

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
 FORM S-4
 REGISTRATION STATEMENT
 UNDER
 THE SECURITIES ACT OF 1933

UAL CORPORATION AND UNITED AIR LINES, INC.
 (EXACT NAME OF EACH REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | | |
|---|---|--|
| DELAWARE--UAL | 4512--UAL | 36-2675207--UAL |
| DELAWARE--UNITED | 4512--UNITED | 36-2675206--UNITED |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER) | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) |

1200 EAST ALGONQUIN ROAD
 ELK GROVE TOWNSHIP, ILLINOIS 60007
 (708) 952-4000

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA
 CODE, OF REGISTRANTS' PRINCIPAL EXECUTIVE OFFICES)

Copies to:

| | |
|-------------------------|---------------------------------|
| LAWRENCE M. NAGIN, ESQ. | PETER ALLAN ATKINS, ESQ. |
| UAL CORPORATION | THOMAS H. KENNEDY, ESQ. |
| P.O. BOX 66100 | ERIC L. COCHRAN, ESQ. |
| CHICAGO, ILLINOIS 60666 | SKADDEN, ARPS, SLATE, MEAGHER & |
| (708) 952-4000 | FLOM |

(NAME, ADDRESS, INCLUDING ZIP
 CODE, AND TELEPHONE NUMBER,
 INCLUDING AREA CODE, OF AGENT FOR
 SERVICE)

919 THIRD AVENUE
 NEW YORK, NEW YORK 10022

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: At the
 effective time of the recapitalization (the "Recapitalization") of UAL
 Corporation described in the Proxy Statement/Joint Prospectus forming a part
 of this Registration Statement.

If the securities being registered on this form are being offered in
 connection with the formation of a holding company and there is compliance
 with General Instruction G, check the following box. []

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER UNIT | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE | AMOUNT OF REGISTRATION FEE |
|---|-------------------------------|---|--|-------------------------------|
| Common Stock, par value \$.01 per share of UAL. | 14,463,093 shares | (1) | (1) | \$700,462.52(1)(2) |
| Series B Preferred Stock of UAL..... | 35,985 shares | (1) | (1) | (1) |
| Depository Preferred Shares representing the Series B Preferred Stock..... | 35,984,175 shares | (1) | (1) | (1) |
| Series D Redeemable Preferred Stock of UAL..... | 28,927 shares | (1) | (1) | (1) |
| Series E Redeemable Preferred Stock of UAL..... | 28,927 shares | (1) | (1) | (1) |
| Series A Senior Debentures due 2004 of | | | | |

| | | | | |
|--|---------------|--------|--------|--------|
| United..... | \$449,802,200 | (1)(2) | (1)(2) | (1)(2) |
| ----- | | | | |
| Series B Senior Debentures due 2014 of United..... | \$449,802,200 | (1)(2) | (1)(2) | (1)(2) |
| ----- | | | | |

(1) This Registration Statement covers the shares of Common Stock, par value \$0.01 per share, of UAL (the "New Shares") and the shares of either Series D Redeemable Preferred Stock of UAL or Series E Redeemable Preferred Stock of UAL to be issued in exchange for, and upon conversion of the shares of the Common Stock, par value \$5 per share, of UAL (the "Old Shares") in connection with the Recapitalization. If the Series D Redeemable Preferred Stock is issued, immediately upon issuance, the Series D Redeemable Preferred Stock will be redeemed for \$25.80 in cash, Series A Debentures due 2004 of United, Series B Debentures due 2014 of United (collectively, the "Debentures") and Depositary Preferred Shares representing shares of Series B Preferred Stock of UAL. If the Series E Redeemable Preferred Stock is issued, immediately upon issuance it will be redeemed for cash equal to \$25.80 plus the proceeds of the sale of the Debentures and the Depositary Preferred Shares. For the purposes of calculating the registration fee pursuant to Rule 457(f)(1), (i) the number of Old Shares to be exchanged and converted is 28,926,185 and (ii) \$746,295,573 of cash (\$25.80 per Old Share), which will be paid by UAL in connection with the Recapitalization, has been subtracted (pursuant to Rule 457(f)(3)) from the aggregate market value of Old Shares to be exchanged and converted in the Recapitalization. The aggregate market value of the Old Shares has been computed by taking the average of the high and low prices for the Old Shares on the New York Stock Exchange, Inc. on April 6, 1994 (\$127.125).

(2) As noted below, the Debentures were registered as Debt Securities of United pursuant to the Registration Statement on Form S-3 (No. 33-57192) filed on January 21, 1993. Of the aggregate fee calculated pursuant to Rule 457(f), \$310,208.41 is attributable to the Debentures, and the amount of the registration fee has been reduced by such amount. The net registration fee was paid upon the original filing.

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

AS PROVIDED UNDER RULE 429, THE DEBENTURES TO BE OFFERED HEREUNDER WERE REGISTERED AS DEBT SECURITIES OF UNITED PURSUANT TO THE REGISTRATION STATEMENT ON FORM S-3 (NO. 33-57192) FILED ON JANUARY 21, 1993.

UAL CORPORATION
UNITED AIR LINES, INC.

CROSS-REFERENCE SHEET

PURSUANT TO ITEM 501(B) OF REGULATION S-K SHOWING THE LOCATION IN THE PROXY STATEMENT/JOINT PROSPECTUS OF THE INFORMATION REQUIRED TO BE INCLUDED THEREIN IN RESPONSE TO PART I OF FORM S-4

| S-4 ITEM NUMBER AND CAPTION ----- | LOCATION OR HEADING IN PROXY STATEMENT/JOINT PROSPECTUS ----- |
|---|--|
| 1. Forepart of Registration Statement and Outside Front Cover Page of Prospectus..... | FACING PAGE; CROSS-REFERENCE SHEET; OUTSIDE FRONT COVER PAGE |
| 2. Inside Front and Outside Back Cover Pages of Prospectus..... | AVAILABLE INFORMATION; TABLE OF CONTENTS |
| 3. Risk Factors, Ratio of Earnings to Fixed Charges, and Other Information..... | SUMMARY OF PROXY STATEMENT/JOINT PROSPECTUS; --The Plan of Recapitalization--Certain Risk Factors;-- Selected Consolidated Historical and Pro Forma Operating Information; SPECIAL FACTORS--Certain Risk Factors; SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION; UNAUDITED PRO FORMA FINANCIAL INFORMATION |
| 4. Terms of the Transaction..... | SUMMARY OF THE PROXY STATEMENT/JOINT PROSPECTUS--The Plan of Recapitalization; --The Plan of Recapitalization--Background of the Recapitalization; --The Plan of Recapitalization--Opinions of the Financial Advisors to the Board; --Certain Federal Income Tax Consequences; BACKGROUND OF THE PLAN OF RECAPITALIZATION; SPECIAL FACTORS-- Opinions of the Financial Advisors to the Board;--Purpose and Structure of the Recapitalization;--Certain Effects of the Recapitalization; CERTAIN FEDERAL INCOME TAX CONSEQUENCES; THE PLAN OF RECAPITALIZATION--Terms and Conditions;-- Establishment of ESOPs; DESCRIPTION OF SECURITIES |
| 5. Pro Forma Financial Information..... | SUMMARY OF PROXY STATEMENT/JOINT PROSPECTUS--Selected Consolidated and Pro Forma Operating Information; UNAUDITED PRO FORMA FINANCIAL INFORMATION |
| 6. Material Contacts with the Company Being Acquired..... | SUMMARY OF PROXY STATEMENT/JOINT PROSPECTUS--The Plan of Recapitalization-- Background of the Recapitalization; BACKGROUND OF THE RECAPITALIZATION |

