereinabove in this Section 11, hereafter made by the Company to its common and/or preferred stockholders, shall not be taxable to such common or preferred stockholders.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), (ii) merge with or into any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or (iii) sell or transfer (or permit any Subsidiary to

sell or transfer), in one transaction, or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), if (x) at the time of or immediately after such consolidation, merger or sale there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the shareholders of the Person whose Common Shares are issuable pursuant to the exercise of the Rights under Section 13(a) shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Company covenants and agrees that, after the Distribution Date, it will not, except as Permitted by Section 23 or Section 26 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(p) Anything in this Agreement to the contrary notwithstanding, in the event that the Company shall at any time after the Rights Dividend Declaration Date and prior to the Distribution Date (i) declare a dividend on the outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, the number of Rights associated with each share of Common Stock then outstanding, or issued or delivered thereafter but prior to the Distribution Date, shall be proportionately adjusted so that the number of Rights thereafter associated with each share of Common Stock following any such event shall equal the result obtained by multiplying the number of Rights associated with each share of Common Stock immediately prior to such event by a fraction the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of shares of Common Stock outstanding immediately following the occurrence of such event; provided, however, that an adjustment in accordance with this subsection 11(p) shall not be made as a result of the execution of the Recapitalization Agreement or the consummation of the transactions contemplated thereby. Anything in this Agreement to the contrary notwithstanding, the number of Rights associated with each share of Voting Preferred Stock issued or delivered prior to the Distribution Date shall be proportionately adjusted if the number of Rights associated with each share of Common Stock is adjusted as stated in the preceding sentence, as may be necessary to ensure that the number of Rights associated with each outstanding share of Voting Preferred Stock shall be at all times equal to the product of (I) the number of Rights then associated with each share of Common Stock and (II) the Voting Preferred Stock Fraction.

Section 12. Certification of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Sections 11 and 13, the Company shall (a) promptly prepare a certificate setting forth such adjustment, and a brief statement of the facts accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Preferred Stock a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate in accordance with Section 25.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power. In the event following the Stock Acquisition Date, directly or indirectly, (a) the Company shall consolidate with, or merge with and into, any other Person (other than a subsidiary of the Company in a transaction that complies

with Section 11(o)) and the Company shall not be the continuing or surviving corporation, (b) any Person (other than a subsidiary of the Company in a transaction that complies with Section 11(o)) shall consolidate, merge with and into the Company, the Company shall be the continuing or surviving corporation of such merger and, in connection with such merger, all or part of the Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (c) the Company shall sell or otherwise transfer, including by liquidation, dissolution, sale or lease (or one or more of its subsidiaries shall sell or otherwise transfer), in one or more related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its subsidiaries (taken as a whole) to any Person or Persons, then, and in each such case, proper provision shall be made so that (i) each holder of a Right shall thereafter have the right to receive, upon the exercise thereof at the then-current exercise price for the number of shares of Preferred Stock for which a Right is then exercisable in accordance with the terms of this Agreement, such number of shares of Common Stock of such other Person (or in the case of any transaction described in clause (c) above, the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions) as shall be equal to the result obtained by (x) multiplying the then-current Purchase Price per full share of Preferred Stock by the number of shares of Preferred Stock for which a Right is then exercisable and dividing that product by (y) 33 1/3% of the current market price per share of the Common Stock of such other Person (determined pursuant to Section 11(d) on the date of consummation of such consolidation, merger, sale or transfer), and such Common Stock shall be validly authorized and issued, fully paid and nonassessable, and freely tradable and not subject to any liens, encumbrances, rights of first refusal or adverse claims; provided, however, that if the holders of shares of Common Stock of such other Person have received after the Stock Acquisition Date, or will receive after the Stock Acquisition Date due to a declaration or distribution that has as its record date for those entitled to receive such declaration or distribution a date prior to the tenth Business Day after the date of consummation of such consolidation, merger, sale or transfer, in their capacity as a holder of such Common Stock, (i) any rights, warrants or options to purchase such Common Stock or to purchase any other security, asset (including cash) or evidence of indebtedness, at less than its current market value, or (ii) any other security, asset (including cash) or evidence of indebtedness of such other Person (in all events other than ordinary regular and periodic cash dividends) then each holder of a Right shall have the right to receive, for no additional consideration, and in addition to such number of shares of Common Stock specified above, such rights, warrants or options or other security, asset (including cash) or evidence of indebtedness, that such holder would have been entitled to receive if it had been the holder of such number of shares of Common Stock specified above at the time of such issuance, declaration or distribution of such rights, warrants or options, or other security, asset (including cash) or evidence of indebtedness, and provided further that if the Person whose Common Stock would otherwise be issuable pursuant to the exercise of the Rights under this Section 13(a) is a direct or indirect Subsidiary of a Person (the "Parent") that has shares registered pursuant to Section 12 of the Securities Exchange Act of 1934, then the shares of Common Stock to be issued, pursuant to such exercise of the Rights shall be the shares of Common Stock of the Parent; (ii) the issuer of such Common Stock shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such issuer; and (iv) such issuer shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock in accordance with Section 9) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to the shares of its Common Stock thereafter deliverable upon the exercise of the Rights.

The Company shall not consummate any such consolidation, merger, combination, sale or transfer unless the Person required pursuant to the preceding paragraph to issue Common Stock shall have a sufficient number of authorized shares of its Common Stock which are not outstanding or otherwise reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such Person shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in the preceding paragraph of this Section and providing that, as soon as practicable after the date of any consolidation, merger, combination, sale or transfer mentioned therein, such Person will

(i) prepare and file a registration statement under the Securities Act with respect to the securities issuable upon exercise of the Rights, and will use its best efforts to cause such registration statement (A) to become effective as soon as practicable after such filing and (B) to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date and

(ii) deliver to holders of the Rights historical financial statements for such Person and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Securities Exchange Act of 1934, as amended.

The provisions of this Section 13 shall similarly apply to successive mergers, consolidations, combinations, sales or other transfers. If any Section 13 event shall occur at any time after the occurrence of a Section 11(a)(ii) event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in this Section 13.

#### Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights or to distribute Right Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ. If on any such date the Rights are not quoted by any such organization, the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

(b) The Company shall not be required to issue fractions of shares of Preferred Stock (other than fractions which are integral multiples of one-hundredth of a share) upon exercise of the Rights or to distribute certificates which evidence fractional shares of Preferred Stock (other than fractions which are integral multiples of one-hundredth of a share). Fractions of shares of Preferred Stock in integral

multiples of one-hundredth of a share may, at the election of the Company be evidenced by depositary receipts, pursuant to an appropriate agreement between the Company and a depositary selected by it provided that such agreement shall provide that the holders of such depositary receipts shall have all of the rights, privileges and preferences to which they are entitled as beneficial owners of the Preferred Stock. In lieu of fractional shares of Preferred Stock that are not integral multiples of one-hundredth of a share, there shall be paid to the registered holders of Right Certificates at the time such Right Certificates are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a share of Preferred Stock. For purposes of this Section 14(b), the current market value of a share of Preferred Stock shall be the closing price of a share of Preferred Stock (as determined pursuant to Section 11(d)) for the Trading Day immediately prior to the date of such exercise.

(c) Following the occurrence of any Triggering Event, the Company shall not be required to issue fractions of shares of Common Stock upon exercise of the Rights. In lieu of fractional shares of Common Stock, the Company shall pay to the registered holders of Right Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market price of a share of Common Stock. For purposes of this Section 14(c), the current market price of a share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to Section 11(d)(i)) for the Trading Day immediately prior to the date of such exercise or exchange.

(d) The holder of a Right by the acceptance of the Rights expressly waives his right to receive any fractional Rights or any fractional shares (other than fractions which are integral multiples of one-hundredth of a share) upon exercise of a Right.

Section 15. Rights of Action. All rights of action in respect of this Agreement are vested in the respective registered holders of the Right Certificates; and any registered holder of any Right Certificate, without the consent of the Rights Agent or of the holder of any other Right Certificate may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of Common Stock or Voting Preferred Stock;

(b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office of the Rights Agent, duly endorsed or accompanied by a proper instrument of transfer; and

(c) subject to Sections 6 and 7, the Company and the Rights Agent may deem and treat the person in whose name the Right Certificate (or, prior to the Distribution Date, the associated Common Stock Certificate and Voting Preferred Stock Certificate, as the case may be) is registered as the absolute

owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificates or the associated Common Stock Certificate and Voting Preferred Stock Certificate, as the case may be, made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent, subject to the last sentence of Section 7(e), shall be affected by any notice to the contrary.

Section 17. Right Certificate Holder Not Deemed a Stockholder. No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of Preferred Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 24), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Right Certificate or certificate for Preferred Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent. Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right

Certificates shall have the full force provided in the Right Certificates and in this Agreement.

In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman, President and Chief Executive Officer, the Vice Chairman and Chief Financial Officer, or any Vice President and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 7(e)) or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Sections 3, 11, 13 or 23, or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Preferred Stock to be issued pursuant to this Agreement or any Right Certificate or as to whether any shares of Preferred Stock will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute,

acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman, President and Chief Executive Officer, the Vice Chairman and Chief Financial Officer, or any Vice President or the Secretary or any Assistant Secretary or the Treasurer or any Assistant Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become peculiarly interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company, or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the cases may be, has either not been completed or indicates an affirmative response to clause 1 or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent of the Common Stock, the Voting Preferred Stock and the Preferred Stock by registered or certified mail, and to the holders of the Right Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock and the Preferred Stock by registered or certified mail, and to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice submit his Right Certificate for inspection by the Company), then the registered holder of any Right Certificate may apply to any court of competent Jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (a) a corporation organized and doing business under the laws of the United States or of the State of Delaware, Illinois or New York, in good standing, having its principal office in the State of Illinois or New York, which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and

which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50,000,000 or (b) an affiliate of a corporation described in clause (a). After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock and the Voting Preferred Stock and mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Right Certificates.

Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price per share and the number or kind or class of shares of stock or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Agreement.

Section 23. Redemption.

(a) The Company may, at its option, at any time prior to the earlier of (i) the Close of Business on the tenth Business Day following the Stock Acquisition Date or (ii) the Final Expiration Date, elect to redeem all but not less than all the then outstanding Rights at a redemption price of \$.05 per Right (such redemption price being hereinafter referred to as the "Redemption Price"); provided, however, if the Board of Directors of the Company authorizes redemption of the Rights in either of the circumstances set forth in clauses (i) and (ii) below, then there must be Continuing Directors then in office and such authorization shall require the concurrence of a majority of such Continuing Directors: (i) such authorization occurs on or after the time a Person becomes an Acquiring Person, or (ii) such authorization occurs on or after the date of a change (resulting from a proxy or consent solicitation) in a majority of the directors in office at the commencement of such solicitation if any Person who is a participant in such solicitation has stated (or, if upon the commencement of such solicitation, a majority of the Board of Directors of the Company has determined in good faith) that such Person (or any of its Affiliates or Associates) intends to take, or may consider taking, any action which would result in such Person becoming an Acquiring Person or which would cause the occurrence of a Triggering Event unless, concurrent with such solicitation, such Person (or one or more of its Affiliates or Associates) is making a cash tender offer pursuant to a Schedule 14D-1 (or any successor form) filed with the Securities and Exchange Commission for all outstanding shares of Common Stock not beneficially owned by such Person (or by its Affiliates or Associates); provided further, however, that if, following the occurrence of a Stock Acquisition Date and following the expiration of the right of redemption hereunder but prior to any Triggering Event, (i) a Person who is an Acquiring Person shall have transferred or otherwise disposed of a number of shares of Common Stock in one transaction or series of transactions, not directly or indirectly involving the Company or any of its Subsidiaries, which did not result in the occurrence of a Triggering Event or if the Company (with the approval of the Continuing Directors) shall have issued additional equity, in either instance such that such Person is thereafter a Beneficial Owner of 10% or less of the outstanding shares of Common Stock, and (ii) there are no other Persons, immediately following the occurrence of the event described in clause (i), who are Acquiring Persons, then the right of redemption shall be

reinstated and thereafter be subject to the provisions of this Section 23. Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) event until such time as the Company's right of redemption hereunder has expired.

(b) Immediately upon the action of the Board of Directors of the Company electing to redeem the Rights, the Company shall make a public announcement thereof, and from and after the tenth day after the date of such announcement, without any further action and without any further notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. As soon as practicable after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the Transfer Agent for the Common Stock and the Voting Preferred Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.

Section 24. Notice of Proposed Actions. In case the Company shall propose (a) to pay any dividend payable in stock of any class to the holders of its Preferred Stock or to make any other distribution to the holders of its Preferred Stock (other than a regular periodic cash dividend at a rate not in excess of 125% of the rate of the last cash dividend theretofore paid), or (b) to offer to the holders of its Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Preferred Stock or shares of stock of any class or any other securities, rights or options, or (c) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the subdivision of outstanding shares of Preferred Stock), or (d) to effect any consolidation or merger into or with, or to effect any sale or other transfer (as specified in Section 1.3) (or to permit one or more of its subsidiaries to effect any sale or other transfer), in one or more transactions, of more than 50% of the assets or earning power of the Company and its subsidiaries (taken as a whole) to any other Person, or (e) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Right, in accordance with Section 25, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or Rights, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of Common Stock, Voting Preferred Stock and/or Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (a) or (b) above at least twenty days prior to the record date for determining holders of the Preferred Stock for purposes of such action, and in the case of any such other action, at least twenty days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Common Stock, Voting Preferred Stock and/or Preferred Stock, whichever shall be the earlier. The failure to give notice required by this Section 24 or any defect therein shall not affect the legality or validity of the action taken by the Company or the vote upon any such action.

Section 25. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Vice President and Secretary  
UAL Corporation

Post Office Box 66919  
Chicago, Illinois 60666

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

First Chicago Trust Company of New York  
30 West Broadway  
New York, NY 10007-2192  
Attn: Tenders and Exchanges

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 26. Supplements and Amendments. Prior to the Distribution Date and subject to the penultimate sentence of this Section 26, the Company and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement without the approval of any holders of certificates representing shares of Common Stock and Voting Preferred Stock. From and after the Distribution Date and subject to the penultimate sentence of this Section 26, the Company and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights Certificates in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder (which lengthening or shortening, following the first occurrence of an event set forth in clauses (i) and (ii) of the first proviso to Section 23(a) hereof, shall be effective only if there are Continuing Directors and shall require the concurrence of a majority of such Continuing Directors), or (iv) to change or supplement the provisions hereunder in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights Certificates; provided, this Agreement may not be supplemented or amended to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable, or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 26, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made which changes the Redemption Price, the Final Expiration Date, the Purchase Price or the number of one one-hundredths of a share of Preferred Stock for which a Right is exercisable. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Stock and Voting Preferred Stock, as the case may be.

Section 27. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 28. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Rights Agent and the registered holders of the Right Certificates any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the

Company, the Rights Agent and the registered holders of the Right Certificates.

Section 29. Delaware Contract. This Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such state applicable to contracts to be made and performed entirely within such state.

Section 30. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 31. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be duly executed and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

ATTEST:	UAL CORPORATION
By: /s/ Marlys N. Clark Assistant Secretary	By: /s/ John L. Cowan Title:
ATTEST:	FIRST CHICAGO TRUST COMPANY OF NEW YORK
By: /s/ John Bagdonas Production Officer	By: /s/ John Bambach Title: Vice President

EXHIBIT A

CERTIFICATE OF DESIGNATION, PREFERENCES AND  
RIGHTS OF SERIES C JUNIOR PARTICIPATING PREFERRED STOCK

Of

UAL CORPORATION

Pursuant to Section 151 of the General Corporation Law  
of the State of Delaware

We, \_\_\_\_\_, Chairman, President and Chief Executive Officer, and \_\_\_\_\_, Vice President and Secretary, of UAL Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation of the said Corporation, the said Board of Directors on December 11, 1986, adopted the following resolution creating a series of Seven Hundred Thousand (700,000) shares of Preferred Stock designated as Series C Junior Participating Preferred Stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Restated Certificate of Incorporation, a series of Preferred Shares of the Corporation be, and it hereby is,

created and classified, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount. The shares of such series shall be designated, as "Series C Junior Participating Preferred Stock" (the "Series C Preferred Stock") and the number of shares constituting such series shall be 1,250,000.

Section 2. Dividends and Distributions.

(A) The holders of shares of Series C Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the fifteenth day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series C Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$10 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$.01 per share, of the Corporation ("Common Stock") since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series C Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series C Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

The Corporation shall declare a dividend or distribution on the Series C Preferred Stock as provided in this paragraph (A) immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10.00 per share on the Series C Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

Dividends shall begin to accrue and be cumulative on outstanding shares of Series C Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series C Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series C Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment

Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series C Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series C Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series C Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment herein-after set forth, each share of Series C Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series C Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series C Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) If the equivalent of six quarterly dividends payable on the Series C Preferred Stock or any other series of preferred stock of the Corporation are in default, the number of directors of the Corporation shall be increased by two and the holders of all such series in respect of which such a default exists, voting as a class without regard to series, will be entitled to elect two additional directors at the next annual meeting and each subsequent meeting, until all cumulative dividends have been paid in full or until noncumulative dividends have been paid regularly for at least one year.

(D) Except as set forth herein, holders of Series C Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series C Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series C Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Preferred Stock, except dividends paid ratably on the Series C

Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series C Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series C Preferred Stock, or any shares of stock ranking on a parity with the Series C Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series C Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock and may be reissued as part of a new series of preferred stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. Subject to (a) the rights of the holders of preferred stock of the Corporation ranking senior to the Series C Preferred Stock as to dividends and amounts payable upon any voluntary or involuntary liquidation, dissolution or winding up and (b) any other provision of the Certificate of Incorporation of the Corporation, upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon any voluntary or involuntary liquidation, dissolution or winding up) to the Series C Preferred Stock unless, prior thereto, the holders of shares of the Series C Preferred Stock shall have received \$100.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series C Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (2) to the holders of stock ranking on a parity (either as to dividends or upon any voluntary or involuntary liquidation, dissolution or winding up) with the Series C Preferred Stock, except distributions made ratably on the Series C Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such voluntary or involuntary liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or

otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series C Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series C Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series C Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series C Preferred Stock shall not be redeemable.

Section 9. Ranking. The Series C Preferred Stock shall rank junior to all other series of the Corporation's preferred stock, whether now or hereafter outstanding, as to dividends and amounts payable upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series C Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series C Preferred Stock, voting together as a single class.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the Penalties of Perjury this eleventh day of December, 1986.

\_\_\_\_\_  
Chairman, President and  
Chief Executive Officer

\_\_\_\_\_  
Vice President and Secretary

[Form of Right Certificate]

No. R -

Rights

NOT EXERCISABLE AFTER THE EARLIER OF DECEMBER 31, 1996 AND THE DATE ON WHICH THE RIGHTS EVIDENCED HEREBY ARE REDEEMED BY THE COMPANY AS SET FORTH IN THE RIGHTS AGREEMENT. AS SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS ISSUED TO, OR HELD BY, ANY PERSON WHO IS, WAS OR BECOMES AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT), WHETHER CURRENTLY HELD BY OR ON BEHALF OF SUCH PERSON OR BY ANY SUBSEQUENT HOLDER, MAY BE NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHT CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR AN ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). THIS RIGHT CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BE OR MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF THE RIGHTS AGREEMENT.]\*

RIGHT CERTIFICATE

UAL CORPORATION

This Right Certificate certifies that

\_\_\_\_\_, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the holder (upon the terms and subject to the conditions set forth in the Rights Agreement dated as of December 11, 1986 between UAL Corporation, a Delaware corporation (the "Company"), and First Chicago Trust Company of New York, as amended the "Rights Agreement")), to purchase from the Company, at any time

\* If applicable, insert this portion of the legend and delete preceding sentence.

after the Distribution Date and prior to the Expiration Date, one one-hundredth[s] of a fully paid, nonassessable share of Series C Junior Participating Preferred Stock (the "Preferred Stock") of the Company at a purchase price of \$185 per one one-hundredth of a share (the "Purchase Price"), payable in lawful money of the United States of America, upon surrender of this Right Certificate, with the form of election to purchase and related certificate duly executed, and payment of the Purchase Price at an office of the Rights Agent designated for such purpose.

Terms used herein and not otherwise defined herein have the meanings assigned to them in the Rights Agreement.

The number of Rights evidenced by this Right Certificate (and the number and kind of shares issuable upon exercise of each Right) and the Purchase Price set forth above are as of December 22, 1986, and may have been or in the future be adjusted as a result of the occurrence of certain events, as more fully provided in the Rights Agreement.

Upon the occurrence of a Section 11(a)(ii) event, if the Rights evidenced by this Right Certificate are beneficially owned by (a) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (b) a transferee of an Acquiring Person (or any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (c) under certain circumstances specified in the Rights Agreement, a transferee of an Acquiring Person (or any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such, such Rights shall become null and void, and no holder hereof shall have any right with respect to such Rights from and after the occurrence of such Section 11(a)(ii) event.

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Right Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement.

Upon surrender at the principal office or offices of the Rights Agent designated for such purpose and subject to the terms and conditions set forth in the Rights Agreement, any Rights Certificate or Certificates may be transferred or exchanged for another Rights Certificate or Certificates evidencing a like number of Rights as the Rights Certificate or Certificates surrendered.

Subject to the provisions of the Rights Agreement, the Board of Directors of the Company may, at its option, at any time prior to the earlier of (i) the Close of Business on the tenth business day after the Stock Acquisition Date and (ii) the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$.05 per Right.

No fractional shares of Preferred Stock will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are multiples of one one-hundredth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Right Certificate or Certificates for the number of whole Rights not exercised.