| S-4 ITEM NUMBER AND CAPTION ----- | LOCATION OR HEADING IN PROXY STATEMENT/JOINT PROSPECTUS ----- |
|--|---|
| 7. Additional Information Required for Reoffering by Persons and Parties Deemed to be Underwriters..... | NOT APPLICABLE |
| 8. Interests of Named Experts and Counsel..... | SPECIAL FACTORS--Opinions of the Financial Advisors to the Board; EXPERTS; LEGAL OPINION |
| 9. Disclosure of Commission Position on Indemnification for Securities Act Liability..... | NOT APPLICABLE |
| 10. Information With Respect to S-3 Registrants..... | NOT APPLICABLE |
| 11. Incorporation of Certain Information by Reference..... | NOT APPLICABLE |
| 12. Information With Respect to S-2 or S-3 Registrants..... | NOT APPLICABLE |
| 13. Incorporation of Certain Information by Reference..... | NOT APPLICABLE |
| 14. Information With Respect to Registrants Other Than S-3 or S-2 Registrants..... | SUMMARY OF PROXY STATEMENT/JOINT PROSPECTUS; MARKET PRICES OF THE SHARES; DIVIDENDS; SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION; EXHIBIT 13.1; EXHIBIT 13.2 |
| 15. Information With Respect to S-3 Companies..... | NOT APPLICABLE |
| 16. Information With Respect to S-2 or S-3 Companies..... | NOT APPLICABLE |
| 17. Information With Respect to Companies Other Than S-2 or S-3 Companies..... | NOT APPLICABLE |
| 18. Information if Proxies, Consents or Authorizations Are to be Solicited..... | SUMMARY OF PROXY STATEMENT/JOINT PROSPECTUS--Date, Time and Place of Meeting; --Vote Required; --The Plan of Recapitalization--Interests of Certain Persons in the Recapitalization; --No Appraisal Rights; INTRODUCTION; --Voting Rights and Proxy Information; --No Appraisal Rights; SPECIAL FACTORS--Interests of Certain Persons in the Recapitalization; --Management Arrangements; THE PLAN OF RECAPITALIZATION--Revised Governance Structure; ELECTION OF DIRECTORS; BENEFICIAL OWNERSHIP OF SECURITIES; EXECUTIVE COMPENSATION |
| 19. Information if Proxies, Consents or Authorizations are not to be Solicited, or in an Exchange Offer..... | NOT APPLICABLE |

THIS PRELIMINARY PROXY STATEMENT/PROSPECTUS IS SUBJECT TO COMPLETION OF AN AMENDMENT TO THE DEFINITIVE DOCUMENTATION RELATING TO THE EMPLOYEE INVESTMENT TRANSACTION

The information contained herein is based on an assumption that an amendment to the definitive documentation will be entered into by the Company and the Coalition. THERE CAN BE NO ASSURANCE THAT ANY SUCH AMENDMENT WILL BE ENTERED INTO, OR IF ENTERED INTO, THAT THE TERMS OF SUCH AMENDMENT WILL BE CONSISTENT WITH THE TERMS REFLECTED HEREIN.

[UAL LETTERHEAD]

June , 1994

Dear Stockholder:

At a Meeting of Stockholders of UAL Corporation scheduled to be held at the on June ,1994, common stockholders will be asked to approve a recapitalization transaction that substantially alters the cost structure of UAL's principal subsidiary, United Airlines, a change that is intended to immediately strengthen the carrier's competitive position in worldwide aviation markets while improving its long-term financial viability well into the future.

As part of the transaction, employees will make an investment, which is estimated by the Company to have a net present value of approximately \$4.9 billion, in the form of wage and benefit reductions, work-rule changes and related savings. In return, through the establishment of Employee Stock Ownership Plans, participating employees will hold, initially, approximately 55 percent of the equity in the Company with current stockholders, initially, retaining approximately 45 percent of the equity in the Company, subject to adjustment in certain circumstances. In addition, current common stockholders will receive additional consideration in the form of cash, or a combination of cash, debentures and preferred stock as described below.

We believe that the transaction directly addresses the major problem facing United and virtually all mature air carriers in the United States: a high cost structure that impedes effective competition with newer, low-cost carriers that have increased significantly their U.S. domestic market share over the past five years and that are continuing to make significant inroads into United's traditional markets.

The employee investment is expected to reduce costs substantially throughout United's worldwide route system. The investment specifically addresses the critical challenge facing United in U.S. domestic markets by facilitating the creation of a new operation--an "airline-within-an-airline"--that is intended to compete more effectively with low-cost carriers in short-haul markets where they are most predominant.

In addition--and importantly in a service business such as an airline--this transaction should enhance the commitment of employees by providing a tangible link between the Company's operating performance and the resulting rewards that can be realized by employee-owners of the Company.

The transaction will take the form of a recapitalization. At the same time, United will be making a public offering of its debt securities and the Company will be making a public offering of depositary shares representing Company preferred stock. If the offerings are consummated, current common stockholders will receive an amount of cash equal to the sum of (a) \$25.80, (b) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$31.10 face amount of its debt securities and (c) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of depositary shares representing \$31.10 liquidation preference of preferred stock. If the offerings are not consummated, current common stockholders will receive (i) \$25.80 in cash, (ii) \$31.10 face amount of United's debt securities and (iii) depositary shares representing \$31.10 liquidation preference of the Company's preferred stock. Current Common stockholders also will retain a significant ongoing equity interest in the Company that will be the same regardless of whether the offerings are consummated. Under various circumstances, however, the value of the consideration to be received by common stockholders could be less than the stated face amount or liquidation preference of the debt securities or preferred stock interests.

The attached Proxy Statement/Joint Prospectus details the proposed transaction, including the establishment of a revised corporate governance structure that will be implemented through, among other things, amendments to the Company's Restated Certificate of Incorporation and Bylaws.

The Board of Directors has approved the recapitalization plan and has determined that the proposed recapitalization is fair to the holders of the Company's common stock. The Board of Directors recommends that holders of common stock vote FOR approval of the recapitalization plan and the related matters identified as Items 2 through 8 on the enclosed proxy card.

You are urged to read the information concerning the proposed recapitalization contained in the attached Proxy Statement/Joint Prospectus, including pages 14 through 27 that outline the benefits that the Company expects to achieve as a result of the employee investment, including the opinions of the Company's financial advisors, CS First Boston Corporation and Lazard Freres & Co. The Proxy Statement/Joint Prospectus also describes a number of other matters to be voted upon by holders of common stock at the Meeting.

We ask you to fill out, sign and mail promptly the enclosed proxy. If you plan to attend, please request an admission card by marking the proxy card in the space provided. If you attend the meeting, you may vote your shares in person whether or not you have previously submitted a proxy.

Thank you for your cooperation.

Very truly yours,

Stephen M. Wolf
Chairman of the Board
and Chief Executive Officer

UAL CORPORATION
P.O. BOX 66919
CHICAGO, ILLINOIS 60666

NOTICE OF MEETING OF STOCKHOLDERS

To the Stockholders:

A Meeting of stockholders of UAL Corporation, a Delaware corporation (the "Company"), will be held at the _____, on June _____, 1994, at _____:00 a.m., local time, for the following purposes:

1. To approve the Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994 (the "Plan of Recapitalization"). The Plan of Recapitalization provides for the reclassification of the Company's outstanding common stock and other amendments to the Company's Restated Certificate of Incorporation and Bylaws, as a result of which each outstanding share of common stock, par value \$5.00 per share, of the Company (the "Old Shares") will be reclassified as, and exchanged for, one-half (0.5) of a new share of common stock, par value \$.01 per share, of the Company (the "New Shares") and

(a) if the proposed offering of debt securities by United Air Lines, Inc. ("United") and the proposed offering of depositary shares representing interests in preferred stock by the Company (collectively, the "Offerings") are consummated, one one-thousandth of a share of Series E Redeemable Preferred Stock, without par value, of the Company, which one one-thousandth of a share will be redeemed immediately after issuance for an amount of cash equal to the sum of (i) \$25.80, (ii) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 face amount of its Series A Debentures due 2004 (the "Series A Debentures") and \$15.55 face amount of its Series B Debentures due 2014 (the "Series B Debentures" and, together with the Series A Debentures, the "Debentures") and (iii) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1.244 depositary shares (the "Depositary Preferred Shares") representing interests in \$31.10 liquidation preference of its Series B Preferred Stock, without par value (the "Public Preferred Stock") or

(b) if the Offerings are not consummated, one one-thousandth of a share of Series D Redeemable Preferred Stock, without par value, of the Company, which one one-thousandth of a share will be redeemed immediately after issuance for (i) \$25.80 in cash, (ii) \$15.55 face amount of Series A Debentures, (iii) \$15.55 face amount of Series B Debentures and (iv) 1.244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock.

2. Subject to and conditioned upon approval of the Plan of Recapitalization, to approve the amendment and restatement of the Company's Restated Certificate of Incorporation and Bylaws as set forth in the Plan of Recapitalization (the "Charter and Bylaw Amendments").

3. Subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, to approve the issuance of (a) shares of Class 1 ESOP Convertible Preferred Stock to State Street Bank and Trust Company ("State Street"), as trustee of the UAL Corporation Employee Stock Ownership Plan Trust, from time to time, (b) shares of Class 2 ESOP Convertible Preferred Stock (or the common shares into which they are convertible) to State Street, as trustee of the UAL Corporation Employee Stock Ownership Plan Trust (or in limited circumstances as trustee of the UAL Corporation Supplemental Employee Stock Ownership Plan Trust), or to participants in the UAL Corporation Supplemental Employee Stock Ownership Plan, from time to time, (c) shares of (i) Class P ESOP Voting Preferred Stock, (ii) Class M ESOP Voting Preferred Stock and (iii) Class S ESOP Voting Preferred Stock to State Street, as trustee of the UAL Corporation Employee Stock Ownership Plan Trust and the UAL Corporation Supplemental ESOP Trust, (d) shares of Class I Junior Preferred Stock to certain individuals to be named as directors of the Company, (e) a share of Class Pilot MEC Junior

Preferred Stock to the United Airlines Pilots Master Executive Council of the Air Line Pilots Association, International, (f) a share of Class IAM Junior Preferred Stock to the International Association of Machinists and Aerospace Workers or its designee and (g) shares of Class SAM Preferred Stock to an individual to be named as a director of the Company on behalf of its salaried and management employees and to an additional designated stockholder.

4. Subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, to elect four directors to serve as "Public Directors" of the Company until their successors are duly elected and qualified.

5. Subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, to amend the Company's 1981 Incentive Stock Program.

6. Subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, to amend the Company's 1988 Restricted Stock Plan.

7. Subject to and conditioned upon approval of the Plan of Recapitalization, to amend the Company's Incentive Compensation Plan.

8. To consider and act upon three stockholder proposals.

9. To ratify the selection of Arthur Andersen & Co. as the Company's independent accountants for the year ending December 31, 1994.

10. To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

If the Plan of Recapitalization is approved and directors are elected at the Meeting, the Meeting will be deemed to constitute the Company's 1994 annual meeting. If the Plan of Recapitalization is not approved and/or if directors are not elected at the Meeting, an annual meeting of stockholders for 1994 will be scheduled in the near future.

Only holders of record of Old Shares at the close of business on May 23, 1994 are entitled to notice of, and to vote at, the Meeting and at any adjournment or postponement thereof. A list of such holders will be open for examination during ordinary business hours by any stockholder for any purpose germane to the meeting at for a period of ten days prior to the meeting. The list will also be available on at the place of the Meeting.

Stockholders will not be entitled to appraisal rights in connection with any of the matters to be voted on at the Meeting.

Stockholders are urged to fill out, sign and mail promptly the enclosed proxy in the accompanying envelope, which requires no postage if mailed in the United States. Proxies forwarded by or for brokers or fiduciaries should be returned as directed. The prompt return of proxies will save the expense involved in further communication.

By Order of the Board of Directors.

Francesca M. Maher,
Secretary

Chicago, Illinois

June , 1994

PLEASE EXECUTE AND RETURN THE ENCLOSED PROXY PROMPTLY, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING.

SUBJECT TO COMPLETION, DATED MAY 27, 1994

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+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +
+REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
+SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
+OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
+BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +
+THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
+SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
+UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
+ANY SUCH STATE. +
+++++

THIS PRELIMINARY PROXY STATEMENT/PROSPECTUS IS SUBJECT TO COMPLETION OF AN AMENDMENT TO THE DEFINITIVE DOCUMENTATION RELATING TO THE EMPLOYEE INVESTMENT TRANSACTION

The information contained herein is based on an assumption that an amendment to the definitive documentation will be entered into by the Company and the Coalition. THERE CAN BE NO ASSURANCE THAT ANY SUCH AMENDMENT WILL BE ENTERED INTO, OR IF ENTERED INTO, THAT THE TERMS OF SUCH AMENDMENT WILL BE CONSISTENT WITH THE TERMS REFLECTED HEREIN.

UAL CORPORATION
UNITED AIR LINES, INC.

PROXY STATEMENT/JOINT PROSPECTUS

This Proxy Statement/Joint Prospectus (the "Proxy Statement/Prospectus") is being furnished in connection with the solicitation of proxies by the Board of Directors of UAL Corporation, a Delaware corporation (the "Company"), from holders of the outstanding shares of common stock, par value \$5.00 per share, of the Company ("Old Shares") for use at the Meeting of Stockholders of the Company (the "Meeting") to be held at the time and place and for the purposes set forth in the accompanying Notice.