No holder of this Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the shares of capital stock which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or, to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal by its authorized officers.

Dated as of \_\_\_\_\_, 19\_\_

UAL CORPORATION

By \_\_\_\_\_  
Title:

[SEAL]

Attest:

\_\_\_\_\_  
Secretary

Countersigned:

FIRST CHICAGO TRUST COMPANY  
OF NEW YORK, as Rights Agent

By \_\_\_\_\_  
Authorized Signature

Form of Reverse Side of Right Certificate

FORM OF ASSIGNMENT

(To be executed if the registered holder  
desires to transfer the Right Certificate.)

FOR VALUE RECEIVED \_\_\_\_\_

hereby sells, assigns and transfers unto \_\_\_\_\_

\_\_\_\_\_  
(Please print name and address of transferee)

\_\_\_\_\_  
this Right Certificate, together with all right, title and  
interest therein, and does hereby irrevocably constitute and  
appoint \_\_\_\_\_ Attorney, to transfer the  
within Right Certificate on the books of the within-named  
Company, with full power of substitution.

Date: \_\_\_\_\_, 19\_\_

\_\_\_\_\_  
Signature

Signature Guaranteed:

Certificate

The undersigned hereby certifies by checking the  
appropriate boxes that:

(1) the Rights evidenced by this Right Certificate  
\_\_\_\_ are \_\_\_\_\_ are not being assigned by or on behalf of a Person  
who is or was an Acquiring Person or an Affiliate or Associate of  
any such Acquiring Person (as such terms are defined in the  
Rights Agreement);

(2) after due inquiry and to the best knowledge of the  
undersigned, it \_\_\_\_\_ did \_\_\_\_\_ did not acquire the Rights  
evidenced by this Right Certificate from any Person who is, was  
or became an Acquiring Person or an Affiliate or Associate of an

Acquiring Person.

Date: \_\_\_\_\_, 19\_\_  
Signature

\_\_\_\_\_

The signatures to the foregoing Assignment and Certificate must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

\_\_\_\_\_

FORM OF ELECTION TO PURCHASE

(To be executed if the registered holder desires to exercise Rights represented by the Right Certificate.)

To: UAL Corporation

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ Rights represented by this Right Certificate to purchase shares of Preferred Stock issuable upon the exercise of the Rights (or such other securities of the Company or of any other person which may be issuable upon the exercise of the Rights) and requests that certificates for such securities be issued in the name of and delivered to:

Please insert social security  
or other identifying number

\_\_\_\_\_  
(Please print name and address)

\_\_\_\_\_

If such number of Rights shall not be all the Rights evidenced by this Right Certificate, a new Right Certificate for the balance of such Rights shall be registered in the name of and delivered to:

Please insert social security  
or other identifying number

\_\_\_\_\_  
(Please print name and address)

Dated: \_\_\_\_\_, 19\_\_

\_\_\_\_\_  
Signature

Signature Guaranteed:

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Right Certificate \_\_\_\_\_ are \_\_\_\_\_ are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined in the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it \_\_\_\_\_ did \_\_\_\_\_ did not acquire the Rights evidenced by this right Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, 19\_\_ \_\_\_\_\_  
Signature

\_\_\_\_\_

The signature of the foregoing Election to Purchase and Certificate must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

\_\_\_\_\_

Waiver and Agreement dated as of December 23, 1994 with respect to the Amended and Restated Agreement and Plan of Recapitalization dated as of March 25, 1994 among UAL Corporation and Air Line Pilots Association, International and International Association of Machinists and Aerospace Workers (the "Agreement").

WHEREAS, Section 5.7 of the Agreement provides for the implementation of certain rights and restrictions with respect to the purchase of UAL Corporation stock ("UAL Shares") by employees of United Air Lines, Inc. including a requirement that no UAL Shares may be acquired through the directed account plan, the 401(k) plans and the stock purchase plan during the six month period ending on the last day of the Measuring Period, as defined in Section 1.10 of the Agreement, and

WHEREAS, the Association of Flight Attendants is not a party to, and is not bound by the terms of, the Agreement.

NOW, THEREFORE, it is agreed as follows:

1. To the extent Section 5.7 would apply to the rights of flight attendants to acquire or dispose of UAL Shares including any requirement for the suspension of the purchase of UAL Shares by the flight attendant 401(k) plan or by flight attendants through the stock purchase plan, such requirement is hereby waived by the parties hereto.

2. Except as specifically modified hereby, the Agreement shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Agreement to be executed by their respective authorized officers as of the day and year first above written.

AIR LINE PILOTS ASSOCIATION,  
INTERNATIONAL

INTERNATIONAL ASSOCIATION OF  
MACHINISTS AND AEROSPACE WORKERS

By: /s/ Harlow B. Osteboe

By: /s/ Kenneth W. Thiede

Name: Harlow B. Osteboe  
Title: UAL-MEC Chairman

Name: Kenneth W. Thiede  
Title: President and  
General Chairman

UAL CORPORATION

By: /s/ Douglas A. Hacker

Name: Douglas A. Hacker  
Title: Senior Vice President - Finance

THIRD AMENDMENT dated as of March 15, 1995 to the Amended and Restated Agreement and Plan of Recapitalization dated as of March 25, 1994 among UAL Corporation, the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers (the "Agreement").

W I T N E S S E T H

WHEREAS, Section 5.7 of the Agreement provides for the implementation of certain rights and restrictions with respect to the purchase of UAL Corporation common stock, \$0.01 par value ("UAL Shares"), by employees of United Air Lines, Inc. through certain employee plans, including a requirement that no UAL Shares may be acquired through the directed account plan, the 401(k) plans and the stock purchase plan during the six month period ending on the last day of the Measuring Period, as defined in Section 1.10 of the Agreement, and

WHEREAS, the parties to the Agreement believe it is appropriate to relax that purchase restriction as and to the extent hereinafter set forth.

NOW, THEREFORE, it is agreed as follows:

1. Effective March 15, 1995, clause (D) appearing at the end of Section 5.7 of the Agreement is amended to be as follows:

"(D) if on any day during the period commencing on March 15, 1995 and ending on the last day of the Measuring Period, as defined in Section 1.10, the closing price of New Shares on one or more of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Stock Exchange equals or exceeds \$150.00 per New Share, no New Shares may be acquired through such plans during the remainder of the Measuring Period."

2. Except as specifically modified hereby, the Agreement shall remain in full force and effect in accordance with its terms.

3. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereto (which may be by facsimile transmission) signed by all of the other parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their respective authorized officers as of the day and year first above written.

AIR LINE PILOTS ASSOCIATION,  
INTERNATIONAL

INTERNATIONAL ASSOCIATION OF  
MACHINISTS AND AEROSPACE WORKERS

By:/s/ Harlow B. Osteboe  
Name: Harlow B. Osteboe  
Title: UAL-MEC Chairman

By:/s/ Kenneth W. Thiede  
Name: Kenneth W. Thiede  
Title: President and

General Chairman

UAL CORPORATION

By:/s/ Douglas A. Hacker

Name: Douglas A. Hacker

Title: Senior Vice President - Finance

As Amended  
February 24, 1995

FIRST REFUSAL AGREEMENT

This Agreement (the "Agreement") has been made and entered into as of this 12th day of July, 1994 by and among UAL Corporation, a Delaware corporation (the "Company"), The Air Line Pilots Association, International ("ALPA"), pursuant to its authority as the collective bargaining representative for the crafts or class of pilots employed by United Airlines, Inc. ("United"), and The International Association of Machinists and Aerospace Workers ("IAM"), pursuant to its authority as the collective bargaining representative for the crafts or classes of mechanics and related employees, ramp and stores employees, food service employees, dispatchers and security officers employed by United, and the Salaried/Management Employee Director (as defined in Article FIFTH, Section 1.66 of the Restated Certificate (as defined below)) on behalf of the salaried and management employees of United who are not represented by any collective bargaining organization (the "SAM") (ALPA, IAM and the SAM, together, the "Employee Groups").

WHEREAS, pursuant to the terms of and schedules to the Agreement and Plan of Recapitalization, dated as of March 25, 1994, by and among the Company, ALPA and the IAM (as amended, the "Recapitalization Agreement"), including the terms of the restated certificate of incorporation of the Company to be effective as of the Effective Time (as defined in the Recapitalization Agreement) (the "Restated Certificate"), neither (i) a Non-Dilutive Issuance (as defined in Article FIFTH, Section 3.4(b)(vii) of the Restated Certificate) nor (ii) the issuance of Permitted Bankruptcy Equity (as defined in Article FIFTH, Section 3.4(b)(vii)(B) of the Restated Certificate) (a "Bankruptcy Issuance") shall constitute an Other Extraordinary Matter (as defined in Article FIFTH, Section 3.4(b) of the Restated Certificate) if, among other things, such issuance is subject to the right of first refusal provided for hereunder; and

WHEREAS, the parties hereto have entered into this Agreement in order to effectuate the terms and intent of the Recapitalization Agreement and the Restated Certificate with respect to the Company's grant of such right of first refusal to the Employee Groups in connection with such Non-Dilutive Issuance and/or such Bankruptcy Issuance;

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants herein contained and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Right of First Refusal.

A. If, during the term of this Agreement, the Company proposes to issue Equity Securities (as defined in Article FIFTH, Section 1.37 of the Restated Certificate) pursuant to a transaction which would constitute an Other Extraordinary Matter pursuant to Article FIFTH, Section 3.4(b) of the Restated Certificate or would not constitute an Other Extraordinary Matter pursuant to Article FIFTH, Section 3.4(b)(vii)(A) or (B) of the Restated Certificate (a "Proposed Equity Issuance"), the Company, prior to making such Proposed Equity Issuance, shall provide each of the Employee Groups with a written statement of the specific terms of such Proposed Equity Issuance (the "Proposed Sale Notice"); provided, however, that the issuance of Equity Securities in exchange for the Series A Convertible Preferred Stock, without par value (the "Series A Preferred Stock") of the Company, or any underlying Equity Security upon the conversion of

any Equity Security so issued in exchange, shall not constitute a Proposed Equity Issuance. Each of the Employee Groups shall then have 30 days to provide to the Company a binding commitment to purchase up to its respective Proportionate Percentage (as defined in subsection D below) of the Equity Securities proposed to be issued in such Proposed Equity Issuance on terms that are Equivalent (as defined in subsection E below) to the terms set forth in the Proposed Sale Notice (the "Purchase Commitment"), and the Company shall not consummate the Proposed Equity Issuance during such 30 day period. If the Company consummates a Proposed Equity Issuance within 180 days of the end of the 30 day notice period with respect thereto, it shall honor all the timely Purchase Commitments and shall reduce the amount of securities offered pursuant to the Proposed Equity Issuance by the amount of securities covered by such Purchase Commitments.

B. In addition to and not in limitation of the foregoing, if one or more Employee Groups submit a Purchase Commitment within the 30 day period provided for in subsection A above and any other Employee Group either (i) indicates in writing during such period that it does not intend to submit a Purchase Commitment for all of its Proportionate Percentage of the Proposed Equity Issuance or (ii) does not submit a Purchase Commitment for all of its Proportionate Percentage of the Proposed Equity Issuance within such 30 day period, then the Company, prior to consummating a Proposed Equity Issuance, must provide each of the Employee Groups that submitted a Purchase Commitment for all of its Proportionate Percentage of the Proposed Equity Issuance with the opportunity to provide an additional purchase commitment with respect to the portion of the Proposed Equity Issuance that is not subject to a Purchase Commitment (an "Additional Purchase Commitment") within the last to expire of (a) 15 days after receipt of written notice from the Company of the opportunity to make an Additional Purchase Commitment and (b) the unexpired portion of the 30 day period referred to in subsection A above which remains after receipt of written notice from the Company that any portion of the Proposed Equity Issuance is not subject to a Purchase Commitment from any other Employee Group (such longer period, the "APC Period"). The Company shall not consummate the Proposed Equity Issuance during such APC Period and if the Company consummates a Proposed Equity Issuance within 180 days of the end of the notice period referred to in the preceding sentence, it shall honor all the timely Additional Purchase Commitments and shall reduce the amount of securities offered pursuant to the Proposed Equity Issuance to any person or entity other than the Employee Groups by the amount of securities covered by such Additional Purchase Commitments.

C. Notwithstanding anything set forth in subsection B to the contrary, if more than one Employee Group submit Additional Purchase Commitments which in the aggregate are in excess of the securities being offered pursuant to the Proposed Equity Issuance, the Company shall accept such Additional Purchase Commitments in proportion to the relative proportion that such Employee Groups Proportionate Percentages bear to each other; provided, however, that in no event shall any Employee Group be obligated to purchase Equity Securities in excess of the amount set forth in its Additional Purchase Commitment.

D. For the purposes of this Agreement, "Proportionate Percentage" shall mean, for each of the Employee Groups, the following:

ALPA:	46.23%
IAM:	37.13%
SAM:	16.64%

E. For the purpose of this Agreement, "Equivalent" shall mean, in connection with a Proposed Equity Issuance, a Purchase Commitment on substantially the same terms as that set forth in a Proposed Sale Notice. If any Proposed Sale Notice provides for consideration other than cash to be paid to the Company (the "Non-Cash Consideration"), a Purchase Commitment must provide for consideration to be paid to the Company, whether in cash or otherwise, with a fair market value, as determined by the board

of directors of the Company, equal to the Non-Cash Consideration to be paid to the Company pursuant to the Proposed Sale Notice in order for such Purchase Commitment to be deemed Equivalent for the purpose of subsection A above.

F. In the event that no Employee Group submits a Purchase Commitment within the time period provided for in subsection A above or the Purchase Commitments and Additional Purchase Commitments, if any, submitted are for less than all of the securities being offered in the Proposed Equity Issuance, the Company may then consummate the Proposed Equity Issuance of such securities not subject to Purchase Commitments or Additional Purchase Commitments only upon the terms set forth in the Proposed Sale Notice. Such Proposed Equity Issuance may not be consummated unless it is consummated (i) within 180 days after the later of the 30 day period provided for in subsection A above or, if applicable, the APC Period provided for in subsection B above and (ii) on the specific terms set forth in the Proposed Sale Notice. Any subsequent Proposed Equity Issuance proposed by the Company shall be subject to each of the provisions and requirements of this Section 1 as if the prior Proposed Equity Issuance that was not consummated for any reason never was proposed by the Company.

G. Notwithstanding anything contained in this Section 1 to the contrary, the provisions of this Section 1 shall be inapplicable to issuances of Equity Securities (a) in accordance with Article FIFTH, Subsection 3.4(b)(vii)(C) of the Restated Certificate, or (b) in exchange for the Series A Preferred Stock or upon the conversion of any Equity Security so issued in exchange.

H. The Salaried/Management Employee Director may consult with the senior executive of United having responsibility for human resources concerning the exercise of any rights under this Agreement. The Company shall assist the Salaried/Management Director in the exercise of such rights, including providing administrative and logistical support in disseminating Proposed Sale Notices to the Salaried/Management Employees and collating and processing any Purchase Commitments and Additional Purchase Commitments received from such employees and, if requested, shall similarly assist ALPA and the IAM.

I. To the extent consistent with its policies and practices, United may, but shall not be obligated to, assist the SAM Employee Group (to the same extent that either of the other Employee Groups assists its members) in the exercise of their rights under this Agreement in order to enable them to consummate their Purchase Commitments made hereunder.

2. Term. This Agreement shall terminate and be of no further force or effect upon the Termination Date (as defined in the Restated Certificate).

3. Assignments. All right, title and interest in and to, and all benefits and obligations arising under, this Agreement may be assigned in whole or in part by any of the Employee Groups to any of the Existing Plans and/or the ESOPs (as defined in Article FIFTH, Sections 1.41 and 1.39 of the Restated Certificate, respectively) without the consent of any other party hereto and may not otherwise be assigned.

4. Binding Effect. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement is being entered into for the benefit of the parties hereto (other than the Salaried/Management Director) and for the Employee Groups named herein. The Salaried/Management Director is not a party to this Agreement in a personal capacity but only in the capacity of the Salaried/Management Director as the nominal representative of the SAM Employee Group to acknowledge their acceptance of the benefits of this Agreement. Upon the replacement of the individual named herein as the Salaried/Management Director, each such successor to the office of Salaried/Management Director, rather than the individual named herein, shall be authorized to

act hereunder as the Salaried/Management Director. The parties hereto, on behalf of themselves and the Employee Groups that they represent, agree that the Salaried/Management Director, and the successor Salaried/Management Directors, shall not have any personal liability under this Agreement.

5. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware without regard to the conflicts of laws principles thereof.

6. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signature thereto and hereto were upon the same instrument.

7. Specific Performance. The parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy of law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

8. Amendments. This Agreement may not be amended or modified unless such amendment or modification is approved in writing by each of the parties hereto.

9. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and, except as otherwise contemplated hereby, supersedes all other prior agreements and understandings, both written and oral, between the parties hereto with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

UAL CORPORATION

By: /s/ James M. Guyette

AIR LINE PILOTS ASSOCIATION,  
INTERNATIONAL

By: /s/ R. D. Hall

INTERNATIONAL ASSOCIATION OF  
MACHINISTS AND AEROSPACE  
WORKERS

By: /s/ Ken Thiede

/s/ Joseph V. Vittoria  
Joseph V. Vittoria  
Salaried/Management Employee  
Director (not personally but as  
representative of the  
Salaried/Management Employees)

As Amended  
September 30, 1994

UAL CORPORATION

1981 INCENTIVE STOCK PLAN

1. Purpose. The purpose of the UAL Corporation 1981 Incentive Stock Plan (the "Plan") is to attract and retain outstanding individuals as officers and key employees of UAL Corporation (the "Company") and its subsidiaries, and to furnish incentives to such persons by providing such persons opportunities to acquire shares of the Company's Common Stock, par value \$.01 per share ("Common Stock"), or monetary payments based on the value of such shares or both, on advantageous terms as herein provided.

2. Administration. The Plan shall be administered by a stock option committee (the "Committee") of not less than three Directors of the Company who shall be appointed from time to time by the Board of Directors of the Company; provided, however, that no Director, who within one year prior thereto was eligible to participate in the Plan, shall be appointed as a member of the Committee. No member of the Committee shall be eligible, while a member of the Committee, to receive a Benefit under the Plan. The Committee is authorized to interpret the provisions of the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to determine the terms and conditions of Benefits to be granted under the Plan and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to or inconsistent with the express provisions of the Plan.

3. Participants. The Plan shall be administered by the Compensation Administration Committee of the Board of Directors of the Company for all grants to (I) any "officer" as such term is defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended, or (II) any "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, and by the Compensation Committee of the Board of Directors of the Company for all other grants (such committee, as applicable, herein called the "Committee"). The Committee shall consider such factors as it deems pertinent in selecting participants and in determining the type and amount of their respective Benefits, including without limitation (i) the financial condition of the Company; (ii) anticipated profits for the current or future years; (iii) contributions of participants to the profitability and development of the Company; and (iv) other compensation provided to participants.

4. Types of Benefits. Benefits under the Plan may be granted in any one or a combination of (a) Incentive Stock Options, (b) Non-qualified Stock Options, and (c) Stock Appreciation Rights, all as described below.

5. Shares Reserved under the Plan. There is hereby reserved for issuance under the Plan an aggregate of 1,200,000 shares of Common Stock, which may be newly issued or treasury shares.\* All of such shares may, but need not, be issued pursuant to the exercise of Incentive Stock Options. If there is a lapse, expiration, termination or cancellation of any Benefit granted hereunder without the issuance of shares or payment of cash thereunder, or if shares are issued under any Benefit and thereafter are reacquired by the Company pursuant to rights reserved upon the issuance thereof, the shares subject to or reserved for such Benefit may again be used for new options or rights under this Plan; provided, however, that in no event may the number of shares issued under this Plan exceed the total

number of shares reserved for issuance hereunder. Notwithstanding any other provision of the Plan to the contrary, in no event may the aggregate number of shares of Common Stock with respect to which options or Stock Appreciation Rights are granted to any individual exceed 125,000 in any period of two calendar years, provided, however, that grants made to any new employee as a condition of employment may not exceed two times such biennial limit during the first two years of employment. If, pursuant to Section 1.9 of the Agreement and Plan of Recapitalization among the Company, Air Line Pilots Association, International and International Association of Machinists and Aerospace Workers (the "Agreement"), the Company becomes obligated to issue the Additional Shares (as defined in the Agreement), the number of shares reserved for issuance hereunder as well as the limitations set forth in the preceding sentence shall be increased by the percentage determined by dividing the number of Additional Shares the Company is so required to issue by the number of Fully Diluted Old Shares (as defined in the Agreement).

\* Represents shares of Common Stock reserved for issuance under the Plan in connection with grants made on or after July 12, 1994.

6. Incentive Stock Options. Incentive Stock Options will consist of options to purchase shares of Common Stock at purchase prices not less than one hundred percent (100%) of the fair market value of such shares on the date of grant. Incentive Stock Options will be exercisable over not more than ten (10) years after date of grant and shall terminate not later than three (3) months after termination of employment for any reason other than death. If the optionee should die while employed or within three (3) months after termination of employment, the right of the optionee or his or her successor in interest to exercise an option shall terminate not later than twelve (12) months after the date of death. The aggregate fair market value (determined as of the time the option is granted) of the shares of Common Stock which any participant may exercise pursuant to Incentive Stock Options for the first time in any calendar year (under all option plans of the Company and its parent and subsidiary corporations) shall not exceed \$100,000.

7. Non-qualified Stock Options. Non-qualified Stock Options will consist of options to purchase shares of Common Stock at purchase prices not less than one hundred percent (100%) of the fair market value of shares on the date of grant. Non-qualified Stock Options will be exercisable over not more than ten (10) years after date of grant. Non-qualified Stock Options will terminate no later than six (6) months after termination of employment for any reason other than retirement or death, unless immediately after such termination of employment the optionee shall be a member of the Board of Directors of the Company, in which case such options will terminate two (2) years after such termination of employment. In the event termination of employment occurs by reason of the optionee's retirement, the option shall terminate not later than the fixed expiration date set forth therein. In the event termination of employment occurs by reason of the optionee's death or if the optionee's death occurs within six months after termination of employment, the option shall terminate not later than twelve (12) months after the date of such death.

8. Stock Appreciation Rights. The Committee may, in its discretion, grant a Stock Appreciation Right to the holder of any Non-qualified Stock Option granted hereunder. In addition, a Stock Appreciation Right may be granted independently of and without relation to any stock option. Stock Appreciation Rights shall be subject to such terms and conditions consistent with the Plan as the Committee shall impose from time to time, including the following:

- (a) A Stock Appreciation Right may be granted with respect to a Non-qualified Stock Option at the time of its grant or at any time thereafter up to six (6) months prior to its expiration.

- (b) Each Stock Appreciation Right will entitle the holder to elect to receive up to 100% of the appreciation in fair market value of the shares subject thereto up to the date the right is exercised. In the case of a Stock Appreciation Right issued in relation to a Non-qualified Stock Option, such appreciation shall be measured from the option price. In the case of a Stock Appreciation Right issued independently of any stock option, the appreciation shall be measured from not less than the fair market value of the Common Stock on the date the right is granted.
- (c) The Committee shall have the discretion to satisfy a participant's right to receive the amount of cash determined under subparagraph (b) hereof, in whole or in part, by the delivery of shares of Common Stock valued as of the date of the participant's election.
- (d) In the event of the exercise of a Stock Appreciation Right, the number of shares reserved for issuance hereunder (and the shares subject to the related option, if any) shall be reduced by the number of shares with respect to which the right is exercised.

9. Nontransferability. Each Benefit granted under this Plan shall not be transferable other than by will or the laws of descent and distribution, and shall be exercisable, during the holder's lifetime, only by the holder.

10. Other Provisions. The award of any Benefit under the Plan may also be subject to other provisions (whether or not applicable to the Benefit awarded to any other participant) as the Committee determines appropriate, including, without limitation, provisions for the purchase of common shares under stock options in installments, provisions for the payment of the purchase price of shares under stock options by delivery of other shares of the Company having a then market value equal to the purchase price of such shares, restrictions on resale or other disposition, such provisions as may be appropriate to comply with federal or state securities laws and stock exchange requirements and understandings or conditions as to the participant's employment in addition to those specifically provided for under the Plan.

11. Term of Plan and Amendment, Modification or Cancellation of Benefits. No Benefit shall be granted after December 8, 2001; provided, however, that the terms and conditions applicable to any Benefits granted prior to such date may at any time be amended, modified, extended or canceled by mutual agreement between the Committee and the participant or such other persons as may then have an interest therein, so long as any amendment or modification does not increase the number of shares of Common Stock issuable under this Plan and any extension does not extend the option term beyond ten (10) years.

12. Taxes. The Company shall be entitled to withhold the amount of any tax attributable to any amount payable or shares deliverable under the Plan after giving the person entitled to receive such amount or shares notice as far in advance as practicable, and the Company may defer making payment or delivery if any such tax may be pending unless and until indemnified to its satisfaction.

13. Fair Market Value. The Fair Market Value of the Company's shares of Common Stock at any time shall be determined in such manner as the Committee may deem equitable or required by applicable laws or regulations.

14. Adjustment Provisions.

- (a) If the Company shall at any time change the number of issued shares of Common Stock without new

consideration to the Company (such as by stock dividend or stock split), the total number of shares reserved for issuance under this Plan and the number of shares covered by each outstanding Benefit shall be adjusted so that the aggregate consideration payable to the Company and the value of each such Benefit shall not be changed. The Committee shall also have the right to provide for the continuation of Benefits or for other equitable adjustments after changes in the shares of Common Stock resulting from reorganization, sale, merger, consolidation or similar occurrence.

- (b) Notwithstanding any other provision of this Plan, and without affecting the number of shares otherwise reserved or available hereunder, the Committee may authorize the issuance or assumption of Benefits in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

15. Amendment and Termination of Plan. The Board of Directors of the Company may amend the Plan from time to time or terminate the Plan at any time, but no such action shall reduce the then existing amount of any participant's Benefit or adversely change the terms and conditions thereof without the participant's consent. However, except for adjustments expressly provided for herein, no amendment may, without stockholder approval, (i) materially increase the Benefits accruing to participants, (ii) materially increase the number of shares which may be issued, or (iii) materially modify the requirements as to eligibility for participation in the Plan.

16. Stockholder Approval. The Plan was adopted by the Board of Directors of the Company on December 9, 1981, and was ratified by the stockholders of the Company on April 29, 1982.

The Board of Directors amended the Plan on October 31, 1985, to permit the exercise of non-qualified stock options after termination of employment due to retirement up to their fixed expiration date, and to increase the shares of old common stock, par value \$5 per share ("Old Common Stock"), of the Company reserved for issuance under the Plan from 1,300,000 shares to 3,300,000 shares. The latter amendment was subject to shareholder approval, which was obtained on April 24, 1986.

The Board of Directors amended the Plan on February 28, 1991, to extend the duration of the Plan from December 8, 1991 to December 8, 2001, and to increase the shares of Old Common Stock of the Company reserved for issuance under the Plan from 3,300,000 shares to 4,300,000 shares. These amendments were approved by the Company's stockholders on April 25, 1991.

The Board of Directors amended the Plan on July 12, 1994, to limit the number of shares of Common Stock with respect to which options may be granted under the Plan to any individual during any two-year period to 125,000 (250,000 with respect to grants made to any new employee as a condition of employment), subject to adjustment if additional shares become issuable to the employee groups in accordance with the Agreement, and to provide for 1,200,000 shares of Common Stock of the Company to be available for issuance under the Plan subsequent to the Recapitalization of the Company on July 12, 1994. Additional shares are reserved for issuance on account of the options granted prior to the Recapitalization for old Common Stock ("Pre-Closing Options") that became exercisable for new Common Stock and cash as a result of the Recapitalization; however, these shares are not available for future awards in the event any Pre-Closing Option is forfeited or expires unexercised. These amendments were approved by the Company's stockholders on July 12, 1994.

As Amended  
September 30, 1994

UAL CORPORATION

1988 RESTRICTED STOCK PLAN

1. Purpose.

The purposes of the Plan are to attract and retain key employees of the Company and its Subsidiaries, to compensate them for their contributions to the growth and profits of the Company and its Subsidiaries and to encourage ownership by them of shares of Common Stock of the Company.

2. Definitions.

(a) "Company" shall mean UAL Corporation.

(b) "Subsidiary" or "Subsidiaries" shall mean a corporation or corporations of which the Company owns, directly or indirectly, shares having a majority of the ordinary voting power for the election of directors.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Committee" shall mean, as applicable, the Compensation Administration Committee of the Board of Directors of the Company for all grants to (I) any "officer" as such term is defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended, or (II) any "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, and the Compensation Committee of the Board of Directors of the Company for all other grants.

(e) "Plan" shall mean the UAL Corporation 1988 Restricted Stock Plan.

(f) "Restricted Share" shall mean a share of Common Stock of the Company, par value \$.01 per share ("Common Stock"), allocated to a Recipient pursuant to the Plan.

(g) "Recipient" shall mean an employee of the Company or a Subsidiary to whom shares are allocated pursuant to the Plan and shall be deemed to include such Recipient's estate and the beneficiaries of such estate as the context may require.

(h) "Change in Control" shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities (such percentage ownership to be determined in the manner provided in Rule 13d-3(d)(1)(i) under the Exchange Act); or (B) during any period of two consecutive years or portion thereof not including any period prior to July 1, 1993, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (A) or (C) of this Subsection) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (C) the

shareholders of the Company approve a merger or consolidation of the Company with any other corporation (or similar transaction), other than a merger or consolidation (or similar transaction) which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger, consolidation or similar transaction (either alone or in combination with new or additional voting securities held by management of the Company and its subsidiaries) or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets. For purposes of (I) clause (A) of the preceding sentence, beneficial ownership of securities of United Air Lines, Inc. ("United") representing 25% or more of the combined voting power of United's then outstanding securities shall be deemed to constitute such beneficial ownership of the Company and (II) clause (C) of the preceding sentence, the approval by the shareholders of United of a plan of complete liquidation of United or an agreement for the sale or disposition by United of all or substantially all of United's assets shall be deemed to constitute approval by the shareholders of the Company of such events in respect of the Company.

### 3. Restricted Shares Available Under the Plan.

(a) An aggregate of five hundred thousand (500,000) shares of Common Stock, par value \$5 per share, will be available for allocation under the Plan.<sup>1</sup> Such shares, which shall be treasury shares of such Common Stock, shall be credited to a Restricted Share reserve.<sup>2</sup> Upon the allocation of shares hereunder, said reserve shall be reduced by the number of shares so allocated. Upon the failure of a Recipient to complete on a timely basis all of the requirements of Section 6 in connection with the allocation of any Restricted Shares or upon the forfeiture of any Restricted Shares pursuant to Section 7(d) or Section 9, the Restricted Share reserve shall be increased by such number of shares, and such Restricted Shares may again be the subject of allocations hereunder.

(b) In the event of any stock dividend, stock split, merger, consolidation, reorganization, recapitalization, or other change in corporate structure of the Company, appropriate adjustments shall be made in the aggregate number of shares which may be allocated under the Plan. Such adjustments shall be made by the Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be final. No fractional shares of stock shall be allocated or authorized by any such adjustment.

### 4. Eligibility and Making of Allocations.

(a) Any officer or key employee of the Company or any Subsidiary shall be eligible to receive an allocation of Restricted Shares pursuant to the Plan.

(b) The Committee shall from time to time select those employees who will receive allocations and determine the number of Restricted Shares subject to each such allocation. Notwithstanding any other provision of the Plan to the contrary, in no event may the aggregate number of Restricted Shares allocated to any individual exceed 30,000 in any period of two calendar years, provided, however, that allocations made to any new employee as a condition of employment may not exceed two times such biennial limit during the first two years of employment. If, pursuant to Section 1.9 of the Agreement and Plan of Recapitalization among the Company, Air Line Pilots Association, International and International Association of Machinists and Aerospace Workers (the "Agreement"), the Company becomes obligated to issue the Additional Shares (as defined in the Agreement), the limitations set forth in the preceding

sentence shall be increased by the percentage determined by dividing the number of Additional Shares the Company is so required to issue by the number of Fully Diluted Old Shares (as defined in the Agreement).

5. Form of Allocations.

(a) Each allocation shall specify the number of Restricted Shares subject thereto. At the time of making any allocation, the Committee or its designee shall advise the Recipient thereof by delivery of written notice in the form prescribed by the Committee.

(b) The Company shall take such action as shall be necessary to cause any Restricted Shares not previously so listed to be listed on the New York Stock Exchange and/or such other exchange or exchanges on which shares of the same class as the Restricted Shares are then listed.

6. Actions Required of Recipients.

(a) Within 30 days of an allocation of Restricted Shares, the Recipient shall deliver to the Company an agreement in writing, signed by such Recipient, in form and substance as prescribed by the Committee, together with a stock power, duly endorsed in blank, relating to such Restricted Shares. The Company may require that the Recipient represent to the Company in such agreement that such Recipient is acquiring such Restricted Shares for the purpose of investment and with no present intention to transfer, sell or otherwise dispose of such shares, except such distribution by a legal representative as shall be required by will or the laws of descent and distribution of any jurisdiction in administering the estate of any Recipient. In the event the Company requires such a representation in connection with an acquisition of Restricted Shares hereunder, such shares shall be transferable only if (i) the proposed transfer shall be permissible pursuant to the Plan and (ii) the Company shall determine at the time of the lapse of the restrictions thereon pursuant to Section 7(c) or at any time thereafter (based upon an opinion of counsel satisfactory to the Company, if the Company shall so require) that such a transfer would comply with applicable securities laws.

(b) The date on which such agreement and stock power are received by the Company shall be deemed the "Date of Transfer" of the Restricted Shares. The failure of a Recipient to deliver such agreement and stock power within 30 days from the date of an allocation of shares shall terminate such allocation to the Recipient.

7. Restrictions.

(a) On or promptly after the Date of Transfer of Restricted Shares, a certificate or certificates representing such shares shall be prepared in the Recipient's name. The Recipient shall thereupon be a stockholder with respect to all the shares represented by such certificate or certificates and shall have all the rights of a stockholder with respect to all such shares, including the right to vote such shares and to receive all dividends and other distributions (subject to the provisions of Section 7(b)) paid with respect to such shares, provided, however, that such shares shall be subject to the restrictions hereinafter described in Section 7(d). Certificates of stock representing Restricted Shares shall be imprinted with a legend to the effect that the shares represented thereby may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of except in accordance with the terms of the Plan, and each transfer agent for the Common Stock shall be instructed to the same effect in respect of such shares. In aid of such restrictions, during the Restricted Period with respect to the Restricted Shares represented by such a certificate, such certificate, together with the stock power described in Section 6(a), shall remain in the physical custody of the Company.

(b) In the event that, as the result of an event

giving rise to an adjustment described in Section 3(b), the Recipient shall, as the owner of Restricted Shares, receive new or additional or different shares of stock or securities, the certificate or certificates for, or other evidences of, such new or additional or different shares or securities shall also be imprinted with a legend as provided in Section 7(a) and, together with a stock power duly endorsed in blank by the Recipient, shall remain in the physical custody of the Company, and all provisions of the Plan relating to restrictions and lapse of restrictions shall thereupon be applicable to such new or additional or different shares or securities; provided, however, that if the Recipient shall receive rights, warrants or fractional interests in respect of any of such Restricted Shares, such rights or warrants may be held, exercised, sold or otherwise disposed of, and such fractional interests may be settled, by the Recipient, without regard to such restrictions.

(c) The term "Restricted Period" with respect to Restricted Shares shall mean a period commencing on the Date of Transfer of such shares and ending ten (10) years after such Date of Transfer or, if sooner, upon the first to occur of any of the following:

(i) the dissolution of the Company, or any merger or consolidation of the Company where the Company is not the surviving corporation and the surviving corporation does not agree to exchange the Restricted Shares outstanding hereunder for shares of stock or securities of which it is the issuer having an aggregate value equal to the aggregate value of such Restricted Shares;

(ii) a Change in Control;

(iii) a determination by the Committee at any time to accelerate or terminate such Restricted Period, but only to the extent of such determination.

Notwithstanding the foregoing provision of this Section 7(c), the Committee may provide with respect to any allocation of Restricted Shares that the "Restricted Period" with respect to such Restricted Shares shall lapse based upon the attainment by the Company of one or more target levels of pre-tax income (as determined under generally accepted accounting principles but without regard to any items (whether gains or losses) otherwise included therein relating to (1) the UAL Corporation Employee Stock Ownership Plan, the UAL Corporation Supplemental ESOP, or the trusts relating thereto, (2) any event or occurrence that the Committee determines to be either not directly related to the operations of the Company or not within the reasonable control of the Company's management, (3) the Plan and (4) the Company's Incentive Compensation Plan). Such target level(s) shall be determined by the Committee on or before the allocation of such Restricted Shares, shall relate to such period or periods of time as the Committee shall prescribe and may provide that any period in which such pre-tax income is less than zero may be disregarded.

(d) During the Restricted Period applicable to any Restricted Shares and except as otherwise specifically provided in the Plan, none of such Restricted Shares may be sold, assigned, exchanged, transferred, pledged, hypothecated or otherwise disposed of or encumbered. If a Recipient ceases to be an employee of the Company or any Subsidiary for any reason, all of such Recipient's Restricted Shares which at such time remain subject to the restrictions imposed hereunder shall be forfeited and returned to the Company, unless and to the extent the Committee determines to end the Restricted Period with respect to any such Restricted Shares pursuant to Section 7(c)(iii).

(e) The restrictions set forth in Section 7(d) shall lapse with respect to Restricted Shares when the Restricted Period applicable to such shares expires, as described in Section 7(c).

8. Administration.

The Committee shall administer the Plan and construe its provisions. The Committee is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it deems necessary for the proper administration of the Plan and to determine such other terms and conditions of Restricted Shares and make such other determinations and interpretations and to take such action in connection with the Plan as it deems necessary or advisable. All determinations by the Committee in carrying out, administering or construing this Plan shall be final, binding and conclusive for all purposes and upon all persons interested herein.

9. Limitations.

(a) Except as provided herein, no person shall at any time have any right to receive an allocation of Restricted Shares hereunder, and no person shall have authority to enter into an agreement for the making of an allocation hereunder or to make any representation or warranty with respect thereto without the approval of the Committee and the Board.

(b) Recipients of allocations shall have no rights in respect thereof except as set forth in the Plan. Except as provided in Section 6(a), in the event that any attempt shall be made to sell, assign, transfer, pledge, hypothecate or otherwise dispose of or encumber any Restricted Shares which are then subject to restrictions hereunder, the shares which are the subject of such attempted disposition shall be deemed forfeited and shall be returned to the Company. No Recipient shall have any rights as a stockholder with respect to any shares reserved for allocation hereunder nor shall any such shares be earmarked for any Recipient prior to the Date of Transfer of such shares.

(c) Neither the action of the Company in establishing the Plan, nor any action taken by it or by the Board or the Committee under the Plan, nor any provision of the Plan, shall be construed as giving to any person the right to be retained in employment with the Company or any Subsidiary.

10. Amendment, Suspension or Termination of the Plan in Whole or in Part.

The Board may amend, suspend or terminate the Plan in whole or in part at any time, provided that such amendment, suspension or termination shall not, without a Recipient's consent, affect adversely such Recipient's rights with respect to allocations of Restricted Shares theretofore made; and provided, further, that no modification of the Plan by the Board without approval of the stockholders of the Company shall (i) increase the maximum number of Restricted Shares available for allocation under the Plan pursuant to Section 3 of the Plan or (ii) render any member of the Committee eligible to receive an allocation of Restricted Shares at any time while such member is serving on the Committee.

11. Withholding.

The Company shall be entitled to withhold the amount of taxes which the Company deems necessary to satisfy any applicable federal, state and local tax withholding obligations arising from allocations of or the lapse of restrictions on Restricted Shares under the Plan, or to make other appropriate arrangements with Recipients to satisfy such obligations. At the discretion of the Committee, the Company may deduct or withhold from any transfer or payment to a Recipient, or may receive payment from a Recipient, in the form of cash or other property, including shares of Common Stock of the Company.

12. Effective Date and Term of Plan.

(a) The Plan was adopted by the Board on March 31, 1988, subject to approval of the Plan by the shareholders of the Company within twelve (12) months after its adoption by the Board. If the Plan is not so approved, the Plan shall be

ineffective. No Restricted Shares may be allocated to a Recipient under the Plan unless and until such shareholders have so approved the Plan.

(b) The Plan shall terminate ten (10) years after the date of its adoption by the Board, unless terminated sooner by the Board. No Restricted Shares may be allocated under the Plan after its termination date, but the Plan shall continue in effect with respect to all Restricted Shares which, as of such termination date, have been allocated under the Plan.

1 Pursuant to the recapitalization of the Company on July 12, 1994, each share of old Common Stock, par value \$5 per share, was reclassified and converted into, among other things, 1/2 of a share of new Common Stock, par value \$.01 per share.

2 The Restricted Share reserve of old Common Stock immediately prior to the Effective Time (as defined in the Agreement and Plan of Recapitalization of the Company and which occurred on July 12, 1994) shall continue to constitute such Restricted Share reserve of new Common Stock as of the Effective Time. Such reserve is equal to 142,500 shares of new Common Stock as of the Effective Time.

As Amended  
September 30, 1994

UAL CORPORATION  
INCENTIVE COMPENSATION PLAN

I. PURPOSE

In an effort to maintain a position of leadership in the fast-growing and highly competitive business segments in which UAL Corporation (the "Company") competes, it is necessary to promote financial interests of the corporation and its corporate affiliates (the "subsidiaries"), including its growth, by (A) attracting and retaining highly qualified executives possessing outstanding ability, (B) motivating executives by means of performance related incentives, and (C) providing incentive compensation opportunities which are competitive with those of major corporations. The Incentive Compensation Plan (the "Plan") hereinafter described is designated to assist the Company in attaining these objectives.

II. ADMINISTRATION OF THE PLAN

1. The Company is responsible for the general administration of the Plan, except as to matters reserved in this Plan to the Compensation Administration Committee of the Board of Directors of the Company for all grants to any "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, and by the Compensation Committee of the Board of Directors of the Company for all other grants (such committee, as applicable, herein called the "Committee"). Determinations, decisions and actions of the Company or the Committee in connection with the construction, interpretation, administration, or application of the Plan will be final, conclusive, and binding upon any grantee of awards under the Plan and any person claiming under or through such grantee. Neither the Company nor any member of the Committee will be liable for any determination, decision, or action made with respect to the Plan or any Incentive Award granted under the Plan.

2. A Participant's rights and interests in any Incentive Award made under the Plan may not be assigned or transferred and are not subject to attachment, garnishment, execution, or other creditor's processes.

3. This Plan may at any time be amended, modified, or terminated as the Board, in its discretion, determines, and such amendment, modification, or termination will not require the consent, ratification, or approval of any party, including any Participant hereunder.