At the Meeting, the holders of Old Shares will be asked to consider and to vote upon (i) the Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994 (the "Plan of Recapitalization"), which contemplates certain transactions collectively referred to as the "Recapitalization," (ii) subject to and conditioned upon approval of the Plan of Recapitalization, the amendment and restatement of the Company's Restated Certificate of Incorporation and Bylaws (the "Charter and Bylaw Amendments"), (iii) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the approval of the issuance of (a) shares of Class 1 ESOP Convertible Preferred Stock to State Street Bank and Trust Company ("State Street"), as trustee of the UAL Corporation Employee Stock Ownership Plan Trust, from time to time, (b) shares of Class 2 ESOP Convertible Preferred Stock (or the common shares into which they are convertible) to State Street, as trustee of the UAL Corporation Employee Stock Ownership Plan Trust, or to participants in the UAL Corporation Supplemental Employee Stock Ownership Plan Trust (or in limited circumstances to State Street as trustee of the UAL Corporation Supplemental ESOP) from time to time, (c) shares of (1) Class P ESOP Voting Preferred Stock, (2) Class M ESOP Voting Preferred Stock and (3) Class S ESOP Voting Preferred Stock to State Street, as trustee of the UAL Corporation Employee Stock Ownership Plan Trust and the UAL Corporation Supplemental ESOP Trust, (d) shares of Class I Junior Preferred Stock to certain individuals to be named as directors of the Company, (e) a share of Class Pilot MEC Junior Preferred Stock to the United Airlines Pilots Master Executive Council ("ALPA-MEC") of the Air Line Pilots Association, International ("ALPA"), (f) a share of Class IAM Junior Preferred Stock to the International Association of Machinists and Aerospace Workers (the "IAM") or its designee, and (g) shares of Class SAM Preferred Stock to an individual to be named as a director of the Company on behalf of salaried and management employees and to an additional designated stockholder, (iv) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the election of four "Public Directors" of the Company, (v) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the amendment of the Company's 1981 Incentive Stock Program, (vi) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the amendment of the Company's 1988 Restricted Stock Plan, (vii) subject to and conditioned upon approval of the Plan of Recapitalization, the amendment of the Company's Incentive Compensation Plan, (viii) three stockholder proposals, and (ix) ratification of the selection of Arthur Andersen & Co. as the Company's independent accountants for the year ending December 31, 1994.

Contemporaneously with this solicitation, United Air Lines, Inc., the Company's wholly-owned subsidiary ("United"), is offering for sale (the "United Debt Offering") \$382,500,000 principal amount of its Series A Debentures due 2004 (the "Series A Debentures") and \$382,500,000 principal amount of its Series B Debentures due 2014 (the "Series B Debentures" and, together with the Series A Debentures, the "Debentures") and the Company is offering for sale (the "UAL Preferred Offering" and, together with the United Debt Offering, the "Offerings") 30,600,000 depositary shares (the "Depositary Preferred Shares"),

each representing \$25.00 interests in liquidation preference of the Series B Preferred Stock, without par value, of the Company (the "Public Preferred Stock").

If the Offerings are consummated, each holder of an Old Share will receive in connection with the Recapitalization (i) one-half (0.5) of a new share of common stock, par value \$0.01 per share, of the Company (the "New Share") and (ii) cash in an amount equal to the sum of (a) \$25.80, (b) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 principal amount of Series A Debentures and \$15.55 principal amount of Series B Debentures pursuant to the United Debt Offering and (c) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1.244 Depositary Preferred Shares representing interests in \$31.10 aggregate liquidation preference of its Public Preferred Stock pursuant to the UAL Preferred Offering. If the Offerings are not consummated, each holder of an Old Share

will receive in connection with the Recapitalization (i) one half (0.5) of a New Share, (ii) \$25.80 in cash, (iii) \$15.55 principal amount of Series A Debentures, (iv) \$15.55 principal amount of Series B Debentures and (v) 1.244 Depository Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock. Under various circumstances, however, the value of the consideration to be received by stockholders could be less than the stated face amount or liquidation preference of the Debentures or Depository Preferred Shares.

The interest rates on the Debentures and the dividend rate on the Public Preferred Stock have been set provisionally and are subject to adjustment prior to the Meeting. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

One-half of a New Share will represent an equity interest (based on "Fully Diluted Old Shares," as defined in "THE PLAN OF RECAPITALIZATION--Terms and Conditions") immediately after the Recapitalization of 45% of one Old Share's current percentage equity interest in the Company, subject to possible reduction. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." The funds (other than the proceeds of the Offerings, if applicable) required to effect the Recapitalization, to pay related expenses (including certain expenses of ALPA and the IAM) and to provide for the Company's working capital needs after the Recapitalization are expected to be provided from the Company's internal resources.

The Plan of Recapitalization provides for amendments to the Company's Restated Certificate of Incorporation and Bylaws, which will provide, among other things, for a restructuring of the entire Board of Directors of the Company. If the Recapitalization is consummated, these amendments, together with the ownership initially of at least 55% of the Company's common equity interests by a trust, the crediting of certain shares for future issuance for certain of its employees and provisions that will preserve the majority voting power of the employee groups so long as their percentage economic interest in the Company remains above certain levels, will have the effect of a change in control of the Company and may make more difficult a future change in control of the Company. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure."

IN ASSESSING THE RECAPITALIZATION, EACH STOCKHOLDER SHOULD BE AWARE THAT CERTAIN FACTORS INVOLVED IN THE RECAPITALIZATION MAY INCREASE THE RISK ASSOCIATED WITH, AND MAY OTHERWISE ADVERSELY AFFECT THE VALUE OF, MAINTAINING AN EQUITY INVESTMENT IN THE COMPANY. THESE FACTORS INCLUDE AN IMMEDIATE CHANGE OF THE COMPANY'S CAPITALIZATION TO ONE THAT IS MORE LEVERAGED. SEE "SPECIAL FACTORS--CERTAIN RISK FACTORS" AND "--CERTAIN EFFECTS OF THE RECAPITALIZATION."

Consummation of the Recapitalization is subject to certain conditions, including approval of the Plan of Recapitalization by holders of at least a majority of the outstanding Old Shares. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions." Consummation of the Recapitalization is not conditioned on, or subject to, consummation of the Offerings, although consummation of the Offerings is conditioned on, and subject to, consummation of the Recapitalization. The consummation of each of the United Debt Offering and the UAL Preferred Offering is conditioned on, and subject to, consummation of the other.

The address of the principal executive offices of the Company is 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, its telephone number at such address is (708) 952-4000 and the mailing address of the Company is P.O. Box 66919, Chicago, Illinois 60666.

The Company and United have filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-4 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), covering the New Shares, the Depository Preferred Shares, the Public Preferred Stock, the Redeemable Preferred Stock and the Debentures to be issued, if required in the Recapitalization. This Proxy Statement/Prospectus, which is first being mailed to stockholders of the Company on or about June , 1994, constitutes the joint prospectus of the Company and United included as part of the Registration Statement. The Company has also filed a Rule 13e-3 Transaction Statement on Schedule 13E-3 (the "Schedule 13E-3") in connection with the Recapitalization. Copies of the Registration Statement and the Schedule 13E-3 may be obtained as set forth below under "AVAILABLE INFORMATION."

No person is authorized in connection with any offering made hereby to give any information or to make any representations other than those contained in this Proxy Statement/Prospectus and, if given or made, such other information or representations must not be relied upon as having been authorized. This Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, by any person in any jurisdiction in which it is unlawful for such person to make such offer or solicitation. This Proxy Statement/Prospectus has been prepared for use by holders of Old Shares in

determining how to vote on the matters to be presented for a vote at the Meeting, and its use for any other purpose is not authorized. Neither the delivery of this Proxy Statement/Prospectus nor any sale made hereunder shall under any circumstances create any implication that information herein is correct as of any time subsequent to the date hereof.