4. This Plan and all determinations made and actions taken pursuant hereto will be governed and construed by the law of the State of Illinois.

III. DEFINITIONS

1. Award Year--The calendar year for which Incentive Awards, if any, are calculated under the Plan.

2. Financial Objectives--Financial performance goals established by the Company and approved by the Committee at the beginning of an Award Year. Financial Objectives may apply to overall Company and subsidiaries performance in selected areas and/or to performance of major business segments of the Company and subsidiaries.

3. Financial Performance Factor--The numerical factor determined by the Company shortly after the Award Year by comparing actual performance during such Award Year to the applicable Financial Performance Objectives previously established for such Award Year.

4. Individual Performance Objectives--Goals and objectives established by the Company (or by the Committee in the case of the Company's Chairman and its Chief Executive Officer) for each Participant under the Plan.

5. Individual Performance Factor--The numerical factor determined with respect to the Plan by the Company (or by the Committee in the case of the Chairman and the Chief Executive Officer and officers reporting to either of them) shortly after the Award Year, based upon an evaluation as to the extent to which a Participant in the Plan achieved the Individual Performance Objectives established for him/her. Such evaluation will be wholly discretionary and subjective on the part of the Company or the Committee.

6. Incentive Awards--The dollar value of awards made to Participants under the Plan. Notwithstanding any other provisions of the Plan, in no event may a total Incentive Award for any Participant exceed 100% of his/her base salary for an Award Year.

7. Incentive Opportunity--The amount, determined by the Company and approved by the Committee at the beginning of an Award Year, that a Participant may receive as an Incentive Award under the Plan. The Incentive Opportunity will be stated as a percentage of a Participant's annual base salary as of December 31, of an Award Year. If a Participant held more than one position in an Award Year, his/her Incentive Opportunity will be based on the position he/she occupied at the end of the Award Year.

#### IV. PARTICIPATION IN THE PLAN

1. Participants will be determined annually by the Company from among key employees and senior management employees of the Company and its subsidiaries. This determination will allow participation only for the Award Year concerned.

2. The Plan does not constitute a contract of employment, and participation in the Plan will not give any employee the right to be retained in the service of the Company or its subsidiaries.

3. If a Participant's employment with the Company or its subsidiaries is terminated during an Award Year, the appropriate Incentive Award under the Plan, if any, for such Participant will be subject to the sole discretion of the Company's Chairman (or to the sole discretion of the committee in case of the termination of employment of the Chairman). A transfer of employment between the Company and any of its subsidiaries will not be considered a termination of employment.

#### V. COMPUTATION OF INCENTIVE AWARDS

The Incentive Award for an Award Year for a Participant will be the product of a Participant's Incentive Opportunity times the sum of his company's Financial Performance Factor plus his Individual Performance Factor. No Incentive Award will be made to a Participant for an Award Year in which his company's Financial Performance Factor is below threshold level. However, the Chairman, with Committee approval, may waive the Company's Financial Performance Factor threshold requirement.

Total payments to all participants of the Incentive Compensation Plan will be limited to 5% of Pre-Tax Income in any given year. Should total calculated incentive awards exceed 5% of Pre-Tax Income, payments will be made on a prorated basis.

#### VI. PAYMENT OF AWARDS

(A) Standard Procedures--Payment of Incentive Awards will be made in cash on or about April 1, of the year following the Award Year; provided, however, that an Incentive Award may be deferred at the election of a Participant in the manner described below.

(B) Deferred Awards--Participants may elect, on or before December 31 of the year preceding an Award Year, to defer receipt of all or any portion on an Incentive Award to a subsequent calendar year. A Participant will receive payment of a deferred Incentive Award in a lump sum in January of the earliest of: (1) the deferral calendar year selected by the Participant; (2) the calendar year immediately after the Participant's retirement under the United Air Lines, Inc. Non-Union Ground Employees' Retirement Plan; (3) the calendar year after the Participant's termination of employment with the Company for other reasons, provided that a transfer of employment from the Company to any of the Company's affiliates will not be considered a termination of employment with the Company; (4) the occurrence of an "Unforeseeable Emergency", provided that a distribution pursuant to this clause (4) shall not exceed the amount reasonably needed to satisfy the emergency need, or (5) any other time elected by the Participant, provided that upon making such an election, the Participant shall be entitled to receive 90% of the amounts then credited to him or her under the Plan and shall forfeit the remaining 10% of such amount. The amounts deferred will be credited annually with compound interest at the prime rate in effect during the deferral period at the end of the calendar quarter, as reported by The Wall Street Journal. All deferred Incentive Awards will be reflected in the Company's books as general unsecured and unfunded obligations of the Company. No trust in favor of any Participant will be implied. Deferral elections will be irrevocable by a Participant or his or her beneficiary. For purposes of this Section, "Unforeseeable Emergency" shall mean a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but, in any case, payment under clause (4) above may not be made to the extent that such hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or (iii) by cessation of deferrals under the Plan.

#### VII. SPECIAL RULES

Notwithstanding any other provision of this Plan to the contrary: Incentive Awards with respect to an Award Year with respect to any Participant who is a "covered employee" (as defined in Section 162(m)(3) of the Code) with respect to such Award Year (I) may not exceed \$900,000 and (ii) shall be determined by reference to a formula which shall define the Incentive Award by reference to the attainment by the Company of one or more target levels of pre-tax income (as determined under generally accepted accounting principles but without regard to any items (whether gains or losses) otherwise included therein relating to (1) the UAL Corporation Employee Stock Ownership Plan, the UAL Corporation Supplemental ESOP, or the trusts relating thereto, (2) any event or occurrence that the Committee determines to be either not directly related to the operations of the Company or not within the reasonable control of the Company's management, (3) this Plan and (4) the Company's 1988 Restricted Stock Plan) for such Award Year. Such target level(s) and the formula referred to above shall be determined by the Committee prior to the commencement of such Award Year (or at such later time as may be permissible under Section 162(m) of the Code); the Committee shall determine and certify whether such target levels of pre-tax income have been met. Notwithstanding the foregoing,

the Committee may reduce the Incentive Award otherwise determined pursuant to such formula in its sole discretion.

UAL CORPORATION  
1992 STOCK PLAN  
FOR OUTSIDE DIRECTORS

1. Purpose.

The purposes of the Plan are to attract and retain outstanding individuals as outside directors of the Company, to compensate them for their contributions to the growth and profits of the Company and its subsidiaries and to encourage ownership by them of shares of Common Stock of the Company.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Committee" shall mean the Compensation Committee of the Board, selected by and serving at the pleasure of the Board.

(c) "Shares" shall mean shares of the common stock of the Company, par value \$0.01 per share.

(d) "Company" shall mean UAL Corporation.

(e) "Outside Director" shall mean a director of the Company who, on the applicable Date of Award, is not an employee of the Company or a subsidiary of the Company.

(f) "Date of Award" shall mean the date on which Shares are granted to Outside Directors pursuant to Section 3(a) hereof.

(g) "Plan" shall mean the UAL Corporation 1992 Stock Plan for Outside Directors.

(h) "Recipient" shall mean an Outside Director of the Company to whom Shares are granted pursuant to the Plan.

3. Shares Available Under the Plan.

(a) Each Outside Director shall be granted 100 Shares on July 1, 1992 and shall be granted 100 Shares on the first business day of January in each subsequent year commencing with the year 1993; provided, however, that with respect to the year 1995 only, such grant of 100 Shares shall occur on the first business day of the month of February.

(b) An aggregate of 20,000 Shares will be available for grant under the Plan. Such Shares, which shall be treasury shares, shall be credited to a Share reserve. Upon the grant of Shares hereunder, said reserve shall be reduced by the number of Shares so granted.

(c) In the event of any stock dividend, stock split, recapitalization, or merger, consolidation, or reorganization in which the Company is the survivor, appropriate adjustments shall be made in the aggregate number and kind of Shares which may be granted under the Plan. Such adjustments shall be made by the Committee. In determining what adjustment, if any, is appropriate, the Committee may rely on the advice of independent counsel and the accountants of the Company, and the determination of the Committee shall be final. No fractional Shares of stock shall be granted or authorized by any such adjustment.

4. Administration.

To the extent necessary, the Committee shall administer the Plan and it shall have the power to (1) construe and interpret the provisions of the Plan, (2) to prescribe, amend and rescind such rules and regulations as it deems necessary for the proper administration of the Plan, and (3) to take such action in connection with administering the Plan as it deems necessary or advisable. All determinations by the Committee in carrying out, administering or construing this Plan shall be final, binding and conclusive for all purposes and upon all persons interested herein.

5. Limitations.

(a) Except as provided herein, no person shall at any time have any right to receive a grant of Shares hereunder.

(b) Neither the action of the Company in establishing the Plan, nor any action taken by it or by the Board or the Committee under the Plan, nor any provision of the Plan, shall be construed as giving to any person the right to be retained as a member of the Board.

(c) Except for Shares actually delivered under the Plan, the Plan constitutes only an unfunded, unsecured promise of the Company to make payments or awards to Outside Directors (or other persons) or deliver Shares in the future in accordance with the terms of the Plan.

6. Deferral of Share Awards.

Subject to the terms and conditions of the Plan, each Outside Director, by filing a written "Share Deferral Election" with the Committee in accordance with uniform and nondiscriminatory rules adopted by the Committee, may elect to defer the receipt of all or any portion of the Shares which are otherwise to be granted to him or her pursuant to Section 3(a) until the Distribution Date. The "Distribution Date" shall be the date specified by the Outside Director in his or her Share Deferral Election or, if no such date is specified, the first business day in January of the year following the date on which the Outside Director ceases to be a director of the Company for any reason. An Outside Director's Share Deferral Election shall be effective with respect to grants otherwise to be made to him or her pursuant to Section 3(a) after the last day of the calendar year in which such election is filed with the Committee (or for grants to be made in calendar year 1995, after the date the election is filed with the Committee if it is filed with the Committee no later than January 5, 1995); provided, however, that by notice filed with the Committee in accordance with uniform and nondiscriminatory rules established by it, an Outside Director may terminate or modify any Share Deferral Election as to grants to be made after the last day of the calendar year in which such notice is filed with the Committee. An Outside Director may modify the Distribution Date only by filing notice with the Committee at least one year prior thereto; provided, however, that the Committee may, in its sole discretion, after considering all pertinent facts and circumstances, approve a change to the Distribution Date which is requested by an Outside Director less than one year prior thereto.

7. Crediting and Adjustment of Share Deferrals.

The amount of any Shares deferred by an Outside Director pursuant to a Share Deferral Election ("Share Deferral") shall be credited to a bookkeeping account maintained by the Company in the name of the Outside Director (the "Share Unit Account"). An Outside Director's Share Unit Account shall be adjusted as follows:

(a) As of the date on which Shares would be granted to the Outside Director pursuant to Section 3(a) but for his or her Share Deferral Election, the Share Unit Account shall be credited with a number of share units ("Share Units") equal to the number of Shares that would have been granted to the Outside Director as of such date but for his or her Share Deferral Election.

(b) As of the date on which Shares are distributed to the Outside Director in accordance with Section 8 below, the Share Unit Account shall be charged with an equal number of Share Units.

(c) As of the record date for any dividend paid on Shares, the Share Unit Account shall be credited with that number of additional Share Units or fractions thereof which is equal to the number obtained by multiplying the number of Share Units then credited to the Share Unit Account by the amount of the cash dividend or the fair market value (as determined by the Board) of any dividend in kind payable on a Share, and dividing that product by the then Fair Market Value (as defined below) of a Share.

In the event of any merger, consolidation, reorganization, recapitalization, spinoff, rights offering, stock split, reverse stock split, exchange or other exchange or other change in the corporate structure or capitalization of the Company affecting the Shares, each Outside Director's Share Unit Account shall be equitably adjusted in such manner as the Committee shall determine in its sole judgment.

The "Fair Market Value" of a Share on any date shall be equal to the average of the high and low prices of a Share reported for New York Stock Exchange Composite Transactions for the applicable date or, if there are no such reported trades for such date, for the last previous date for which trades were reported.

#### 8. Payment of Share Deferrals.

Except as otherwise provided in this Section 8 or Section 9, the balance credited to the Share Unit Account of an Outside Director shall be payable to the Outside Director in 10 annual installments commencing as of the Distribution Date and continuing on each annual anniversary thereof. Notwithstanding the foregoing, an Outside Director may elect, by filing a notice with the Committee at least one year prior to the Distribution Date, to change the number of payments to a single payment or to any number of annual payments not in excess of ten. Each such payment shall be made in whole Shares, the number of which shall be determined by rounding to the next lower integer the product obtained by multiplying the number of Share Units then credited to the Outside Director's Share Unit Account by a fraction, the numerator of which is one and the denominator of which is the number of remaining payments to be made, including such payment. The Fair Market Value of any fractional Share remaining after all distributions have been made to the Outside Director pursuant to this Section 8 shall be paid to the Outside Director in cash.

Notwithstanding the foregoing, the Committee, in its sole discretion, may distribute all of an Outside Director's Share Unit Account to such Outside Director (or former Outside Director) in a lump sum as of any date or, if requested by an Outside Director who has elected to receive a lump sum, the Committee in its sole discretion, may distribute all of an Outside Director's Share Unit Account to such Outside Director (or former Outside Director) in installments satisfying the preceding paragraph as requested by the Outside Director (or former Outside Director).

#### 9. Payment of Share Deferrals in the Event of Death.

If an Outside Director dies before payment of his or her Share Unit Account commences, all amounts then credited to his or her Share Unit Account shall be distributed to his or her Beneficiary (as described below), as soon as practicable after his or her death in a lump sum. If an Outside Director dies after payment of his or her Share Unit Account has commenced but before the entire balance of such account has been distributed, the remaining balance thereof shall be distributed to his or her Beneficiary, as soon as practicable after his or her death, in a lump sum. Any such amounts shall be distributed in whole Shares

determined in accordance with Section 8, and the Fair Market Value of any fractional Share shall be distributed in cash. For purposes of the Plan, the Outside Director's "Beneficiary" is the person or persons the Outside Director designates, which designation shall be in writing, signed by the Outside Director and filed with the Committee prior to the Outside Director's death. A Beneficiary designation shall be effective when filed with the Committee in accordance with the preceding sentence. If more than one Beneficiary has been designated, the balance in the Outside Director's Share Unit Account shall be distributed to each such Beneficiary per capita (with cash distributed in lieu of any fractional Share). In the absence of a Beneficiary designation or if no Beneficiary survives the Outside Director, the Beneficiary shall be the Outside Director's estate.

10. Amendment, Suspension or Termination of the Plan in Whole or in Part.

(a) Except as provided in subsections (b) - (c) of this Section 10, the Compensation Committee of the Board may amend, suspend or terminate the Plan in whole or in part at any time.

(b) No amendment, suspension or termination shall, without a Recipient's consent, affect adversely such Recipient's rights with respect to Shares which have been granted to him.

(c) The provisions in the Plan shall not be amended more than once every six months, except as permitted by Rule 16b-3 (c) (2) (ii) (B) promulgated under the Securities Exchange Act of 1934, as amended, or any successor thereto.

11. Continuation of Benefits.

Absent express provision to the contrary, upon the dissolution or liquidation of the Company, or upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, the Plan shall terminate.

12. Governing Law.

This Plan, shall be governed by, and construed in accordance with, the laws of the State of Illinois. If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue to be fully effective.

## UAL CORPORATION 1995 DIRECTORS PLAN

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UAL CORPORATION  
1995 DIRECTORS PLAN

SECTION 1

General

1.1. Purpose, History and Effective Date. UAL Corporation (the "Company") maintains the UAL Corporation 1992 Stock Plan for Outside Directors (the "Prior Plan") which provides certain benefits to non-employee directors of the Company. In order to (i) encourage stock ownership by directors to further align their interests with those of the stockholders of the Company, while at the same time providing flexibility for directors who, due to their individual circumstances, may be unable to take stock in lieu of cash compensation, and (ii) add certain deferral features for fees and stock awards, the Company has authorized a variety of compensation alternatives, including those set forth in the Prior Plan, that will be available to Outside Directors under a new plan to be known as the UAL Corporation 1995 Directors Plan (the "Plan"). The Plan shall be effective immediately upon approval by the Board of Directors, except that subsections 1.4, 1.5, 1.7, 1.8 and 4.2 and Sections 2 and 3 and all references to Stock Awards, Stock Deferrals and the Company Stock Subaccount shall be effective on July 3, 1995, but only if the Plan is approved by shareholders of the Company (the "Effective Date") prior thereto. Upon the Effective Date the Prior Plan shall be terminated (with

prior stock deferrals thereunder being treated as deferrals under subsection 4.2 of the Plan); provided, however, that if shareholder approval is not obtained at the next annual meeting of shareholders of the Company, subsections 1.4, 1.5, 1.7, 1.8 and 4.2 and Sections 2 and 3 and all references to Stock Awards, Stock Deferrals and the Company Stock Subaccount shall be deleted and the Plan shall be restated accordingly, and the Prior Plan will continue in effect in accordance with its terms.

1.2. Participation. Only Outside Directors shall be eligible to participate in the Plan. As of any applicable date, an "Outside Director" is a person who is serving as a director of the Company who is not an employee of the Company or any subsidiary of the Company as of that date.

1.3. Administration. The authority to manage and control the operation and administration of the Plan shall be vested in the Executive Committee of the Board (the "Committee"). Subject to the limitations of the Plan, the Committee shall have the sole and complete authority to:

- (a) interpret the Plan and to adopt, amend and rescind administrative guidelines and other rules and regulations relating to the Plan;
- (b) correct any defect or omission and to reconcile any inconsistency in the Plan or in any payment made hereunder; and
- (c) to make all other determinations and to take all other actions necessary or advisable for the implementation and administration of the Plan.

The Committee's determinations on matters within its control shall be conclusive and binding on the Company and all other persons. Notwithstanding the foregoing, no member of the Committee shall act with respect to the administration of the Plan except to the extent consistent with the exempt status of the Plan under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 16b-3").

1.4. Shares Subject to the Plan. Shares of stock which may be distributed under the plan are shares of common stock of the Company, par value \$.01 per share ("Stock"). The shares of Stock which shall be available for distribution pursuant to the Plan shall be treasury shares (including, in the discretion of the Company, shares purchased in the open market). The number of shares of Stock to be distributed pursuant to Outside Directors' elections to receive shares of Stock in lieu of Eligible Cash Fees (as described in subsection 3.1) shall be determined in accordance with Section 3. The number of shares of Stock to be distributed pursuant to Outside Directors' Deferral Elections (as described in Section 4) shall be determined in accordance with Section 4. The number of shares of Stock which are available for awards under Section 2 shall be 20,000; provided, however, that:

- (a) in the event of any merger, consolidation, reorganization, recapitalization, spinoff, stock split, reverse stock split, rights offering, exchange or other change in the corporate structure or capitalization of the Company affecting the Stock, the number and kind of shares of Stock available for awards under Section 2 and the annual awards provided thereunder shall be equitably adjusted in such manner as the Committee shall determine in its sole judgment;
- (b) in determining what adjustment, if any, is appropriate pursuant to paragraph (a), the Committee may rely on the advice of such experts as they deem appropriate, including counsel, investment bankers and the accountants of the Company; and
- (c) no fractional shares shall be granted or authorized pursuant to any adjustment pursuant to paragraph (a), although cash payments may be authorized in lieu of

fractional shares that may otherwise result from such an equitable adjustment.

1.5. Compliance with Applicable Laws. Notwithstanding any other provision of the Plan, the Company shall have no obligation to deliver any shares of Stock under the Plan unless such delivery would comply with all applicable laws and the applicable requirements of any securities exchange or similar entity. Prior to the delivery of any shares of Stock under the Plan, the Company may require a written statement that the recipient is acquiring the shares for investment and not for the purpose or with the intention of distributing the shares. If the redistribution of shares is restricted pursuant to this subsection 1.5, the certificates representing such shares may bear a legend referring to such restrictions.

1.6. Director and Shareholder Status. The Plan will not give any person the right to continue as a director of the Company, or any right or claim to any benefits under the Plan unless such right or claim has specifically accrued under the terms of the Plan. Participation in the Plan shall not create any rights in a director (or any other person) as a shareholder of the Company until shares of Stock are registered in the name of the director (or such other person).

1.7. Definition of Fair Market Value. The "Fair Market Value" of a share of Stock on any date shall be equal to the average of the high and low prices of a share of Stock reported for New York Stock Exchange Composite Transactions for the applicable date or, if there are no such reported trades for such date, for the last previous date for which trades were reported.

1.8. Source of Payments. Except for Stock actually delivered pursuant to the Plan, the Plan constitutes only an unfunded, unsecured promise of the Company to make payments or awards to directors (or other persons) or deliver Stock in the future in accordance with the terms of the Plan.

1.9. Nonassignment. Neither a director's nor any other person's rights to payments or awards under the Plan are subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the director.

1.10. Elections. Any notice or document required to be filed with the Committee under the Plan will be properly filed if delivered or mailed by registered mail, postage prepaid, to the Committee, in care of the Company, at the Company's principal executive offices. The Committee may, by advance written notice to affected persons, revise such notice procedure from time to time. Any notice required under the Plan may be waived by the person entitled thereto.

## SECTION 2

### Formula Stock Awards

As of the first business day of January each year after the Effective Date, each Outside Director shall be awarded 100 shares of Stock (the "Stock Award").

## SECTION 3

### Elections to Receive Stock in Lieu of Eligible Cash Fees

3.1. Election to Receive Stock. Subject to the terms and conditions of the Plan, each Outside Director may elect to forego receipt of all or any portion of the Eligible Cash Fees (as defined below) payable to him or her during 1995 following the Effective Date (or payable during 1995 prior to the Effective Date and subject to a Deferral Election made in accordance with Section 4) and during any calendar year thereafter and instead to receive whole shares of Stock of equivalent value to the Eligible

Cash Fees so foregone (determined in accordance with subsection 3.3). An election under this subsection 3.1 to have Eligible Cash Fees paid in shares of Stock shall be valid only if it is in writing, signed by the Outside Director, and filed with the Committee in accordance with uniform and nondiscriminatory rules adopted by the Committee but, in any event:

- (a) at least six months prior to any date in 1995 following the Effective Date or subsequent years on which such Eligible Cash Fees would otherwise be payable; and
- (b) prior to January 1, 1995 with respect to any amounts payable during 1995 prior to the Effective Date and deferred pursuant to a Deferral Election made in accordance with Section 4.

For purposes of the Plan, the term "Eligible Cash Fees" means the retainer fees, meeting fees, committee fees and committee chair fees that would otherwise be payable to the Outside Director by the Company in cash as established, from time to time, by the Board or any committee thereof.

3.2. Revocation of Election to Receive Stock. Once effective, an election pursuant to subsection 3.1 to receive Stock shall remain in effect for successive calendar years until it is revised or revoked. Any such revision or revocation shall be in writing, signed by the Outside Director and filed with the Committee and shall be effective for the calendar year next following the date on which it is received by the Committee, or such later date specified in such notice; provided, however, that no revision or revocation shall be effective prior to six months from the date it is made.

3.3. Equivalent Amount of Stock. The number of whole shares of Stock to be distributed to any Outside Director, or credited to his or her Deferred Compensation Account (as defined in subsection 4.3) pursuant to a Deferral Election made in accordance with Section 4, by reason of his or her election pursuant to subsection 3.1 to receive Stock in lieu of Eligible Cash Fees shall be equal to:

- (a) the amount of the Eligible Cash Fees which the Outside Director has elected to have paid to him or her in shares of Stock or credited to his or her Company Stock Subaccount (as defined in subsection 4.3);

DIVIDED BY

- (b) the Fair Market Value of a share of Stock as of the date on which such Eligible Cash Fees would otherwise have been payable to the Outside Director.

The Fair Market Value of any fractional share shall be paid to the Outside Director in cash; provided, however, that fractional shares subject to a Deferral Election filed in accordance with subsection 4.1 shall be deferred and credited to the Company Stock Subaccount.

## SECTION 4

### Deferral Elections

4.1. Deferrals of Fees. Subject to the terms and conditions of the Plan, each Outside Director, by filing a written "Deferral Election" with the Committee in accordance with uniform and nondiscriminatory rules adopted by the Committee, may elect to defer the receipt of all or any portion of the Eligible Cash Fees otherwise payable to him or her for a calendar year commencing on or after January 1, 1995 (including any Eligible Cash Fees that he or she has elected to receive in Stock pursuant to Section 3) until a future date (the "Distribution Date") specified by the Outside Director in his or her Deferral Election as of which

payment of his or her Deferred Compensation Account attributable to amounts deferred pursuant to his or her Deferral Election shall commence in accordance with subsection 4.4; provided, however, that in no event shall the Distribution Date elected pursuant to this subsection 4.1 be different from the Distribution Date, if any, elected by the Outside Director pursuant to subsection 4.2. If no Distribution Date is specified in an Outside Director's Deferral Election or has otherwise been elected by the Outside Director pursuant to subsection 4.2, the Distribution Date shall be deemed to be the first business day in January of the year following the date on which the Outside Director ceases to be a director of the Company for any reason. An Outside Director's Deferral Election shall be effective with respect to Eligible Cash Fees (including any Eligible Cash Fees that he or she has elected to receive in Stock pursuant to Section 3) otherwise payable to him or her for services rendered after the last day of the calendar year in which such election is filed with the Committee; provided, however, that:

- (a) a Deferral Election which is filed within 30 days of the date on which a director first becomes an Outside Director shall be effective with respect to all Eligible Cash Fees (including any Eligible Cash Fees that he or she has elected to receive in Stock pursuant to Section 3) otherwise payable to him or her after the date of the Deferral Election; and
- (b) by notice filed with the Committee in accordance with uniform and nondiscriminatory rules established by it, a director may terminate or modify any Deferral Election as to Eligible Cash Fees payable for services rendered after the last day of the calendar year in which such notice is filed with the Committee; provided, however, that no modification may be made to the Distribution Date unless the Outside Director shall file such notice with the Committee at least one year prior thereto.

Notwithstanding the provisions of paragraph (b) next above, the Committee may, in its sole discretion, after considering all of the pertinent facts and circumstances, approve a change to the Distribution Date which is requested by an Outside Director less than one year prior thereto.

4.2. Deferral of Stock Awards. Subject to the terms and conditions of the Plan, each Outside Director, by filing a written "Stock Deferral Election" with the Committee in accordance with uniform and nondiscriminatory rules adopted by the Committee, may elect to defer the receipt of all or any portion of the Stock Award which is otherwise to be made to him or her for 1996 and subsequent years until the Distribution Date; provided, however, that if no Distribution Date has been elected (or is deemed to have been elected) pursuant to subsection 4.1, the "Distribution Date" shall be the date specified by the Outside Director in his or her Stock Deferral Election or, if no such date is specified, the first business day in January of the year following the date on which the Outside Director ceases to be a director of the Company for any reason. An Outside Director's Stock Deferral Election shall be effective with respect to Stock Awards otherwise to be made to him or her pursuant to Section 2 after the last day of the calendar year in which such election is filed with the Committee; provided, however, that by notice filed with the Committee in accordance with uniform and nondiscriminatory rules established by it, an Outside Director may terminate or modify any Stock Deferral Election as to Stock Awards to be made after the last day of the calendar year in which such notice is filed with the Committee; further provided that no modification may be made to the Stock Distribution Date unless the Outside Director shall file such notice with the Committee at least one year prior thereto.

4.3. Crediting and Adjustment of Deferred Amounts. The amount of any Eligible Cash Fees (including any Eligible Cash Fees that he or she has elected to receive in Stock pursuant to

Section 3) deferred pursuant to subsection 4.1 ("Deferred Compensation") and the amount of any Stock Award deferred by an Outside Director pursuant to a Stock Deferral Election ("Stock Deferral") shall be credited to a bookkeeping account maintained by the Company in the name of the Outside Director (the "Deferred Compensation Account"), which account shall consist of two subaccounts, one known as the "Cash Subaccount" and the other as the "Company Stock Subaccount." Any Stock Deferrals and Eligible Cash Fees that the Outside Director has elected to receive in Stock pursuant to Section 3 and which he or she has also elected to defer pursuant to subsection 4.1 shall be credited to his or her Company Stock Subaccount. Any other Deferred Compensation shall be credited to his or her Cash Subaccount. An Outside Director's Deferred Compensation Account shall be adjusted as follows:

- (a) As of the first day of February, May, August and November, and as of July 3, 1995 (which dates are referred to herein as "Accounting Dates"), the Outside Director's Cash Subaccount shall be adjusted as follows:
  - (i) first, the amount of any distributions made since the last preceding Accounting Date and attributable to the Cash Subaccount shall be charged to the Cash Subaccount;
  - (ii) next, the balance of the Cash Subaccount after adjustment in accordance with subparagraph (i) above shall be credited with interest for the period since the last preceding Accounting Date computed at the prime rate as reported by The Wall Street Journal for the current Accounting Date, or if such date is not a business day, for the next preceding business day;
  - (iii) next, on the Accounting Date occurring on July 3, 1995, the balance in the cash Subaccount shall be charged with a distribution equal to that portion of the balance in the Cash Subaccount which is attributable to Eligible Cash Fees payable prior to the Effective Date which the Outside Director has elected to receive in Stock pursuant to Section 3 and which were credited to the Cash Subaccount pursuant to the Outside Director's Deferral Election (as adjusted in accordance with the terms of the Plan through July 3, 1995); and
  - (iv) finally, after adjustment in accordance with the foregoing provisions of this paragraph (a), the Cash Subaccount shall be credited with the portion of the Deferred Compensation otherwise payable to the Outside Director since the last preceding Accounting Date or, in the case of the Accounting Date occurring on February 1, 1995, subsequent to January 1, 1995, which is to be credited to the Cash Subaccount.
- (b) The Outside Director's Company Stock Subaccount shall be adjusted as follows:
  - (i) as of the Effective Date, the Company Stock Subaccount shall be credited with that number of stock units ("Stock Units") which is equal to the amount charged to the Cash Subaccount as of that date pursuant to subparagraph (a) (iii) next above, divided by the Fair Market Value of a share of Stock as of the Effective Date;
  - (ii) as of any date on or after the Effective Date on which Eligible Cash Fees would have been payable to the Outside Director in Stock but for his or her Deferral Election, the Company Stock Subaccount shall be credited with a number of Stock Units equal to the number of shares of

Stock (including any fractional shares) to which he or she would have been entitled pursuant to Section 3;

- (iii) as of the date on which a Stock Award would be made to the Outside Director pursuant to Section 2 but for his or her Stock Deferral Election, the Company Stock Subaccount shall be credited with a number of Stock Units equal to the number of shares of Stock that would have been awarded to the Outside Director as of such date but for his or her Stock Deferral Election;
- (iv) as of the date on which shares of Stock are distributed to the Outside Director in accordance with subsection 4.4 below, the Company Stock Subaccount shall be charged with an equal number of Stock Units; and
- (v) as of the record date for any dividend paid on Stock, the Company Stock Subaccount shall be credited with that number of additional Stock Units which is equal to the number obtained by multiplying the number of Stock Units then credited to the Company Stock Subaccount by the amount of the cash dividend or the fair market value (as determined by the Board of Directors) of any dividend in kind payable on a share of Stock, and dividing that product by the then Fair Market Value of a share of Stock.

In the event of any merger, consolidation, reorganization, recapitalization, spinoff, stock split, reverse stock split, rights offering, exchange or other change in the corporate structure or capitalization of the Company affecting the Stock, each Outside Director's Company Stock Subaccount shall be equitably adjusted in such manner as the Committee shall determine in its sole judgment.

4.4. Payment of Deferred Compensation Account. Except as otherwise provided in this subsection 4.4 or subsection 4.5, the balances credited to the Cash Subaccount and Company Stock Subaccount of an Outside Director's Deferred Compensation Account shall each be payable to the Outside Director in 10 annual installments commencing as of the Distribution Date and continuing on each annual anniversary thereof. Notwithstanding the foregoing, an Outside Director may elect, by filing a notice with the Committee at least one year prior to the Distribution Date, to change the number of payments to a single payment or to any number of annual payments not in excess of ten. Each such payment shall include a cash portion, if applicable, and a Stock portion, if applicable, as follows:

- (a) The cash portion to be paid as of the Distribution Date or any anniversary thereof and charged to the Cash Subaccount shall be equal to the balance of the Cash Subaccount multiplied by a fraction, the numerator of which is one and the denominator of which is the number of remaining payments to be made, including such payment.
- (b) The Stock portion to be paid as of the Distribution Date or any anniversary thereof and charged to the Company Stock Subaccount shall be distributed in whole shares of Stock, the number of shares of which shall be determined by rounding to the next lower integer the product obtained by multiplying the number of Stock Units then credited to the Outside Director's Company Stock Subaccount by a fraction, the numerator of which is one and the denominator of which is the number of remaining payments to be made, including such payment. The Fair Market Value of any fractional share of Stock remaining after all Stock distributions have been made to the Outside Director pursuant to this paragraph (b) shall be paid to the Outside Director in cash.

Notwithstanding the foregoing, the Committee, in its sole discretion, may distribute all balances in any Deferred Compensation Account to an Outside Director (or former Outside Director) in a lump sum as of any date. Notwithstanding the foregoing, the Committee, in its sole discretion, may distribute all of an Outside Director's Share Unit Account to such Outside Director (or former Outside Director) in a lump sum as of any date or, if requested by an Outside Director who has elected to receive a lump sum, the Committee, in its sole discretion, may distribute all balances in any Deferred Compensation Account to an Outside Director (or former Outside Director) in installments satisfying this Section 4.4 as requested by the Outside Director (or former Outside Director).

4.5. Payments in the Event of Death. If an Outside Director dies before payment of his or her Deferred Compensation Account commences, all amounts then credited to his or her Deferred Compensation Account shall be distributed to his or her Beneficiary (as described below), as soon as practicable after his or her death, in a lump sum. If an Outside Director dies after payment of his or her Deferred Compensation Account has commenced but before the entire balance of such account has been distributed, the remaining balance thereof shall be distributed to his or her Beneficiary, as soon as practicable after his or her death, in a lump sum. Any amounts in the Cash Subaccount shall be distributed in cash and any amounts in the Stock Subaccount shall be distributed in whole shares of Stock determined in accordance with paragraph 4.4(b), and the Fair Market Value of any fractional share of Stock shall be distributed in cash. For purposes of the Plan, the Outside Director's "Beneficiary" is the person or persons the Outside Director designates, which designation shall be in writing, signed by the Outside Director and filed with the Committee prior to the Outside Director's death. A Beneficiary designation shall be effective when filed with the Committee in accordance with the preceding sentence. If more than one Beneficiary has been designated, the balance in the Outside Director's Deferred Compensation Account shall be distributed to each such Beneficiary per capita (with cash distributed in lieu of any fractional share of Stock). In the absence of a Beneficiary designation or if no Beneficiary survives the Outside Director, the Beneficiary shall be the Outside Director's estate.

## SECTION 5

### Amendment and Termination

While the Company expects and intends to continue the Plan, the Board of Directors of the Company reserves the right to, at any time and in any way, amend, suspend or terminate the Plan; provided, however, that no amendment, suspension or termination shall:

- (a) be made without shareholder approval to the extent such approval is required by law, agreement or the rules of any exchange or automated quotation system upon which the Stock is listed or quoted;
- (b) except as provided in subsection 4.4 (relating to lump sum payments of amounts held in an Outside Director's Deferred Compensation Account) or this Section 5, materially alter or impair the rights of an Outside Director under the Plan without the consent of the Outside Director with respect to rights already accrued hereunder;
- (c) amend the provisions of Section 2 or 3 more frequently than once in any six-month period except to comport with changes in the Internal Revenue Code of 1986, as amended, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder; or
- (d) make any change that would disqualify the Plan or any other plan of the Company intended to be so qualified

from the exemption provided by Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

6-1162-JCM-500

United Air Lines, Inc.  
Executive Offices  
P. O. Box 66100  
Chicago, IL 60666-0100

Subject: Letter Agreement No. 6-1162-JCM-500 to  
Purchase Agreement No. 1663 -

\* CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
WITH THE SECURITIES AND EXCHANGE COMMISSION  
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

Gentlemen:

Reference is made to Purchase Agreement No. 1663 dated  
as of December 18, 1990 (the Purchase Agreement)  
between The Boeing Company (Boeing) and United Air  
Lines, Inc. (Buyer) relating to the sale by Boeing and  
the purchase by Buyer of thirty-four (34) Model 777-222  
aircraft (hereinafter referred to generally as the  
Aircraft).

Reference is also made to Letter Agreement 6-1162-DLJ-  
935 to Purchase Agreement No. 1663 (entitled "Early  
Approval of One Hundred Eighty (180) Minutes Extended  
Range Operations with Two-Engine Aircraft").

This Letter Agreement will become part of the Purchase  
Agreement and will evidence our further agreement with  
respect to the matters set forth below.

All terms used herein and in the Purchase Agreement,  
and not defined herein, shall have the same meanings as  
in the Purchase Agreement.

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6-1162-JCM-500  
Page 19

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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

United Air Lines, Inc.  
6-1162-JCM-500  
Page 20

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United Air Lines, Inc.  
6-1162-JCM-500  
Page 21

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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

8. Confidentiality

8.1 In accordance with Letter Agreement No. 6-1162-DLJ-832, the terms and conditions of this Letter Agreement are and will remain strictly confidential between Boeing and Buyer and will not under any circumstances be disclosed by either party to any third party (except, as reasonably necessary, to its respective employees and professional advisers, and to Boeing's insurers in connection with the insurance described in paragraph 7.3 above and to the Federal Aviation Administration) without the prior written

United Air Lines, Inc.  
6-1162-JCM-500  
Page 22

consent of the other party, such consent not to be unreasonably withheld.

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United Air Lines, Inc.  
6-1162-JCM-500  
Page 23

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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

Very truly yours,  
THE BOEING COMPANY

By /s/ Joseph Mc Aleer  
Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of  
the 9th day of December, 1994.  
UNITED AIR LINES, INC.

By /s/ D. Hacker  
Its Senior Vice President-Finance

EXHIBIT 10.28

Boeing Commercial Airplane Group  
P.O. Box 3707  
Seattle, WA 98124-2207

February 22, 1995  
6-1171-FT-831

United Air Lines, Inc.  
Flight Center  
32nd & Quebec Street  
Denver, Colorado 80207

Facsimile: 415-634-7388

Attention: Captain Stephen Forte  
Flight Manager  
B757/B767/B777

Facsimile: 708-952-4683

cc: Mr. Chick McErlean  
Senior Attorney

Facsimile: 415-634-7388

cc: Mr. W. C. Ceresa  
Manager  
Maintenance, Warranty and Contracts San  
Francisco International Airport

Subject: \* CONFIDENTIAL MATERIAL OMITTED AND  
FILED SEPARATELY WITH THE SECURITIES  
AND EXCHANGE COMMISSION PURSUANT TO A  
REQUEST FOR CONFIDENTIAL TREATMENT

Dear Captain Forte:

In response to your request, The Boeing Company  
(Boeing) is pleased to offer to provide to United Air  
Lines, Inc. (Buyer) the following flight training  
services:

\* CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
WITH THE SECURITIES AND EXCHANGE COMMISSION  
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

United Air Lines, Inc.  
6-1171-FT-831  
Page 2

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United Air Lines, Inc.  
6-1171-FT-831  
Page 3

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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

Article 7. Right to Stop Work.

Boeing will not be required to begin or continue providing services if:

7.1 there is a labor dispute or work stoppage in progress, or

7.2 there exist conditions that are dangerous to the safety or health of the Boeing employees.

Article 8. Excusable Delays.

Boeing will not be liable for any delay resulting from any cause beyond Boeing's control.

Article 9. Assignment.

Boeing may assign all or any part of its rights and obligations under this Agreement to any wholly owned subsidiary of Boeing.

Article 10. Order of Precedence.

The provisions of this Agreement will not be revised in any manner by any provision of any purchase order which Buyer may choose to issue in connection with this Agreement

ARTICLE 11. GOVERNING LAW.

THIS AGREEMENT WILL BE GOVERNED BY THE LAWS OF THE STATE OF WASHINGTON, U.S.A. EXCLUSIVE OF WASHINGTON'S CONFLICT OF LAWS RULES.

Article 12. Negotiated Agreement.

This Agreement, including the Indemnification and the Exclusion of Liabilities has been the subject of discussion, and negotiation and is fully understood by the parties, and the price of the Services and the other mutual agreements of the parties set forth in this Agreement were arrived at in consideration of such provisions.

Please accept this offer by signing one (1) copy and

returning same to the undersigned at facsimile No.  
206-237-1706 on or before February 22, 1995, the date on  
which this offer will otherwise expire.

Very truly yours,

THE BOEING COMPANY

BY /s/W.R. Lyle

W. R. Lyle

Contracts Manager

Aircraft Support

Mail Stop 76-66

ACCEPTED AND AGREED TO this

date: February 23, 1995.

UNITED AIR LINES, INC.

BY /s/Stuart Oran

ITS Executive Vice President-Corporate

Affairs & General Counsel

UNITED AIRLINES

January 31, 1995

Via facsimile: 206-237-1706

Mr. R. C. Nelson  
Regional Director, Aircraft Contracts  
Boeing Commercial Airplane Group P.O. Box 3707  
Seattle, WA 98124-2207

- Re: (1) Letter Agreement 6-1162-TML-1205 to Purchase Agreement 1670 dated December 18, 1990 as amended and supplemented among The Boeing Company and United Air Lines, Inc. and United Worldwide Corporation
- (2) Boeing Proposal Letters 6-1162-MMF-045 & 6-1162-RCN-839 dated January 23, 1995

Gentlemen:

Reference is made to Letter Agreement No. 6-1162-TML-1205 (the "Letter Agreement") to Purchase Agreement No. 1670 dated December 18, 1990 (as previously amended and supplemented, including all previously executed letter agreements, the "Purchase Agreement") among The Boeing Company ("Boeing"), United Air Lines, Inc. ("United") and United Worldwide Corporation ("Worldwide") relating to the sale by Boeing and the purchase by United and Worldwide (collectively the "Buyer") of Model 747-400 aircraft; and reference is made to Boeing Proposal Letters 6-1162-MMF-045 and 6-1162-RCN-839 both dated January 23, 1995 (the "Proposal Letters").

This letter amendment (this "Letter Amendment"), when accepted by Buyer, will become part of the Letter Agreement and part of the Purchase Agreement, and will evidence our further agreement with respect to the matters set forth below. All terms used herein and in the Letter Agreement, and not defined herein, shall have the same meaning as in the Letter Agreement. If there is any inconsistency between the terms of this Letter Amendment and the Letter Agreement or the Purchase Agreement, the terms of this Letter Amendment will govern.

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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters addressed above, please indicate your acceptance and approval below.

UNITED AIR LINES, INC.