NEITHER THIS TRANSACTION NOR THESE SECURITIES HAVE BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION. THE COMMISSION HAS NOT PASSED UPON THE FAIRNESS OR MERITS OF THIS TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Proxy Statement/Prospectus is June , 1994.

AVAILABLE INFORMATION

The Company and United are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Commission. The reports, proxy statements and other information filed by the Company and United with the Commission can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Offices of the Commission at Seven World Trade Center, 13th Floor, New York, New York 10048 and at Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661. Copies of such material also can be obtained by mail from the Public Reference Section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, material filed by the Company can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, the Chicago Stock Exchange, 440 South LaSalle Street, Chicago, Illinois 60605 and the Pacific Stock Exchange, 301 Pine Street, San Francisco, California 94104.

The Company and United have filed with the Commission a Registration Statement under the Securities Act, with respect to the New Shares, the Depository Preferred Shares, the Public Preferred Stock, the Redeemable Preferred Stock, and the Debentures to be issued, if required, pursuant to or as contemplated by the Recapitalization as described in this Proxy Statement/Prospectus. This Proxy Statement/Prospectus does not contain all the information set forth or incorporated by reference in the Registration Statement and the exhibits and schedules relating thereto, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. For further information, reference is made to the Registration Statement and the exhibits filed or incorporated as a part thereof, which are on file at the offices of the Commission and may be obtained upon payment of the fee prescribed by the Commission, or may be examined without charge at the offices of the Commission. Statements contained in this Proxy Statement/Prospectus as to the contents of any contract or other document referred to herein are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement or such other document, and each such statement is qualified in all respects by such reference.

The Company has filed a separate registration statement under the Securities Act with respect to the Depository Preferred Shares and the Public Preferred Stock proposed to be sold in the UAL Preferred Offering and United has filed a separate registration statement under the Securities Act with respect to the Debentures proposed to be sold in the United Debt Offering.

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* To be included upon finalization of Definitive Documentation to the Employee Investment Transaction

SUMMARY OF PROXY STATEMENT/JOINT PROSPECTUS

The following summary is intended only to highlight certain information contained in the Proxy Statement/Joint Prospectus (the "Proxy Statement/Prospectus"). This summary is not intended to be a complete statement of all material features of the proposed Recapitalization (defined below) and is qualified in its entirety by reference to the detailed information contained elsewhere in this Proxy Statement/Prospectus, the Annexes and Exhibits hereto and the other documents referred to herein. Stockholders are urged to read this Proxy Statement/Prospectus and the Annexes and Exhibits hereto in their entirety.

THE COMPANY AND UNITED

UAL Corporation, a Delaware corporation (the "Company"), is a holding company and its primary subsidiary is United Air Lines, Inc., a Delaware corporation ("United"), which is wholly owned. At the end of 1993, United served 159 airports in the United States and 32 foreign countries. During 1993, United averaged 2,040 departures daily, flew a total of 101 billion revenue passenger miles and carried an average of 191,000 passengers per day. At the end of 1993, United's fleet of aircraft totaled 544. United's major hub operations are located at Chicago, Denver, San Francisco, Washington D.C., London and Tokyo.

The address of the principal executive offices of the Company and United is 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, their telephone number at such address is (708) 952-4000 and the mailing address of the Company and United is P.O. Box 66919, Chicago, Illinois 60666.

DATE, TIME AND PLACE OF MEETING

The Meeting of Stockholders of the Company (the "Meeting") is scheduled to be held at the _____ on June _____, 1994.

PURPOSE OF THE MEETING

Holder of shares of common stock, par value \$5 per share, of the Company (the "Old Shares") are being asked to consider and vote upon:

(i) the Amended and Restated Agreement and Plan of Recapitalization dated as of March 25, 1994 (the "Plan of Recapitalization"), pursuant to which, among other things, each Old Share that is outstanding at the Effective Time (as defined below) will be converted into, and become a right to receive,

(a) if the Offerings (as defined below) are consummated, (1) one half (0.5) of a share of new common stock, par value \$0.01 per share, of the Company (the "New Shares") and (2) cash in an amount equal to the sum of (I) \$25.80, (II) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 principal amount of Series A Debentures due 2004 (the "Series A Debentures") and \$15.55 principal amount of Series B Debentures due 2014 (the "Series B Debentures") and, together with the Series A Debentures, the "Debentures") from the United Debt Offering (as defined below) and (III) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1.244 depositary shares (the "Depositary Preferred Shares") representing interests in \$31.10 liquidation preference of the Company's Series B Preferred Stock, without par value (the "Public Preferred Stock"), from the UAL Preferred Offering (as defined below) (such New Share and cash, the "Proceeds Recapitalization Consideration") or

(b) if the Offerings are not consummated, (1) one half (0.5) of a New Share, (2) \$25.80 in cash, (3) \$15.55 principal amount of Series A Debentures, (4) \$15.55 principal amount of Series B Debentures and (5) Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock (such New Share, cash, Debentures and 1.244 Depositary Preferred Shares, the "Mixed Recapitalization Consideration") (the Proceeds Recapitalization Consideration and the Mixed Recapitalization Consideration are each sometimes referred to herein as the "Recapitalization Consideration");

Under various circumstances, the value of the consideration to be received by common stockholders could be less than the stated face amount or liquidation preference of the Debentures or Depositary Preferred Shares.

(ii) certain amendments to the Company's Certificate of Incorporation and Bylaws (the "Charter and Bylaw Amendments") that will effectuate the Recapitalization and put into place a revised corporate governance structure that is contemplated by the Plan of Recapitalization;

(iii) the issuance of new classes of preferred stock that will (a) transfer 55% (based on Fully Diluted Old Shares (as defined below, see "THE PLAN OF RECAPITALIZATION--Terms and Conditions-- General)) (which, under certain circumstances, may be increased to up to a maximum of 63%) of the common equity and voting power (after giving effect to the possible issuance or the reservation for future issuance, a year after the Effective Time (as defined below) of additional shares of preferred stock that are convertible into New Shares) of the Company to employee stock ownership plans to be established for the benefit of certain groups of employees (the "ESOPs") and (b) effectuate the corporate governance structure referred to above by permitting different constituent groups to elect members of the Company's Board of Directors;

(iv) the election of four directors, designated as "Public Directors," to the Company's Board of Directors (the "Board"), as contemplated by the corporate governance structure referred to above;

(v) certain amendments to the Company's 1981 Incentive Stock Program;

(vi) certain amendments to the Company's 1988 Restricted Stock Plan;

(vii) certain amendments to the Company's Incentive Compensation Plan;

(viii) three stockholder proposals;

(ix) ratification of the selection of the Company's independent accountants for the year ending December 31, 1994; and

(x) such other business as may properly come before the Meeting or any adjournment or postponement thereof.

The approval of matters (ii) through (vii) will be subject to the approval of the Plan of Recapitalization, and the approval of matters (iii) through (vi) will be subject to the approval of the Charter and Bylaw Amendments. See "INTRODUCTION--Purpose of the Meeting," "BACKGROUND OF THE PLAN OF RECAPITALIZATION" and "THE PLAN OF RECAPITALIZATION." Consummation of the Recapitalization is not conditioned upon consummation of the Offerings, although consummation of the Offerings is conditioned on, or subject to, consummation of the Recapitalization.