/s/ Douglas A. Hacker  
Douglas A. Hacker  
Senior Vice President -  
Finance

ACCEPTED AND AGREED TO  
AS OF THE DATE SHOWN ABOVE:

THE BOEING COMPANY

By: /s/R.C. Nelson  
Its: Attorney-in-Fact

UNITED AIRLINES

January 31, 1995

Via facsimile: 206-237-1706

Mr. R. C. Nelson  
Regional Director, Aircraft Contracts  
Boeing Commercial Airplane Group P.O. Box 3707  
Seattle, WA 98124-2207

- Re: (1) Letter Agreement 6-1162-DLJ-891R1 to Purchase Agreement No. 1670 dated December 18, 1990 as amended and supplemented among The Boeing Company and United Air Lines, Inc. and United Worldwide Corporation
- (2) Boeing Letter Fix/Pollock dated September 23, 1994
- (3) Boeing Proposal Letters 6-1162-MMF-045 & 6-1162-RCN-839 dated January 23, 1995

Gentlemen:

Reference is made to Letter Agreement No. 6-1162-DLJ-891R1 (the "Letter Agreement") to Purchase Agreement No. 1670 dated December 18, 1990 (as previously amended and supplemented, including all previously executed letter agreements, the "Purchase Agreement") among The Boeing Company ("Boeing"), United Air Lines, Inc. ("United") and United Worldwide Corporation ("Worldwide") relating to the sale by Boeing and the purchase by United and Worldwide (collectively the "Buyer") of Model 747-400 aircraft; and reference is made to Boeing Letter Fix/Pollock dated September 23, 1994 and to Boeing Proposal Letters 6-1162-MMF-045 and 6-1162-RCN-839 both dated January 23, 1995 (the "Proposal Letters").

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UNITED AIR LINES, INC.

/s/ Douglas A. Hacker  
Douglas A. Hacker  
Senior Vice President -  
Finance

ACCEPTED AND AGREED TO  
AS OF THE DATE SHOWN ABOVE:

THE BOEING COMPANY

By: /s/R.C. Nelson  
Its: Attorney-in-Fact

UNITED AIRLINES

February 28, 1995

Via facsimile: 206-237-1706

Mr. R. C. Nelson  
Regional Director, Aircraft Contracts  
Boeing Commercial Airplane Group P.O. Box 3707  
Seattle, WA 98124-2207

- Re: (1) Letter Agreement 6-1162-DLJ-891R1 to Purchase Agreement  
No. 1670 dated December 18, 1990 as amended and supplemented  
among The Boeing Company and United Air Lines, Inc. and  
United Worldwide Corporation
- (2) Boeing Proposal Letters 6-1162-MMF-045 & 6-1162-  
RCN-839 dated January 23, 1995

Gentlemen:

Reference is made to Letter Agreement No. 6-1162-DLJ-891R1 (the "Letter Agreement") to Purchase Agreement No. 1670 dated December 18, 1990 (as previously amended and supplemented, including all previously executed letter agreements, the "Purchase Agreement") among The Boeing Company ("Boeing") and United Air Lines, Inc. ("United") relating to the sale by Boeing and the purchase by United (the "Buyer") of Model 747-400 aircraft; and reference is made to Boeing Proposal Letters 6-1162-MMF-045 and 6-1162-RCN-839 both dated January 23, 1995 (the "Proposal Letters").

This letter amendment (this "Letter Amendment"), when accepted by Buyer, will become part of the Letter Agreement and part of the Purchase Agreement, and will evidence our further agreement with respect to the matters set forth below. All terms used herein and in the Letter Agreement, and not defined herein, shall have the same meaning as in the Letter Agreement. If there is any inconsistency between the terms of this Letter Amendment and the Letter Agreement or the Purchase Agreement, the terms of this Letter Amendment will govern.

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If the foregoing correctly sets forth your understanding of our agreement with respect to the matters addressed above, please indicate your acceptance and approval below.

UNITED AIR LINES, INC.

/s/ Douglas A. Hacker  
Douglas A. Hacker  
Senior Vice President -  
Finance

ACCEPTED AND AGREED TO  
AS OF THE DATE SHOWN ABOVE:

THE BOEING COMPANY

By: /s/R.C. Nelson

Its: Attorney-in-Fact

EXHIBIT 10.31  
2 ROND POINT MAURICE  
BELLONTE  
31700 BLAGNAC FRANCE  
TELEPHONE 33 + 61 30 40 12  
TELECOPY: 33 + 61 30 40 11  
TELEX: AVSA 5211 55 F

UNITED AIR LINES  
San Francisco

Fax 19.1.415.634.7117

Attention: Jerry Pollock

Fax 61.93.43.41

cc: Tom Ellis  
Yesso Tekerian  
Dick Coykendall

Fax 19.1.708.952-5104

O/REF. AVSA/CA-SL-0182/95

Blagnac, February 10, 1995

SUBJECT: \* CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
WITH THE SECURITIES AND EXCHANGE COMMISSION  
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

Dear Mr Pollock,

Further to our discussions with You and Dick Coykendall, please  
find hereafter the terms of our offer with respect to the

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WITH THE SECURITIES AND EXCHANGE COMMISSION  
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

S.A.R.L. AU CAPITAL DE 235 000 000 F - R.C.S. TOULOUSE B 330  
926 672 - CODE APE 514S

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WITH THE SECURITIES AND EXCHANGE COMMISSION  
PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

If you agree with the preceding, please sign below and return to  
AVSA by February 11, 1995.

Yours Sincerely,

Agreed and accepted  
United Air Lines

/s/Sylyain Lebeuf  
Sylyain Lebeuf  
Director of Contracts Administration

/s/J.L. Pollock  
Senior Staff Specialist  
Aircraft Purchasing

Attachment 1

\* CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT  
Attachment 2

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PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

[PHOTOCOPIES/SIGNATURES)

IMC 757/767 PROJECT  
AGREEMENT

Dated as of December 1, 1994

IMC 757-767 PROJECT  
AGREEMENT

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EXHIBITS

IMC 757/767 PROJECT  
AGREEMENT

AGREEMENT, dated as of December 1, 1994 (the "Agreement"), by and between the State of Indiana, acting by and through its

Department of Commerce (the "State"), and United Air Lines, Inc. ("United").

#### RECITALS

A. In November 1991, United selected Indianapolis International Airport (the "Airport") as the site of its new, state-of-the-art, major aircraft maintenance facility (originally referred to as "MOC-II and currently redesignated and referred to as the "Indianapolis Maintenance Center" or the "IMC Facility").

B. United has previously entered into the MOC-II Agreement dated as of November 21, 1991 (together with subsequent letter agreement amendments dated June 15, 1992, and December 23, 1993, the "Original Agreement") , by and among the State, the City of Indianapolis, Indiana (the "City"), the Indianapolis Airport Authority (the "Authority") (the State, the City and the Authority, collectively, the "Governments") and United, pursuant to which United has agreed to locate the IMC Facility on a specified site (the "Site") at the Airport, subject to the terms and conditions of the Original Agreement.

C. Subsequent to the date of and pursuant to the original Agreement, United and the Authority have entered into a Master Lease Agreement (together with subsequent letter agreement amendments dated June 15, 1992, and December 23, 1993, and an Amendment to Lease Agreements dated May 11, 1993, the "Master Lease Agreement"), with respect to the construction, lease and operation of the IMC Facility and a Construction Management Agreement dated as of March 1, 1992 (the "Original Construction Management Agreement"), as amended by an Amendment to the Construction management Agreement, dated as of August 1, 1993 (the "Construction Management Agreement Amendment" and, together with the Original Construction Management Agreement, the "Construction Management Agreement"), under which, to expedite the construction process and to assure that the IMC Facility conforms to and complies with the needs of United, the Authority has designated United as its construction manager for the purpose of granting to United, to the extent permitted by law, the responsibility and authority to act as the agent for and on behalf of the authority with total responsibility and authority to manage the design, construction and

equipping of the IMC Facility, including the delegation to United of any and all approval authority with respect to the IMC Facility to the extent allowed by Indiana law.

D. Construction of the IMC Facility began in August 1992 and has been expeditiously pursued to the satisfaction of United and the State. The IMC Facility was dedicated nearly a year ahead of schedule and under budget, on March 2, 1994, with the first Boeing 737 arriving for maintenance on March 28, 1994. It is anticipated by United that Phase I (as defined in the Master Lease Agreement) of the IMC Facility will be completed in accordance with the Original Agreement.

E. Each of United and the State has substantially complied with all of its respective commitments under the Original Agreement.

F. As originally contemplated by United and the Governments, the IMC Facility would be dedicated to meeting the heavy maintenance requirements of United's growing fleet of Boeing 737 aircraft.

G. Because of its strong partnership with the State, the City and the Authority and the advantages and attractions of the IMC Facility to and for United, United has already expanded the types of maintenance operations to be conducted at the IMC Facility to include certain types of lighter maintenance, and has consequently commenced certain maintenance operations at the IMC Facility approximately one year earlier than contemplated by the Original Agreement.

H. Because of its strong partnership with the State, the City and the Authority and the advantages and attractions of the IMC Facility to and for United, United also has now proposed to expand the number and nature of the aircraft types to be maintained at the IMC Facility to include United's entire and growing fleet of Boeing 757 and Boeing 767 aircraft as well as its growing fleet of Boeing 737 aircraft.

I. United currently operates and maintains 88 Boeing 757 aircraft and 42 Boeing 767 aircraft, representing approximately 25% of United's fleet. The Boeing 757 aircraft, carrying 185 passengers, is one of the most efficient aircraft in commercial aviation on a cost-per-passenger-mile basis. The Boeing 767 aircraft, carrying 210 passengers, represents one of Boeing's newest generation of aircraft. Heavy maintenance visits for each of the Boeing 757 and Boeing 767 fleets would be currently scheduled to occur in the second quarter of 1996 in Indianapolis. Since many components of the Boeing 757 and Boeing 767 aircraft are interchangeable, an interlinking of the maintenance of the Boeing 757 and Boeing 767 aircraft fleets makes sound business sense.

J. Airframe maintenance of the Boeing 737, Boeing 757 and Boeing 767 aircraft at the IMC Facility will bring approximately 65% of United's current total aircraft fleet to Indiana for regular airframe maintenance operations.

K. The IMC Facility has been contemplated by the parties to the Original Agreement and designed and constructed by United to be flexible and expandable with respect to the nature and types of operations and functions that can be performed. Accordingly, while the hangars for maintenance of the Boeing 757 and Boeing 767 aircraft are substantially larger than hangars required for Boeing 737 aircraft maintenance and will each be required to be specially designed, constructed and integrated into the IMC Facility as contemplated in the Original Agreement, the resulting reconfiguration of the IMC Facility is both feasible and consistent with the nature, substance, function and intent of the IMC Facility as contemplated by the Original Agreement.

L. Construction of the Boeing 757 and Boeing 767 maintenance hangars will require hundreds of additional Hoosier construction workers and tens of millions of dollars of expenditures for additional materials and services to be purchased and procured within Indiana.

M. The Boeing 757 and Boeing 767 maintenance hangars, when complete, are expected and anticipated by United to result in (i) capital additions to the IMC Project with an anticipated cost of up to \$117 million and (ii) at least 1200 new and additional employees in good paying jobs at the IMC Facility by December 31,

1996.

N. The State believes that the expansion of the IMC Facility through the construction and operation of the Boeing 757 and Boeing 767 maintenance hangars will allow the IMC Facility to make a further and faster contribution to the diversification of the Indiana economy; will provide an enhanced and earlier opportunity for the State, Central Indiana and the City to attract other aerospace and aerospace-related business to Indiana; will provide more Hoosier workers with an earlier and unprecedented opportunity to improve the quality of their skills and work; and will provide (through the need for additional numbers of better educated, better skilled Hoosier workers at the IMC Facility and related businesses) the State's higher education institutions -- especially Vincennes University, Purdue University, Indiana University-Purdue University at Indianapolis and Indiana Vocational Technical College -- with an even greater and earlier opportunity to help prepare these workers for their new jobs.

O. United has already established itself as a committed corporate citizen of Indianapolis and Indiana.

P. The State is entering into this Agreement with United in reliance upon United's representations, warranties, covenants and agreements, especially those with respect to the construction and equipping of two additional hangars for Boeing 757 and Boeing 767 aircraft maintenance at and as a part of the IMC Facility at the Airport and the employment of at least 1,200 additional highly skilled workers in good paying jobs relating to such additional hangars.

Q. United is entering into this Agreement with the State in continuing reliance upon the respective representations, warranties, covenants and agreements of the State under the Original Agreement, and in further reliance upon the State's additional representations, warranties, covenants and obligations hereunder, especially those obligations to provide to United the financial incentives provided for herein and an environment conducive to efficiency of operation in accordance with the Original Agreement and this Agreement.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained herein, and subject to the terms and conditions described below, the parties hereto agree as follows. Capitalized terms used in this Agreement and not otherwise defined have the meanings set forth in Appendix I to the Original Agreement.

#### ARTICLE I

##### LOCATION AND DESCRIPTION OF THE 757/767 PROJECT

101. Location. United agrees to construct and equip two additional hangars for Boeing 757 and Boeing 767 aircraft maintenance (the "757/767 Project") at and as an integral part of the IMC Facility on the Site at the Airport as defined and described in the Original Agreement. As an integral part of the IMC Facility, the 757/767 Project will be subject to the terms and conditions of the Master Lease Agreement.

102. Description. The 757/767 Project is generally described on Exhibit A hereto. The parties acknowledge and agree that nothing contained herein or in Exhibit A hereto shall prevent United from making changes to the 757/767 Project description provided that such description changes do not change United's commitments as expressed in this Agreement.

#### ARTICLE II

##### CONSTRUCTION OF THE 757/767 PROJECT

201. Construction of the 757/767 Project.

(a) The State acknowledges and agrees generally that Article II of the Original Agreement shall control, to the extent applicable, the construction and equipping of the 757/767 Project, and acknowledges and agrees specifically, but without limitation, that (i) the Authority has committed under the Original Agreement to confer upon United complete discretion with respect to the selection of, and contracting for, professional services, including program management, architectural design, engineering services and, to the extent permitted by law, all additional non-contractual

issues and matters and (ii) United will, at United's election, construct and equip the 757/767 Project pursuant to and in accordance with United's rights, responsibilities and obligations under the terms and conditions of the Construction Management Agreement.

(b) In addition to this Section 201, the State shall, to the extent permitted by law, continue to support and reasonably cooperate with United in seeking administrative or legislative relief or advantage with respect to the expedited construction of the 757/767 Project and continued operation of the IMC Facility.

### ARTICLE III FINANCING

301. Financing. United hereby represents and warrants that it is proceeding to finance a portion of the Costs of the Project, as hereinafter defined, including Costs of the Project relating to the 757/767 Project, through the issuance and sale by or through the Authority of one or more series of bonds payable from lease rentals under the Master Lease Agreement and constituting Special Facility Bonds, as defined and described in and subject to Section 3.01(a) of the Original Agreement.

302. Repayment. United shall be responsible for paying all debt service on the Special Facility Bonds by making the lease rental payments specified in the Master Lease Agreement, as supplemented in connection with the issuance of Special Facility Bonds. United acknowledges and agrees that the State shall have no liability with respect to the payment of principal of and premium (if any) and interest on the Special Facility Bonds or United's obligations to make rental payments as described in the Master Lease Agreement, as so supplemented.

303. Costs of the Project; Indiana Project Costs. For purposes of this Agreement:

a) "Costs of the Project" shall have the meaning set forth in Section 3.03(a) of the Original Agreement.

b) "Indiana Project Costs" shall have the meaning set forth in Section 3.03(b) of the Original Agreement.

### ARTICLE IV

## FINANCIAL INCENTIVES

### 401. Account.

(a) In accordance with Section 4.01 of the original Agreement, the proceeds of bonds as described in Sections 301 and 402 of this Agreement shall be or continue to be deposited in one or more trust accounts with a trustee bank or banks permitted to serve as a trustee for the particular bond issue under Indiana law, acceptable to United, pursuant to a trust indenture, resolution or ordinance for such bonds (all such trust accounts, collectively, the "Account"). All deposits in the Account and any investment income thereon (subject to any required rebate to the federal government) shall be available at the direction of United solely to fund the Costs of the Project as provided in Section 303 hereof and the provisions set forth in the Master Lease Agreement and the Construction Management Agreement. The funds in the Account shall be invested by or on behalf of the State or another entity issuing on behalf of the State (the "Issuer") at the direction of United in obligations in which the Issuer is legally authorized to invest such funds. For the purposes, among others, of complying with State law and maintaining the tax-exemption of the Special Facility Bonds and the State Bonds (as defined herein), funds deposited into the Account may be segregated; set aside in separate accounts as may be required under any trust indenture, resolution or ordinance providing for the issuance of the Special Facility Bonds or the State Bonds; or accounted for otherwise.

(b) On or before the 15th day of each month following the initial deposit into the Account pursuant to this Article IV and until all funds in the Account have been expended, United shall cause to be provided to the Issuer, on behalf of the State, records of all deposits to and payments from the Account, together with appropriate documentation therefor. United shall also provide a designee of the State, reasonably acceptable to United, with reasonable access during normal business hours to United's books and records relating to all payments made from the Account.

(c) United acknowledges and agrees that, with respect to the issuance and sale of the State Bonds, (i) certain actions will be required to be taken by various State governmental entities to

effect the issuance and sale of such State Bonds; (ii) the conditions customarily included in bond purchase agreements with respect to such State Bonds will be required to be satisfied; and (iii) United will cooperate fully with, and provide sufficient information to, the Issuer to effectuate the Issuer's ability to issue and sell the State Bonds on a tax-exempt basis. United and the State acknowledge and agree to cooperate and consult with each other regarding all such activities.

402. State Incentives and State Bonds.

(a) Subject to the actions and conditions referred to in Section 401 (c) having been taken or satisfied, as the case may be,

the Issuer shall issue and sell a special series of tax-exempt revenue bonds (the "State Bonds"), the principal of and premium (if any) and interest on which, and all other costs and expenses relating thereto (except as provided in Section 1201 hereof), shall be payable solely from available funds of the Issuer, including lease rentals payable from any State appropriations which may be made by the Indiana General Assembly. As soon as practicable, but in any event not later than April 15, 1995, unless a longer period of time is agreed to by United, the State shall cause the Issuer to deposit \$26 million, in cash, from the proceeds of the issuance of the State Bonds into the Account. United acknowledges and agrees that the State Bonds will be issued by the Indiana Transportation Finance Authority or such other Issuer as the State shall cause to issue such bonds.

(b) The State covenants and agrees that United shall have no liability with respect to the issuance, sale or repayment of the State Bonds, or any other obligations with respect thereto, and no portion of the IMC Facility, including the 757/767 Project, shall be pledged, directly or indirectly, to secure any obligations relating to the State Bonds.

ARTICLE V  
ADDITIONAL COVENANTS

501. Necessary Actions. The State hereby covenants and agrees to use its best efforts to cause each of its affected and applicable agencies, authorities, boards and commissions and other

entities to take all actions necessary or appropriate to effect to the fullest extent possible all of the covenants of the State contained in this Agreement as soon as practicable after-the date hereof.

502. Taxes.

a) The State affirms its acknowledgment and agreement under Section 5.04 of the Original Agreement to the effect that United (i) has initially selected the Airport as the site of the IMC Facility, and has now selected the Airport as the site for the inclusion within the IMC Facility of the 757/767 Project, in reliance upon the current State and local governmental tax structures and with the expectation that the fundamental policies underlying such tax structures would not change significantly in the future; and (ii) has entered into this Agreement in continuing reliance upon the representations and warranties made by the State under Section 5.04 of the Original Agreement concerning State and local property, sales and use and corporate income taxes.

b) The State affirms its acknowledgment and agreement under Section 5.04 of the Original Agreement that changes in current State and local taxes may result in the creation of fees and taxes that could produce results that are, in effect, discriminatory against United in contravention of the understandings of the parties hereto and the parties to the Original Agreement. In furtherance thereof, the State covenants and agrees to the extent permitted by law that it will not seek or support any changes in such taxes that are, in effect, limited to the airlines or to their suppliers.

(c) United acknowledges that the State has supported and cooperated, in accordance with Section 5.04(c) of the Original Agreement, with United in obtaining legislative relief from those provisions of Indiana's corporate tax law that could have resulted in additional corporate tax liability for United.

503. Supplemental Disclosure. The State and United shall have, and in accordance with Section 5.06 of the Original Agreement, shall continue to have, the continuing obligation to notify the other promptly of any event, circumstance or discovery leading to a reasonable conclusion that any representation,

warranty, covenant or agreement contained in this Agreement is incomplete, inaccurate or not complied with in any material respect.

504. Governmental Assistance.

(a) In addition to the obligations contained in Section 2.01 of the Original Agreement and as an affirmation of Section 5.07 of the Original Agreement, the State shall continue to cooperate in good faith with United and with the City, the Authority and any other affected governmental entity or agency to assist United in obtaining or maintaining in effect all federal, State and local licenses, permits, approvals and authorizations under any and all applicable laws, ordinances, regulations, rules, orders or decrees that are necessary, in the reasonable judgment of United, to construct, equip, utilize and operate the IMC Facility, including the 757/767 Project, as expeditiously as possible.

(b) To continue to facilitate the foregoing commitment, the State shall continue to employ an expedited review process with respect to all aspects of the IMC Facility, including the 757/767 Project, through which process United will submit all documentation required for any license, permit, approval or authorization necessary or appropriate to be obtained from or maintained with the State or any agency or instrumentality thereof.

505. Airport Rates and Charges. The State affirms its agreement and understanding under Section 5.08 of the original Agreement that none of the costs and expenses to or for the account of the State or any other governmental entity in connection with the provision of the incentives pursuant to Article IV of the Original Agreement or Article IV hereof shall or should in any manner be paid, directly or indirectly, from airport rates, charges or landing fees paid by United or any other airline under its respective Agreement and Lease of Premises with the Authority.

ARTICLE VI  
COVENANTS OF UNITED

601. Construction and Operation of the 757/767 Project as a Part of the IMC Facility.

(a) United agrees to locate, construct and equip (or cause to

construct and equip) the 757/767 Project as an integral part of the IMC Facility at the Airport.

(b) During the term of the Master Lease Agreement, United will utilize the IMC Facility, including the 757/767 Project, as a major aircraft maintenance facility.

(c) United agrees that an aggregate of at least 1,200 full time employees (the "757/767 Employees") will be employed by United at the 757/767 Project within the IMC Facility on or before December 31, 1998.

(d) Subject to the provisions of Section 602 of this Agreement, the agreements by United set forth in the foregoing paragraph (c) of this Section 601 are separate from and in addition to the covenants of United set forth in Section 6.01(c) of the Original Agreement.

(e) The estimated annual payroll and benefits for the United employees allocable to the 757/767 Project within the IMC Facility are expected to aggregate more than \$54 million by December 31, 1997.

(f) Subject to the compliance by the State, the City and the Authority with Section 2.01 and Section 5.07 of the Original Agreement, United agrees to construct the 757/767 Project as an integral part of the IMC Facility.

(g) United continues to be committed to assisting the State in its economic development efforts and, in this regard, will continue to use its best efforts to cooperate with the State in an effort to induce other private entities to locate significant new economic development projects related to the IMC Facility in Indiana.

#### 602. Reimbursement.

(a) United acknowledges and agrees that the State has entered into this Agreement and has agreed to provide the incentives set forth herein, in part, in reliance upon the covenants of United set forth in Section 601 hereof. In furtherance thereof, the parties hereto agree that if any of such covenants are not fulfilled, the following provisions shall serve as the sole and exclusive remedy of the State, subject to Article XI of this Agreement:

(i) In the event that on or before December 31, 2001, the aggregate Indiana Project Costs, including the Indiana Project Costs expended or allocated for the construction and equipping of the 757/767 Project, do not equal or exceed \$800 million (in actual dollars expended), United (A) affirms its obligations under Section 6.02 (a) (i) of the Original Agreement to pay to the State and the other Governments, as defined in the Original Agreement, the amount determined in the manner and paid in accordance with Section 6.02 (a) (i) of the Original Agreement; and (B) shall make an additional payment to the State of an aggregate amount equal to the product of (1) a fraction, the numerator of which shall be \$800 million minus the actual Indiana Project Costs accrued or expended through December 31, 2001, and the denominator of which shall be \$800 million; times (2) a fraction, the numerator of which shall be \$26 million and the denominator of which shall be three.

(ii) In the event that during the calendar year ending December 31, 2004 (or any earlier calendar year selected by United in its sole discretion), there are not at least 7,500 Facility Employees, including the 757/767 Employees, United shall pay to the State an aggregate amount equal to the product of (X) a fraction, the numerator of which shall be 7,500 minus the actual number of Facility Employees for the year ending December 31, 2004 (or such earlier year selected by United), and the denominator of which shall be 1,200; times (Y) \$26 million; times (Z) a fraction, the numerator of which shall be two and the denominator of which shall be three. In the event that a calculation is required to be made under this clause (ii) and the actual number of Facility Employees for the year ending December 31, 2004 (or such earlier year selected by United) is less than 6,300, then the first sentence of this clause (ii) shall not apply and United shall pay to the State the sum of \$17,333,333.33. United further acknowledges that it may also be liable to make payments to the State and the other Governments as set forth in Section 6.02(a) (ii) of the Original Agreement.

(iii) Notwithstanding clause (ii) above, in the event that for the calendar year referred to in clause (ii) above, the number of Facility Employees is less than 7,500, for purposes of determining whether United shall be required to make any payment to the State pursuant to such clause (ii), the number of Facility Employees shall be recalculated so that such number will equal the sum of (A) the number of Facility Employees (including 757/767 Employees) for such calendar year, plus (B) the number of Net New United Employees for such calendar year, plus (C) the number of Ancillary Employees for such calendar year.

(iv) For purposes of this Section 602:

(W) "Facility Employees" means the average number of all Full-Time United Employees and Full-Time Equivalents employed at the Facility during any year.

(X) "Full-Time United Employees and Full-Time Equivalents" shall mean all Full-Time United Employees and Full-Time United Equivalents; "Full Time United Employees" means any United employee who works (including all vacation time, sick time and compensatory time) an average of 35 hours or more per week of employment; provided, however, that any employees covered by a collective bargaining agreement shall be deemed to satisfy this requirement if they work (including all vacation time, sick time and compensatory time) at least the minimum number of hours

required of full-time employees under the applicable terms of their respective collective bargaining agreements; and "FullTime United Equivalents" means (i) with respect to United employees covered by a collective bargaining agreement who are not Full Time United Employees, the aggregate number of hours per week during any relevant period worked (including all vacation time, sick time and compensatory time) by all such employees divided by the number obtained by multiplying the minimum number of hours per week required of full-time employees under the applicable collective bargaining agreement by the number of weeks in such period; or (ii) with respect to all other employees that are not Full-Time United Employees, the aggregate number of hours worked per week (including all vacation time, sick time and compensatory time) during any relevant period by all such employees, divided by the number obtained by multiplying 35 times the number of weeks in such period.

(Y) "Net New United Employees" shall mean the average number of all Full-Time United Employees and Full-Time Equivalents (other than Facility Employees) employed in the State in any year in excess of the average number of Full-Time United Employees and Full Time Equivalents employed in the State during the year ending December 31, 1991; provided, however, that Net New United Employees shall not include any employee of a business acquired by United (by merger or otherwise), after the date hereof who prior to such acquisition worked in the State . for such business.

(Z) "Ancillary Employees" shall mean the average number of full-time employees employed in the State during any year of all corporations or other entities which conduct

business falling within Standard Industry Group No. 372 and all corporations engaged in the aircraft or aeronautical industries which conduct businesses falling within Standard Industry Classification Nos. 3592, 3694, 3714, 3812, 4581, or 8731 and such other Standard Industry Classification Numbers as the State and United agree to, and which directly serve the IMC Facility, but only to the extent that such employee's job has been created by such business since November 15, 1991. Without limiting the foregoing, United and the State agree that the term "Ancillary Employees" hereunder shall include employees of non United owned or controlled entities working on a full-time basis at the IMC Facility and performing functions or services which were or would reasonably have been contemplated to be performed or carried out by United employees as of the time of execution of the Original Agreement.

(b) For purposes of Paragraph (a) of this Section 602, (i) no later than March 31, 2002, United shall deliver to the State a certificate (a "Determination Certificate") of an appropriate officer of United, certifying as to the aggregate Indiana Project Costs on December 31, 2001 or such earlier time selected by United

(in actual dollars expended) ; and (ii) no later than March 31, 2005, United shall deliver to the State a Determination Certificate of an appropriate officer of United, certifying as to the actual number of Facility Employees during the year ending December 31, 2004, or such earlier year selected by United. All amounts used for such computation shall be determined according to United's internal books and records, except that the number of Ancillary Employees shall be determined pursuant to good faith negotiations between United and the State consistent with Section 6.02 of the Original Agreement or certificates of United and employers of such Ancillary Employees. For purposes of reviewing any Determination Certificate, a designee of the State acceptable to United will have the right, during normal business hours, to review the books and records of United related solely to the matters set forth therein. Any Determination Certificate shall be deemed conclusive of the facts set forth therein and shall be final and binding on the parties hereto, unless challenged by the State within 45 days following delivery.

(c) In the event that United is required to reimburse the State pursuant to Paragraph (a) of this Section 602, United shall make such payment within 45 days following the date that the applicable Determination Certificate provided pursuant to Paragraph (b) of this Section 602 becomes final and binding on the State, in cash, by wire transfer to a trust account designated by the State in writing at least three business days prior to any required payment date. Any such payment shall be separate from and in addition to any payment that may be required to be made by United to the State and the other Governments pursuant to Section 6.02 of the Original Agreement. Any such payment made to the State pursuant to the Determination Certificate described under Section 602(b)(i) shall be held by the State in escrow under mutually agreeable terms until December 31, 2004, and shall be paid to the State at such time only in the event that Section 602 (e) does not apply.

(d) The parties hereto acknowledge and agree that any amount required to be paid by United to the State pursuant to this

Section 602 represents a good faith estimate of damages to the State as a result of United's failure to fulfill the covenants contained herein, and is not intended to be a penalty imposed upon United.

(e) Notwithstanding any other provision of this Section 602, in the event that for any calendar year ending on or before December 31, 2004, the number of Facility Employees, including the 757/767 Employees, equals or exceeds 7900, the provisions of this Section 602 shall terminate and United shall have no liability hereunder or under Section 6.02 of the Original Agreement pursuant to Section 6.02(e) thereof. Any amounts which have previously been paid to the State by United and held in escrow pursuant to Section 602(c) shall be thereupon returned to United, together with any interest earned on such amounts during the period of escrow investment.

(f) Nothing in this Agreement generally, or in Section 601 or this Section 602 of this Agreement in particular, shall be deemed in any way to modify, amend, alter or affect any obligation, liability or covenant of United set forth in the Original Agreement with respect to the City or the Authority, or any obligation, liability or covenant of the City or the Authority set forth in the Original Agreement with respect to United. Neither the City nor the Authority shall be, or deemed to be, a third-party beneficiary for any purposes under this Agreement.

603. Minority Business Enterprise and Women Business Enterprise Goals. United and the State affirm the Minority Business Enterprise and Women Business Enterprise goals and provisions of Section 6.03 of the Original Agreement.

## ARTICLE VII

### LEASE ARRANGEMENTS

701. Master Lease Agreement. The 757/767 Project shall be an integral part of and shall be included for all purposes with the IMC Facility leased to United pursuant to the Master Lease Agreement.

702. Lease Terms. Interests in the IMC Facility, including the 757/767 Project, financed with the proceeds of the State Bonds

shall be leased or subleased by the Authority to United pursuant to the Master Lease Agreement. United shall have no liability for any additional amounts required with respect to the lease of the portions of the IMC Facility, including the 757/767 Project, financed with the State Bonds except for its obligations to maintain and operate the IMC Facility.

#### ARTICLE VIII

##### REPRESENTATIONS AND WARRANTIES OF THE STATE

The State represents and warrants to United as follows:

801. Power and Authority. The State has all requisite power and authority to enter into this Agreement and to perform its obligations under this Agreement.

802. Due Authorization. Except as otherwise set forth herein, all acts and other proceedings required to be taken by the State to authorize the execution, delivery and performance of this Agreement have been duly and properly taken.

803. Due Execution. This Agreement has been duly executed and properly delivered by the State and constitutes a valid and binding obligation of the State, enforceable against the State in accordance with this Agreement's terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors, rights generally heretofore or hereafter enacted; and (ii) the exercise of judicial discretion in accordance with the general principles of equity; and (iii) the valid exercise of the constitutional powers of the State and the United States of America.

804. Consents and Approvals; No Violation. The execution and delivery of this Agreement by the State does not, and the consummation by the State of the transactions contemplated hereby and compliance by the State with the terms hereof will not:

(a) conflict with or result in a violation of (i) any provision of any instrument governing the State (including, without limitation, the State Constitution and any State enabling

legislation) or (ii) any judgment, order, writ, injunction, decree, statute, law, ordinance, rule or regulation applicable to the State; or

(b) conflict with or result in or cause any material breach, violation of or default under any material contract, agreement, other instrument, commitment, arrangement, or understanding or grant to which the State is a party or which is otherwise applicable to the State.

805. Operation of the 757/767 Project and the IMC Facility. There is no law, ordinance, regulation or rule of the State enacted or, to the best knowledge of the State, proposed that would prohibit United from fully utilizing the IMC Facility, including the 757/767 Project, on a 24-hour-a-day, seven-day-a-week basis in the manner currently contemplated.

806. No Injunctions, Suits or Proceedings.

(a) None of the commitments of the State to provide benefits to United hereunder is the subject of any injunction, suit, proceeding or other challenge.

(b) Except as disclosed to United as of the date hereof, the State has not received any communication, whether from any member of the Indiana General Assembly, a citizens' group, taxpayer or otherwise, with respect to any proposed or current suit, proceeding, legislation with respect to or challenge to this Agreement or any of the transactions contemplated hereby. The State agrees to inform United of any such communications and, subject to the attorney-client privilege, to provide United with copies of all such communications whenever received.

ARTICLE IX  
REPRESENTATIONS AND WARRANTIES OF UNITED

United hereby represents and warrants to the State as follows:

901. Organization and Existence. United is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. United has all requisite corporate power and authority to own, lease and operate its properties and

to carry on its business as now being conducted.

902. Power and Authority. United has all requisite corporate power and authority to enter into this Agreement and to perform its obligations under this Agreement.

903. Due Authorization. All corporate acts and other proceedings required to be taken by United to authorize the execution, delivery and performance of this Agreement have been duly and properly taken.

904. Due Execution. This Agreement has been duly executed and properly delivered by United and constitutes the valid and binding obligation of United, enforceable against United in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors', rights generally heretofore or hereafter enacted and (ii) the exercise of judicial discretion in accordance with the general principles of equity.

905. Consents and Approvals; No Violation. The execution and delivery of this Agreement by United does not, and the consummation of the transactions contemplated hereby and compliance with the terms hereof will not, (a) conflict with or result in a violation of (i) its Certificate of Incorporation or By-laws; or (ii) any judgment, order, writ, injunction, decree, statute, law, ordinance, rule or regulation applicable to United; or (b) conflict with, or result in or cause any material breach, violation of or default under, any material contract, agreement, other instrument, commitment, arrangement or understanding to which United is a party or which otherwise applies to United.

#### ARTICLE X

##### INDEMNIFICATIONS; SURVIVAL OF REPRESENTATIONS AND WARRANTIES

1001. Indemnification by the State. To the fullest extent permitted by law and subject to Section 1211 hereof, the State agrees to indemnify, defend and hold harmless the United Parties from and against any and all losses, liabilities, expenses (including attorneys and other professionals' fees and expenses), claims and damages asserted against, resulting to, imposed upon or

suffered by the United Parties or any of them to the extent arising from or attributable to (i) any breach of any representation or warranty by the State contained in this Agreement, (ii) any breach or nonperformance of any covenant or agreement of the State contained in this Agreement, (iii) any action, suit or proceeding relating to or challenging any of the obligations of the State set forth in this Agreement, or (iv) the issuance, sale or repayment of the State Bonds. Although the State's obligations under this Section 1001 are subject to Section 1211 hereof, the State covenants that it will do all things lawfully within its power to obtain and maintain funds from which to meet its obligations under this Section 1001, including, without limitation, making separate provision for any such obligations under this Section 1001 in each budget, or adjustments thereto, submitted to the General Assembly of the State for the purpose of obtaining appropriations; using its bona fide best efforts to have such portion of the State's budget approved; and exhausting all available reviews and appeals in the event such portion of the State's budget is not approved.

1002. Indemnification by United. To the fullest extent permitted by law, United agrees to indemnify, defend and hold harmless the State from and against any and all losses, liabilities, expenses (including attorneys' and other professionals' fees and expenses), claims and damages asserted against, resulting to, imposed upon or suffered by the State to the extent arising from or attributable to (i) any breach of any representation or warranty of United contained in this Agreement, (ii) any breach or nonperformance of any covenant or agreement of United contained in this Agreement, or (iii) any action, suit or proceeding relating to or challenging any of the obligations of United set forth in this Agreement.

1003. Survival of Representations, Etc. The parties agree that each of the representations, warranties, covenants and agreements contained herein shall survive the consummation of the transactions contemplated hereby.

ARTICLE XI  
TERMINATION

1101. Termination. Notwithstanding any other provision

of this Agreement, this Agreement may be terminated and the transactions contemplated hereby may be abandoned:

(a) by mutual written agreement of the parties hereto;

(b) by the State, in the event of a material breach by United of its obligations set forth in Section 601 (a), (b), (c), (f) or (g) hereof which is not cured within forty-five (45) days of written notice thereof;

(c) by United, in the event of (i) a material breach by the State of its obligations set forth in Sections 501 or 1211 hereof, which is not cured within forty-five (45) days of written notice thereof or (ii) in the event that the financial incentives set forth in Section 402 hereof of this Agreement have not been provided within the time period set forth in Section 402 hereof; and

(d) unless earlier terminated, this Agreement shall automatically terminate and be of no further force or effect on November 22, 2050.

1102. Procedure upon Termination. In the event of the termination of this Agreement and the abandonment of the transactions contemplated hereby pursuant to Section 1101 hereof, written notice thereof shall forthwith be given by the party so terminating to the other party, and this Agreement shall terminate, and the transactions contemplated hereby shall be abandoned, without further action by the State or United hereunder.

1103. Effect of Termination. If this Agreement is terminated pursuant to Section 1101 hereof:

(a) Except as provided in Section 1104 hereof, neither the State nor United shall have any liability hereunder to the other party hereto;

(b) United shall have no obligation to reimburse the State for amounts expended from the Account pursuant to Section 401 of this Agreement; and

(c) The provisions of Sections 1001, 1002, 1003, 1104 and 1201 hereof and this Section 1103 shall survive any termination of this Agreement.

1104. Breach. In no event shall termination of this Agreement limit or restrict the rights and remedies of either party

hereto against the other party to the extent that such other party has willfully breached the terms of this Agreement prior to termination hereof.

1105. Other Rights and Remedies. The right of any party hereto to terminate this Agreement shall not in any manner affect or limit such party's right to exercise any other right or remedy it may have in addition to its right of termination hereunder, or any right or remedy it may have under the Original Agreement.

#### ARTICLE XII

##### MISCELLANEOUS

1201. Expenses. Except as otherwise provided herein, each party shall pay all fees and expenses incurred by it in connection with the transactions contemplated by this Agreement. United acknowledges that the costs incurred in connection with the issuance of the State Bonds may be disbursed from the proceeds thereof, so long as the amount required to be deposited into the Account pursuant to Section 402 of this Agreement is so deposited.

1202. Further Assurances. From time to time, either party may request the other party to execute and deliver to the requesting party such documents and to take such other action as the party may reasonably request in order to consummate more effectively the transactions contemplated herein.

1203. Alternative Dispute Resolution; Arbitration.

(a) If a dispute arises between the parties relating to this Agreement, the parties agree, to the fullest extent permitted by law, to use the following procedure to resolve the dispute:

(i) A meeting shall be held promptly between the parties, attended by individuals with decision-making authority regarding the dispute, to attempt in good faith to negotiate a resolution of the dispute;

(ii) If, within 15 days after that meeting, the parties have not succeeded in negotiating a resolution of the dispute, they hereby agree to submit the dispute to mediation in accordance with the Commercial Mediation Rules of the American Arbitration Association and to bear equally the costs of the mediation;

(iii) The parties will jointly appoint a mutually acceptable mediator, seeking assistance in this regard from the American Arbitration Association if they are unable to agree upon this appointment within 15 days from the conclusion of the negotiation period; and

(iv) The parties agree to participate in good faith in the mediation and negotiations related thereto for a period of 30 days. If the parties are not successful in resolving the dispute through the mediation, then the parties agree that, to the fullest extent permitted by law, the dispute shall be settled by binding arbitration in accordance with the procedures set forth below.

(b) If any dispute cannot be settled in accordance with the procedures set forth above, to the fullest extent permitted by law, then:

(i) Either the State or United may request arbitration of the dispute by giving the other party written notice that specifies the matter sought to be arbitrated and designates a person to act as arbitrator;

(ii) within 10 business days after receipt of that notice, the State or United, as the case may be, shall send written notice to the party requesting arbitration and designating a second person to act as arbitrator;

(iii) Within 10 business days after receipt of the written notice of the second arbitrator, the two arbitrators, by mutual agreement, shall designate a third arbitrator. If the time provided in subparagraph (ii) above expires before the written notice of the second arbitrator is sent to the party requesting arbitration, the first arbitrator shall designate the two additional arbitrators.

(iv) Promptly after the third arbitrator's designation, but in no event later than 30 days thereafter, at a date to be set by the arbitrators, an arbitration hearing shall be held in Indianapolis, Indiana. The Commercial Arbitration Rules of the American Arbitration Association shall apply at the arbitration hearing, and the three arbitrators shall allow the State and United to each present, in the presence of the other party, its case, including opening statement, evidence, witnesses, if any, and summation. The arbitrators shall render their decision within 30 days of the hearing; and

(v) The decision and award, if any, of the majority of the arbitrators shall be final, binding and nonappealable as to the parties hereto. Any award shall provide for the entire costs and expenses of the arbitration, including reasonable attorney's fees, by the losing party where it is determined that the arbitration has been made necessary by the refusal or failure of that party to negotiate in good faith the matter that is the subject matter of the arbitration. If no such determination is made, each party shall bear its own costs and expenses. Judgment may be entered on any award so rendered in any court of competent jurisdiction.

1204. Parties in Interest. This Agreement shall be binding upon, inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto. The rights and obligations of the State and United hereunder may not be assigned without the consent of the other party.

1205. Amendments and Waiver. This Agreement may be amended only by a written instrument executed by both of the parties. Any condition precedent to a party's obligations hereunder may be

waived in writing by that party to the extent permitted by law.