Contemporaneously with this solicitation, United is offering for sale (the "United Debt Offering") \$382,500,000 principal amount of Series A Debentures and \$382,500,000 principal amount of Series B Debentures and the Company is offering for sale (the "UAL Preferred Offering" and, together with the United Debt Offering, the "Offerings") 30,600,000 Depositary Preferred Shares, each representing interests in \$25.00 liquidation preference of the Public Preferred Stock. If the Offerings are consummated, the proceeds thereof will be used to fund a portion of the cash payment to be made to holders of Old Shares pursuant to the Recapitalization. Consummation of each of the United Debt Offering and the UAL Preferred Offering is conditioned upon consummation of the other. If the Offerings are consummated, it is expected that they will be consummated at the Effective Time.

RECORD DATE; STOCKHOLDERS ENTITLED TO VOTE

Only holders of record of Old Shares at the close of business on May 23, 1994 (the "Record Date") will be entitled to notice of, and to vote at, the Meeting and any adjournment or postponement thereof. Stockholders of record on the Record Date are entitled to one vote per Old Share held as of that date on any matter that may properly come before the Meeting. See "INTRODUCTION--Voting Rights and Proxy Information."

VOTE REQUIRED

Under the Delaware General Corporation Law (the "DGCL"), the affirmative vote of the holders of a majority of the Old Shares outstanding on the Record Date will be required in order to approve and adopt the Plan of Recapitalization and the Charter and Bylaw Amendments, the affirmative vote of the holders of a plurality of Old Shares present in person or represented by proxy at the Meeting will be required to elect each of the Public Directors and the affirmative vote of the holders of a majority of Old Shares present in person or represented by proxy at the Meeting will be required to approve or adopt each of the other matters identified in this Proxy Statement/Prospectus as being presented to holders of Old Shares at the Meeting. None of the votes described above requires the separate approval of at least a majority of the Company's unaffiliated stockholders for its adoption. The Company's directors (other than Dr. Brimmer) and executive officers, and their affiliates, have sole or shared voting power and beneficial ownership with respect to approximately 1.6 percent of the outstanding Old Shares which they intend to vote in favor of the Plan of Recapitalization and the Charter and Bylaw Amendments. Accordingly, the affirmative vote of the holders of approximately 48.4 percent of the outstanding Old Shares (other than directors and executive officers and their affiliates) is required for approval of the Plan of Recapitalization. Dr. Brimmer expects to vote his 450 Old Shares against the Plan of Recapitalization and the Charter and Bylaw Amendments. See "INTRODUCTION--Voting Rights and Proxy Information."

THE PLAN OF RECAPITALIZATION

The Plan of Recapitalization provides for the following transactions (the "Recapitalization"):

(i) Reclassification--Upon the Effective Time, each outstanding Old Share, including each share of restricted stock issued pursuant to the Company's 1988 Restricted Stock Plan, together with up to 1,000,000 Old Shares held by the Company as treasury stock or owned by any wholly-owned subsidiary of the Company, will be reclassified as, and converted into, one-half (0.5) of a New Share and

(a) if the Offerings are consummated, one one-thousandth of a share of Series E Redeemable Preferred Stock, without par value, of the Company (the "Series E Redeemable Preferred Stock"), which one one-thousandth of a share will be redeemed immediately after issuance, for an amount of cash equal to the sum of (i) \$25.80, (ii) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 face amount of Series A Debentures and \$15.55 face amount of Series B Debentures and (iii) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1.244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock or

(b) if the Offerings are not consummated, one one-thousandth of a share of Series D Redeemable Preferred Stock, without par value, of the Company (the "Series D Redeemable Preferred Stock" and, together with the Series E Redeemable Preferred Stock, the "Redeemable Preferred Stock"), which one one-thousandth of a share will be redeemed immediately after issuance for (i) \$25.80 in cash, (ii) \$15.55 face amount of Series A Debentures, (iii) \$15.55 face amount of Series B Debentures and (iv) 1.244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock.

One-half of a New Share will represent an equity interest (based on Fully Diluted Old Shares) immediately after consummation of the Recapitalization of 45% of one Old Share's current percentage equity interest in the Company, although, under certain circumstances that percentage may be reduced to a minimum of approximately 37%. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." The interest rate on the Series A Debentures has been fixed provisionally at 9.00%, the interest rate on the Series B Debentures has been fixed provisionally at 9.70% and the dividend rate on the Public Preferred Stock has been fixed provisionally at 10.25%. The interest rates on the Debentures and the dividend rate on the Public Preferred Stock will be adjusted not less than five nor more than ten days before the date of the Meeting (the "Announcement Date") to rates (which, in each case, if there is an upward adjustment, may not be more than 112.5 basis points (i.e., 1.125 percentage points) higher than the respective provisional

rates, but which in the case of a downward adjustment are not limited) that, in the opinion of the certain financial advisors to the Company and the Unions (as defined below) and, in the case of a deadlock, based on a process involving a third financial advisor, would permit the Debentures and the Public Preferred Stock to trade at par on such date on a fully distributed basis. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

The underwriting agreements relating to the Offerings will provide that if the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Public Preferred Stock represented by Depositary Preferred Shares may be adjusted to permit them to be sold at or closer to par, but if that is done, the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares representing interests in the Public Preferred Stock, as the case may be, will be reduced so that the aggregate amount of interest payable annually by United on the Debentures or the aggregate amount of dividends payable annually by the Company on the Public Preferred Stock will not exceed certain maximum amounts calculated with reference to such caps. If the Offerings are not consummated, the interest rates borne by the Debentures and the dividend rate borne by the Public Preferred Stock will be subject to the caps. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

On the Announcement Date, the Company will issue a press release setting forth the adjusted rate for the Debentures and the Public Preferred Stock and, on the first business day following the Announcement Date, will publish such rates in an advertisement in The Wall Street Journal. A toll-free number (800-223-2064) has been established from which all holders of Old Shares can obtain general recorded information concerning the Announcement Date. As of the Announcement Date, holders of the Old Shares can call the toll-free number to obtain definitive pricing information. See also "SPECIAL FACTORS--Certain Risk Factors--Pricing of Public Preferred Stock and Debentures."

The press release, newspaper advertisement and recorded information following the Announcement Date described in the previous paragraph will include a statement of whether the Company expects the Offerings to be consummated and, if so, the amount of the cash proceeds expected to be received from the sale of the Debentures and Depositary Preferred Shares that are issuable in respect of each Old Share. ANY STATEMENT IN CONNECTION WITH THE FOREGOING THAT THE COMPANY EXPECTS THE OFFERINGS TO BE CONSUMMATED WILL NOT BE AN ASSURANCE THAT THE OFFERINGS WILL BE CONSUMMATED.

(ii) Charter and Bylaw Amendments--The Plan of Recapitalization provides for the Charter and Bylaw Amendments that will, among other things, effectuate the Recapitalization and put into place the revised corporate governance structure contemplated by the Plan of Recapitalization. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure."