1206. Entire Agreement; Non-Merger. This Agreement and the schedules and exhibits hereto, together with the other agreements referred to herein, contain the entire understanding of the parties hereto with respect to their subject matter. This Agreement supersedes all prior agreements and understandings, oral and written, with respect to the subject matter set forth herein, provided that (a) the Original Agreement shall not be deemed to be merged into or modified or amended or superseded by this Agreement, and (b) this Agreement is and shall be deemed to be supplemental only to the Original Agreement with respect to the additional rights and obligations of United and the State set forth herein. Except as so supplemented by the provisions set forth herein, the Original Agreement shall continue in full force and effect with respect to the rights, title, interests and obligations of the State and United.

1207. Headings. The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

1208. Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or mailed (registered or certified mail, postage prepaid, return receipt requested) as follows:

If to the State:

Indiana Department of Commerce  
Office of the Lieutenant Governor  
Indianapolis, Indiana 46204  
Attention: Frank O'Bannon, Director

If to United:

United Air Lines, Inc.  
1200 Algonquin Road  
Elk Grove Township, Illinois 60007  
Attention: Stuart Oran, Esq.  
Executive Vice President  
and General Counsel

With a copy to:

Larry Clark, Vice President - Properties  
and Facilities

or to such other address as the person to whom notice is to be given may have previously furnished to the other party in writing

in the manner set forth above; provided, that notice of a change of address shall be deemed given only upon receipt.

1209. Third Parties. Nothing herein expressed or implied is intended or shall be construed to confer upon or give to any entity or person other than the parties hereto and their successors or permitted assigns any rights or remedies under or by reason of this Agreement.

210. Independent Parties. With respect to the State and United, each party, in the performance of this Agreement, will be acting in an individual capacity and not as an agent, employee, partner, joint venturer or associate of one another. The employees or agents of the State shall not be deemed or construed to be the employees or agents of United, and the employees or agents of United shall not be deemed or construed to be the employees or agents of the State for any purposes whatsoever. Neither United nor the State will assume any liability for any injury (including death) to any persons, or any damage to any property, arising out of the acts or omissions of the agents, employees or subcontractors of the other party.

1211. Appropriations. The payment and performance obligations of the State under Section 1001 of this Agreement are subject to the appropriation and the availability of funds and, in this regard, this Agreement may be terminated by United, in whole or in part, if the State Budget Director makes an official written determination that funds are not appropriated or otherwise available to support continuation of performance of the State under this Agreement. An official determination by the State Budget Director that funds are not appropriated or otherwise available to support continuation of performance shall be final and conclusive.

1212. Non-Discrimination. United and its subcontractors, if any, shall not discriminate against any employee or applicant for employment in the performance of this Agreement, with respect to the hire, tenure, terms, conditions or privileges of employment or any matter directly or indirectly related to employment because of such person's race, color, religion, sex, handicap, national origin or ancestry.

1213. Drug-Free Workplace. United hereby covenants and

agrees (a) to continue to make a good faith effort to provide and maintain during the term of this Agreement a drug-free workplace at the IMC Facility; and (b) that it will give written notice to the State within 10 days after receiving actual notice that any Facility Employee has been convicted of a criminal drug violation occurring at the Site. In addition, United hereby acknowledges that the entry of the State into this Agreement is expressly subject to the Drug-Free Workplace Certificate, attached as Exhibit B hereto. United covenants to undertake its best efforts to comply with this Section 1213 and the representations of United set forth in the Drug-Free Workplace Certificate.

1214. Counterparts. This Agreement may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

1215. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Indiana, without regard to the conflicts of law principles thereof.

1216. Severability. In the event that any clause, portion or section of this Agreement is unenforceable or invalid for any reason, as long as the economic benefits expected to be derived by each of the parties are not materially affected, such unenforceability or invalidity shall not affect the enforceability or validity of the remainder of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

STATE OF INDIANA, ACTING BY AND  
THROUGH ITS DEPARTMENT OF  
COMMERCE

By: /s/ Frank O'Bannon  
Frank O'Bannon, Director

APPROVED:

DEPARTMENT OF ADMINISTRATION:

By: /s/ William Shenberg  
Date: 28 December 1994

STATE BUDGET AGENCY:

By: /s/ Jean S. Blackwell  
Jean S. Blackwell,  
State Budget Director

Date: 28 December 1994

APPROVED ONLY AS TO FORM AND  
LEGALITY WITH RESPECT TO THE STATE:

By: /s/ Pamela Carter  
Pamela Carter,  
Attorney General

Date: 28 December 1994

APPROVED AND RATIFIED

By: /s/ Evan Bayh  
Evan Bayh, Governor

Date: 4 January 1995

\*\*\*\*

UNITED AIR LINES, INC.

By: /s/ Stuart I. Oran  
Name: Stuart I. Oran

Title: Executive Vice President  
Corporate Affairs and  
General Counsel

ATTEST:

BY: /s/ Mary Jo Georgen  
Name: Mary Jo C. Georgen

Title: Assistant Secretary

EXHIBIT LIST

- A. Description of the 757/767 Project (Section 101)
- B. Drug-Free Workforce Certificate (Section 1213)

EXHIBIT A

Description of the 757/767 Project

[To be supplied]

EXHIBIT B

STATE OF INDIANA  
DRUG-FREE WORKPLACE CERTIFICATION

Pursuant to Executive Order No. 95-0, April 12, 1990, Issued by Governor Evan Bayh, the Indiana Department of Administration requires the Inclusion of this certification In all contracts with and grants from the State of Indiana in excess of \$25,000. No award of a contract or grant shall be made, and no contract, purchase order or agreement, the total amount of which exceeds \$25,000, shall be valid unless and until this certification has been fully executed by the Contractor or Grantee and attached to the contract or agreement as part of the contract documents. False certification or violation of the certification may result in sanctions including, but not limited to, suspension of contract payments, termination of the contract or agreement and/or debarment of contracting opportunities with the State for up to three (3) years.

The Contractor/Grantee certifies and agrees that it will provide a drug-free workplace by:

(a) Publishing and providing to all of its employees a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the Contractor's workplace and specifying the actions that will be taken against employees for violations of such prohibition; and

(b) Establishing a drug-free awareness program to Inform employees about (1) the dangers of drug abuse in the workplace; (2) the Contractor's policy of maintaining a drug-free workplace; (3) any available drug counseling, rehabilitation, and employee assistance programs; (4) the penalties that may be imposed upon an employee for drug abuse violations occurring in the workplace;

(c) Notifying all employees in the statement required by subparagraph (a) above that as a condition of continued employment the employee will (1) abide by the terms of the statement; and (2) notify the employer of nay criminal drug statute conviction for a violation occurring In the workplace no later than five (5) days after such conviction;

(d) Notifying in writing the contracting State Agency and the Indiana Department of Administration within ten (10) days after receiving notice from an employee under subdivision (c) (2) above, or otherwise receiving actual notice of such conviction;

(e) Within thirty (30) days after receiving notice under subdivision (c) (2) above of a conviction, Imposing the following sanctions or remedial measures on any employee who is convicted of drug abuse violations occurring in the workplace: (1) take appropriate personnel action against the employee, up to and

Including termination; or (2) require such employee to satisfactorily participate in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State or local health, law enforcement, or other appropriate agency; and

(f) Making a good faith effort to maintain a drugfree workplace through the implementation of subparagraphs (2) through (3) above.

THE UNDERSIGNED AFFIRMS, UNDER PENALTIES OF PERJURY, THAT HE OR SHE IS AUTHORIZED TO EXECUTE THIS CERTIFICATION ON BEHALF OF THE DESIGNATED ORGANIZATION.

Printed Name of Organization  
ID Number

Contract/Grantee

Signature of Authorized Representative

Date

Printed Name and Title

State Form  
44260

DAPW 150  
Rev. 8/90

OFFICER BENEFITS  
UAL CORPORATION AND UNITED AIR LINES, INC.

Welfare Benefits

Each officer of United and UAL is eligible to receive "split-dollar" life insurance and 24-hour all-risk accidental death and dismemberment ("AD&D") insurance. Under the split-dollar program, officers receive whole life coverage equal to approximately three times base salary less \$50,000. UAL and United pay the entire premium for the first seven years, partly with cash and partly with loans against the policy's cash value. UAL and United recover their payments from the cash value of the policy in the eighth policy year, or when the policy is paid up. The AD&D insurance pays a \$250,000 benefit upon the accidental death or dismemberment of the insured.

Officers are covered by a self-insured supplemental long term disability plan which provides a supplement to the Company's disability benefit for certain management employees equal to 50% of monthly pay in excess of \$20,000.

Company Cars

Designated senior officers are entitled to the personal use of cars owned or leased by United.

Club Memberships

United pays the cost of social club memberships of designated senior officers only upon approval by the Chairman and Chief Executive Officer.

Travel Benefits

Free travel is provided on United for active and retired officers of UAL and United and their spouses and dependent children, and payments are made to federal and state tax authorities with respect to the imputed tax liability on up to \$12,000 in value of travel benefits for active officers, and up to \$6,000 for retired officers. This benefit also includes admission to United's Red Carpet Club. Active officers who are also directors of UAL received the benefits provided to active directors.

Financial Advisory Services

Each officer of UAL and United at the Senior Vice President level and above are entitled to receive reimbursement for costs incurred for professional financial counseling in the areas of cash management, taxes, investments,, insurance and estate planning. Reimbursement is limited to \$7,000 in the first year the officer is admitted to the program, and to \$4,000 per year thereafter. Unused reimbursements may be carried over and used in succeeding years.

## UAL Corporation and Subsidiary Companies

Calculation of Fully Diluted Net Earnings Per Share  
(In Millions, Except Per Share)

	Year Ended December 31		
	1994(1)	1993(1)	1992(1)
Earnings or loss:			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	\$ 14	\$ (31)	\$ (417)
Interest on Air Wis convertible debentures, net of income tax	-	2	2
Earnings (loss) before cumulative effect of accounting changes for fully diluted calculation	14	(29)	(415)
Extraordinary loss on early extinguishment of debt	-	(19)	-
Cumulative effect of accounting changes	(25)	-	(540)
Net loss for fully diluted calculation	\$ (11)	\$ (48)	\$ (955)
Shares:			
Average number of shares of common stock outstanding during the year	18.8	24.3	24.1
Average number of shares of ESOP preferred stock outstanding during the year	0.3	-	-
Additional shares assumed issued at the date of issuance for conversion of convertible preferred stock	-	3.4	-
Additional shares assumed issued at the beginning of the year (or at the date of merger) for conversion of Air Wis convertible debentures	-	0.1	0.1
Additional shares assumed issued at the beginning of the year (or at the date of issuance) for exercises of dilutive stock options and stock award plans (after deducting			
shares assumed purchased under the treasury stock method)	0.3	0.6	0.3
Average number of shares for fully diluted calculation	19.4	28.4	24.5
Fully diluted per share amounts:			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	\$ 0.74	\$ (1.02)	\$ (16.96)
Extraordinary loss on early extinguishment of debt	-	(0.66)	-
Cumulative effect of accounting changes	(1.33)	-	(22.00)
Net loss	\$ (0.59)	\$ (1.68)	\$ (38.96)

(1) This calculation is submitted in accordance with Regulation S-K item 601(b)(11), although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an antidilutive result.

## UAL Corporation and Subsidiary Companies

## Computation of Ratio of Earnings to Fixed Charges

	1994	Year Ended December 31			1990
		1993	1992	1991	
	(In Millions)				
Earnings:					
Earnings (loss) before income taxes and extraordinary items	\$ 170	\$ (47)	\$ (656)	\$ (508)	\$164
Fixed charges, from below	1,052	1,104	1,001	749	592
Interest capitalized	(41)	(51)	(92)	(91)	(71)
Earnings	\$1,181	\$1,006	\$ 253	\$ 150	\$685
Fixed charges:					
Interest expense	\$ 372	\$ 358	\$ 329	\$ 211	\$193
Portion of rental expense representative of the interest factor	680	746	672	538	399
Fixed charges	\$1,052	\$1,104	\$1,001	\$ 749	\$592
Ratio of earnings to fixed charges	1.12	(a)	(a)	(a)	1.16

(a) Earnings were inadequate to cover fixed charges by \$98 million in 1993, \$748 million in 1992 and \$599 million in 1991.

UAL Corporation and Subsidiary Companies  
 Computation of Ratio of Earnings to Fixed Charges  
 and Preferred Stock Dividend Requirements

	1994	Year Ended December 31			1990
		1993	1992	1991	
		(In Millions)			
Earnings:					
Earnings (loss) before income taxes and extraordinary items	\$ 170	\$ (47)	\$ (656)	\$ (508)	\$164
Fixed charges and preferred stock dividend requirements, from below	1,184	1,154	1,001	749	592
Interest capitalized	(41)	(51)	(92)	(91)	(71)
Earnings	\$1,313	\$1,056	\$ 253	\$ 150	\$685
Fixed charges:					
Interest expense	\$ 372	\$ 358	\$ 329	\$ 211	\$193
Preferred stock dividend requirements	132	50	-	-	-
Portion of rental expense representative of the interest factor	680	746	672	538	399
Fixed charges and preferred stock dividend requirements	\$1,184	\$1,154	\$1,001	\$ 749	\$592
Ratio of earnings to fixed charges and preferred stock dividend requirements	1.11	(a)	(a)	(a)	1.16

(a) Earnings were inadequate to cover fixed charges and preferred stock dividend requirements by \$98 million in 1993, \$748 million in 1992 and \$599 million in 1991.

UAL CORPORATION SUBSIDIARIES

Subsidiary	Place of Incorporation	Business Name
Air Wis Services, Inc. Four Star Insurance Company, Ltd.	Wisconsin Bermuda	Air Wis Services, Inc. Four Star Insurance Company, Ltd.
Mileage Plus, Inc.	Delaware	Mileage Plus, Inc.
UAL Leasing Corporation U-C Corp.	Delaware Delaware	UAL Leasing Corporation U-C Corp.
United Air Lines, Inc.	Delaware	United Air Lines, Inc.

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in the UAL Corporation Form 10-K for the year ended December 31, 1994, into the Company's previously filed Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 2-67368) and Post-Effective Amendment No. 2 to Form S-8 Registration Statement (File No. 33-37613) for the Employees' Stock Purchase Plan of UAL Corporation; Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-38613) for the United Air Lines, Inc. Management and Salaried Employees' 401(k) Retirement Savings Plan; Form S-8 Registration Statement (File No. 33-57331) and Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-44552) for the United Air Lines, Inc. Ground Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-44553) for the United Air Lines, Inc. Flight Attendant Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 2 to Form S-8 Registration Statement (File No. 33-41968) and Form S-8 Registration Statement (File No. 33-10206) for the UAL Corporation 1981 Incentive Stock Plan; Form S-3 Registration Statement (File No. 33-57192), as amended; Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-59950) for the United Air Lines, Inc. Pilots' Directed Account Retirement Income Plan; and Form S-4 Registration Statement (File No. 33-57579), as amended.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Chicago, Illinois  
March 8, 1995

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM UAL CORPORATION'S STATEMENT OF CONSOLIDATED OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1994 AND STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF DECEMBER 31, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(d) of the  
Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1994

Employees' Stock Purchase Plan of UAL Corporation  
(Full title of the Plan)

UAL Corporation  
(Employer sponsoring the Plan, issuer of the  
participations in the Plan and issuer of  
the shares held pursuant to the Plan)

1200 Algonquin Road, Elk Grove Township, Illinois  
Mailing Address:  
UAL Corporation, P.O. Box 66919, Chicago, Illinois 60666  
(Address of principal executive offices)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To UAL Corporation:

We have audited the accompanying statement of financial position of the Employees' Stock Purchase Plan of UAL Corporation (the "Plan") as of December 31, 1994 and 1993 and the related statement of changes in participants' equity for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's administrator, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 1994 and 1993 and the changes in its participants' equity for each of the three years in the period ended December 31, 1994, in conformity

with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois  
February 23, 1995

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,  
the sponsor and issuer of the participants of the Plan, UAL  
Corporation, has duly caused this Annual Report to be signed on its  
behalf by the undersigned thereunto duly authorized.

UAL Corporation  
Administrator

Dated February 23, 1995

By /s/ Douglas A. Hacker  
Douglas A. Hacker  
Senior Vice President - Finance

EMPLOYEES' STOCK PURCHASE PLAN  
OF UAL CORPORATION

STATEMENT OF FINANCIAL POSITION  
(In Thousands, Except Number of Shares)

	December 31	
	1994	1993
ASSETS		
Cash	\$ 250	\$ -
Participants' payroll deductions receivable from UAL Corporation	71	34
Investment in common stock of UAL Corporation, at quoted market value (1994 - 124,429 shares, cost \$11,263; 1993 - 262,369 shares, cost \$29,402).	10,880	38,109
	\$11,201	\$38,143

LIABILITIES AND PARTICIPANTS' EQUITY

Payable to terminating and partially withdrawing participants, at quoted market value (1994 - 1,271 shares, cost \$116; 1993 - 9,462 shares, cost \$1,142).	\$ 112	\$ 1,375
Participants' equity	11,089	36,768
	\$11,201	\$38,143

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

EMPLOYEES' STOCK PURCHASE PLAN  
OF UAL CORPORATION

STATEMENT OF CHANGES IN PARTICIPANTS' EQUITY  
(In Thousands)

	Year Ended December 31		
	1994	1993	1992
Balance at beginning of year	\$36,768	\$43,505	\$31,574
Increase (decrease) during year:			
Participants' payroll deductions	4,601	8,600	16,644
Company contribution	-	227	2,943
Realized gain on stock distributed to participants	4,925	1,416	510
Unrealized appreciation (depreciation) in value of investment	(9,090)	3,761	(3,927)
Stock and cash for fractional shares distributed or amounts payable to participants, at market value	(6,489)	(20,741)	(4,239)
Cash distributed in connection with recapitalization	(19,626)	-	-
	(25,679)	(6,737)	11,931
Balance at end of year	\$11,089	\$36,768	\$43,505

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

EMPLOYEES' STOCK PURCHASE PLAN  
OF UAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) The Plan

The Employees' Stock Purchase Plan of UAL Corporation (the "Plan") is sponsored by UAL Corporation ("UAL"). UAL offers participation in the Plan to eligible employees of UAL and its subsidiaries.

(2) Purchase and Distribution of Stock

The Plan invests only in the common stock of UAL. From January 1, 1991 through January 31, 1993, participants purchased stock at a 15% discount from current market prices. The difference between the market price and the participant's cost was contributed by United Airlines, Inc., a UAL subsidiary. Effective February 1, 1993, the 15% discount was discontinued.

Purchases are made by the Plan monthly, and the shares purchased are credited to the accounts of each participant on the basis of the ratio of the participant's contribution to total participants' contributions for the month. The cost of common stock purchased for the Plan includes all brokerage charges involved in the purchase.

When shares of stock are distributed to the individual participants pursuant to the terms of the Plan, the market value of such shares is removed from the investment account of the Plan.

Terminating participants receive a certificate for the full number of shares, plus cash for the fractional shares, held for their accounts. Partially withdrawing participants receive certificates for the full number of shares withdrawn. There are no forfeiture provisions under the Plan with respect to participants' contributions.

(3) Investment in Common Stock of UAL

The investment in common stock of UAL is valued at the year-end published market prices as reported by the New York Stock Exchange.

(4) Realized Gain on Stock Distributed to Participants

Gains on stock distributed to participants are realized to the extent of the difference between cost at acquisition and market value at the date of distribution.

(5) Unrealized Appreciation (Depreciation) in Value of Investment

The unrealized appreciation (depreciation) in the value of investment is the change from the prior year-end to the current year-end in the difference between the market value and the cost of the investment.

The following is a summary of unrealized appreciation (depreciation):

	1994	1993	1992
	(In Thousands)		
Balance at beginning of year	\$ 8,707	\$ 4,946	\$ 8,873
Increase (decrease) during year	(9,090)	3,761	(3,927)
Balance at end of year	\$ (383)	\$ 8,707	\$ 4,946

(6) Administrative Expenses of the Plan

All administrative expenses of the Plan are paid by UAL.

(7) Federal Income Tax

Under existing federal income tax laws, the Plan is not subject to federal income tax. Any dividend income is taxable to the participants upon distribution and receipt. When any shares of stock or rights acquired under the Plan are sold by or for a participant, any gain or loss must be recognized by that participant.

The 15% discount which was offered to participants was also considered

taxable income to the participant.

(8) Employee Investment Transaction and Recapitalization

On July 12, 1994, the shareholders of UAL approved a plan of recapitalization to provide an approximately 55% equity interest in UAL to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest will be allocated to individual employees through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization. The employee interest may increase to 63%, depending on the average market value of UAL common stock in the year after the transaction closed. Based on the average market value of UAL common stock through February 23, 1995, the market value of UAL common stock for the remainder of the measuring period would have to average at least \$204 for any adjustment to be made in the ESOP percentage interest. Pursuant to the terms of the plan of recapitalization, holders of old UAL common stock received approximately \$2.1 billion in cash and the remaining 45% (subject to a decrease down to 37%) of the equity in the form of new common stock, which was issued at the rate of one half share of new common stock for each share of old common stock.

The cash consideration received by the Plan was distributed to Plan participants at a rate of \$84.81 per old common share held in the Plan as of July 12, 1994. Additionally, each old common share held by participants as of this date was exchanged for one half new common share, thereby reducing the Plan participants' balances proportionately.

Exhibit 23.1

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 11-K, into the Company's previously filed Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 2-67368) and the Post-Effective Amendment No. 2 to Form S-8 Registration Statement (File No. 33-37613) for the Employees' Stock Purchase Plan of UAL Corporation.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Chicago, Illinois  
March 8, 1995