(iii) The Stock Issuance--Pursuant to the Plan of Recapitalization, the Company will issue, in addition to the securities issued as part of the Recapitalization Consideration, (a) the Class 1 ESOP Convertible Preferred Stock to the trustee (the "ESOP Trustee") and the Class 2 ESOP Convertible Preferred Stock (or the common shares into which they are convertible) to the ESOP Trustee or for the benefit of employees (collectively, the "ESOP Preferred Stock") pursuant to the ESOPs that will be established for the benefit of the employee groups that will be making wage, salary and work-rule changes in connection with the Plan of Recapitalization (the Class 1 and Class 2 ESOP Convertible Preferred Stock are referred to collectively as the "ESOP Preferred Stock"), (b) the Class P ESOP Voting Junior Preferred Stock (the "Class P Voting Preferred Stock"), the Class M ESOP Junior Voting Preferred Stock (the "Class M Voting Preferred Stock") and the Class S ESOP Voting Junior Preferred Stock (the "Class S Voting Preferred Stock" and, together with the Class P Voting Preferred Stock and the Class M Voting Preferred Stock, the "Voting Preferred Stock") to the ESOP Trustee, (c) the Class I Junior Preferred Stock (the "Class I Preferred Stock") to the initial independent directors who will enter into a stockholders' agreement to vote their shares to elect the

future independent directors to the Board, (d) one share of the Class Pilot MEC Junior Preferred Stock (the "Class Pilot MEC Preferred Stock") to the United Airlines Pilots Master Executive Council (the "ALPA-MEC") of the Air Line Pilots Association, International ("ALPA"), which will have the right to elect a director to the Board (the "ALPA Director"), (e) one share of the Class IAM Junior Preferred Stock (the "Class IAM Preferred Stock") to the International Association of Machinists and Aerospace Workers (the "IAM" and, together with ALPA, the "Unions"), or its designee, which will have the right to elect a director to the Board (the "IAM Director" and together with the ALPA Director, the "Union Directors") and (f) two shares of Class SAM Junior Preferred Stock (the "Class SAM Preferred Stock" and, together with the Class I Preferred Stock, the Class Pilot MEC Preferred Stock and the Class IAM Preferred Stock, the "Director Preferred Stock") to the person nominated to serve as the salaried and management employees' director (the "Salaried and Management Director" and, together with the Union Directors, the "Employee Directors") and one share to an additional designated stockholder, which will have the right to vote as a class to elect a director to the Board. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs," "--Revised Governance Structure" and "DESCRIPTION OF SECURITIES." The ESOP Preferred Stock is nonvoting. The Voting Preferred Stock was established in order to allocate voting power to the respective employee groups in proportion to the agreed upon allocation and in a manner which was consistent with applicable law. The ESOP Preferred Stock and the Voting Preferred Stock will initially represent a 55% equity interest (based on Fully Diluted Old Shares), including voting interest on all matters presented to holders of New Shares other than the election of Public Directors (as defined below), immediately after consummation of the Recapitalization, although under certain conditions the percentage may be increased to up to a maximum of approximately 63%. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." The holders of the Voting Preferred Stock will continue to command the same adjusted percentage of voting power (if and as so adjusted) of the Company following the Recapitalization until the economic interest represented by the stock held in Company sponsored benefit and retirement plans (including stock to be issued in the future under the ESOPs) becomes less than 20% of the common equity of the Company calculated as described under "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Sunset."

(iv) Employee Investment--Certain amendments to the existing ALPA collective bargaining agreement and the IAM collective bargaining agreements, and creation of a salaried and management employees cost reduction program, all of which will become effective at the Effective Time, are estimated to provide United with approximately \$8.2 billion in improved operating earnings over a twelve-year period, which earnings are expected to have a net present value of approximately \$4.9 billion. Approximately \$5.2 billion of such improvement is expected to arise from savings in labor costs, while the remaining approximately \$3.0 billion is expected to arise from the startup of a new short-haul "airline-within-an-airline" referred to herein as "U2", which is expected to compete effectively against other low-cost, short-haul carriers. See "SPECIAL FACTORS--Certain Company Analyses," and "--Implementation of the 'Airline-Within-an-Airline' (U2)."

(v) Employee Benefit Plans--Certain employee benefit plans maintained by the Company and United will be amended to permit employees to acquire substantial amounts of the New Shares, Depositary Preferred Shares and the Debentures. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Certain Covenants."

Effective Time of the Recapitalization

The Recapitalization will be consummated at such time as the Company's amended and restated Certificate of Incorporation (the "Restated Certificate"), which provides for the reclassification of the Old Shares, is duly filed with the Secretary of State of the State of Delaware or at such later time as may be mutually agreed upon by the Company and each of the Unions and as is specified in the Restated Certificate (the "Effective Time"). The filing of the Restated Certificate is currently anticipated to be made as promptly as practicable after the Meeting. Such filing will be made, however, only upon satisfaction or, where

permissible, waiver of all conditions contained in the Plan of Recapitalization and provided that the Plan of Recapitalization has not been terminated. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Termination." If the Offerings are consummated, it is expected that they will be consummated at the Effective Time.

Conditions to the Recapitalization

Pursuant to the Plan of Recapitalization, the obligation of the Company to file the Restated Certificate at the Effective Time and the obligations of each of the Unions to enter into the revised collective bargaining agreements at the Effective Time are subject to the satisfaction of the following conditions, among others: (i) holders of Old Shares have approved and adopted the Plan of Recapitalization and related transactions, as identified in "INTRODUCTION--Purpose of the Meeting," (ii) all material actions by or in respect of or filings with any governmental body, agency, official, or authority required to permit the consummation of the Recapitalization have been taken or made, (iii) the New Shares issuable as part of the Recapitalization have been authorized for listing on the New York Stock Exchange, Inc. (the "NYSE"), subject to official notice of issuance, (iv) the ESOP Trustee has received the written opinion of Houlihan Lokey Howard & Zukin, to the effect that, as of the Effective Time, the acquisition of the Class 1 ESOP Preferred Stock by the ESOP Trustee is fair, from a financial point of view, to the ESOP participants, (v) the Board has received an updated solvency opinion from American Appraisal Associates, Inc. ("American Appraisal"), (vi) all the agreements required to be executed and delivered at the Effective Time are legal, valid and binding agreements of the Company and the other parties thereto from and after the Effective Time, enforceable against the Company and such other parties in accordance with their terms, including the stock purchase agreement pursuant to which the ESOP Trustee will purchase Class 1 ESOP Preferred Stock at the Effective Time, (vii) Mr. Gerald M. Greenwald (or such other person as proposed by the Unions prior to the Effective Time and not found unacceptable by the Company) is ready, willing and able to assume the office of Chief Executive Officer ("CEO") of the Company and United, (viii) the Board has received updated written opinions of each of CS First Boston Corporation ("CS First Boston") and Lazard Freres & Co. ("Lazard") confirming their earlier opinions, to the effect that the Recapitalization Consideration, taken as a whole, is fair from a financial point of view to the holders of Old Shares, (ix) the revised collective bargaining agreements have been executed and delivered by the Unions and United and will be in full force and effect as of the Effective Time, (x) the Board has received satisfactory opinions of counsel and (xi) the Company has determined that the Company will be reasonably likely to have sufficient surplus (whether revaluation surplus or earned surplus) or net profits under the Delaware General Corporation Law (the "DGCL") to permit the legal payment of dividends on the ESOP Preferred Stock and the Public Preferred Stock when due. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Conditions." The Recapitalization is not conditioned upon the consummation of either the United Debt Offering or the UAL Preferred Offering.

Payment for Old Shares

To receive the Recapitalization Consideration, each holder of Old Shares must surrender his certificates representing Old Shares, together with a duly executed letter of transmittal, to First Chicago Trust Company of New York (the "Exchange Agent"). Instructions regarding the surrender of certificates, together with a form of transmittal letter to be used for this purpose, will be forwarded to stockholders promptly after the Effective Time. STOCKHOLDERS SHOULD NOT FORWARD CERTIFICATES WITH THE ENCLOSED PROXY CARD. STOCKHOLDERS SHOULD SURRENDER CERTIFICATES ONLY AFTER RECEIVING INSTRUCTIONS FROM THE EXCHANGE AGENT. In lieu of any fractional interests of New Shares and, if the Offerings are not consummated, Debentures or Depositary Preferred Shares that each former holder of Old Shares would otherwise be entitled to receive, the Exchange Agent will make a pro rata distribution of the cash proceeds received by the Exchange Agent from the sale of the aggregate fractional interests of New Shares and, if the Offerings are not consummated, Debentures and Depositary Preferred Shares. No interest will be paid or accrued in favor of any stockholder on the

amounts payable upon surrender of certificates. Each stockholder will be responsible for the payment of transfer and other taxes, if any. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Payment for Shares."

Background of the Recapitalization

Since the mid 1980s, in response to enhanced competition from low-cost air carriers resulting from the industry's deregulation and discordant relations between the Company and its principal unions, ALPA, the IAM and the Association of Flight Attendants ("AFA"), several attempts to effect a potential change in corporate control or the sale of substantial assets of the Company have occurred or were proposed, many of which involved the participation of one or more of the Company's unions.

In recent years, including during 1992, the Company has noted a fundamental shift in consumer behavior, with an increased focus on the price/value relationship. Travel preference has continued to shift to low-cost travel as provided by carriers such as Southwest Airlines, Morris Air and Reno Air. The Company believed that this trend was long-term and would continue even if the weak economic conditions of the early 1990s improved. The Company determined that its ability to be competitive in such an environment required a substantial reduction of its operating costs.

Thus, on January 6, 1993, the Company announced a \$400 million cost reduction program, including the sub-contracting of certain services and the furlough of 2,800 employees. It also significantly reduced its aircraft purchase commitments through 1996, with a net effect of reducing the Company's planned capital spending through 1996 by over \$6.2 billion. The Company determined that it was necessary to reduce its single largest expense, labor costs, to be competitive in the changed environment of the 1990s. Thus, in addition to the subcontracting, furloughs and the implementation of a 5% salary reduction program for certain management employees, the Company requested concessions from its three principal unions. However, this request was rejected by the IAM and the AFA, and ALPA requested a financial review of the Company. In light of the unwillingness of the Unions to participate in the Company's cost-cutting efforts, the Company thereafter announced its intention to undertake various other cost-cutting actions, including selling its flight kitchens and subcontracting certain ground services, opening a flight attendant domicile in Taiwan, and evaluating the sale of the Denver flight training center. The Company also discussed the possibility of selling its jet engine over-haul maintenance facility in San Francisco, subcontracting its components business, subcontracting its ground equipment over-haul business and subcontracting its line maintenance work, building maintenance work and computer terminal technician work.

In reports presented to the Board of Directors by Booz . Allen & Hamilton ("BAH"), BAH advised the Board that it seemed unlikely that carriers such as United could achieve sufficient cost reductions without a major restructuring. The report also suggested that subcontracting jet engine repair could result in substantial cost savings. In a presentation to the Board on June 24, 1993, BAH indicated that, in the absence of labor cooperation, the Company had four options: (i) restructure and downsize to focus on those markets where United could be profitable in the long term, (ii) restructure and grow to create a stronger domestic and international competitive position, (iii) return value to stockholders by monetizing flying assets, services and/or other hard assets and (iv) sell the airline in whole or in parts. On August 5, 1993, the Board considered a presentation by BAH and members of Company's management concerning ways to improve the Company's profitability and provide additional shareholder value, with specific focus on establishment of one or more domestic short-haul carriers which would be owned independently of the Company and United and which would virtually eliminate short-haul flying by United, along with other fundamental alterations of the Company's business and structure (the "Fundamental Restructuring Plan").

As a result of considering the various alternatives presented to the Board over the past several years and realizing that, in order to achieve a long term cost reduction program, the employees of the Company must

be involved in any major restructuring of the Company, the Company's management concluded that long term stockholder value would be maximized through the proposed Recapitalization.

Since the spring of 1993, the Company has been engaged in extensive discussions and negotiations with ALPA, the IAM and the AFA with respect to a "shared solution" that would enable the Company to reduce costs and allow certain employee groups to gain significant ownership of the Company. In September of 1993, the AFA ceased to participate in the negotiations, which continued with ALPA and the IAM (the "Coalition"). On December 22, 1993, an agreement in principle was reached among the Company, ALPA and the IAM pursuant to which (i) employee trusts would acquire approximately 53% of the common equity and voting power of the Company, subject to increase to up to approximately 63% based on stock price performance in the year after closing, (ii) holders of Old Shares would receive cash, debt securities, preferred stock and common stock, (iii) participating employees of the Company would provide wage and benefit reductions and various work-rule changes and (iv) a new corporate governance structure would be implemented. A definitive agreement was signed on March 25, 1994 (the "Initial Plan of Recapitalization") reflecting the terms of the agreement in principle.

In light of prevailing market prices for the Old Shares in May 1994 and in view of such provisions in the Initial Plan of Recapitalization which enabled the Coalition to assert that pricing conditions to consummation of the Recapitalization relating to the purchase of the ESOP Preferred Stock would not be satisfied, the Coalition determined to approach the Company over possible adjustments to the financial terms of the transaction in order to provide greater certainty of completion of the Recapitalization. At the same time, the Company felt that the Offerings would benefit the Company's stockholders as part of the Recapitalization. In response to a proposal to modify the definitive documentation from the Coalition, on May 20, 1994 the Board determined to make an alternative proposal to the Coalition. The Coalition accepted the Company's alternative proposal on May 22, 1994. On May , 1994 the Company and the Coalition executed an amendment to the definitive documentation (the "Definitive Documentation Amendment") providing for, among other things, (i) an increase in the percent of the common equity and voting power initially to be acquired by the employee trusts from 53% to 55%; (ii) a decrease in the range of average stock prices for the one year following the Effective Time which would result in an increase to up to 63% in the percent of common equity and voting power to be received by the employee trusts (prior to the Definitive Documentation Amendment, the range had been \$170.00 - \$178.44 per share and it was decreased to \$136.00 - \$149.10 per share (giving effect to the 1 for 2 common stock exchange ratio)) (see "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Additional Shares"); (iii) the inclusion of the Offerings, and (iv) revisions to the manner in which the Class 1 ESOP Preferred Stock will be purchased by the ESOP Trustee (see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs"). As a result of the Definitive Documentation Amendment, the purchase of the ESOP Preferred Stock to occur at the Effective Time will be determined using a market price-based formula and, accordingly, the Coalition is not entitled to assert that the Recapitalization may not be consummated based on the market price of the Old Shares or the expected market price of the New Shares. See "BACKGROUND OF THE PLAN OF RECAPITALIZATION."

Amendments to the collective bargaining agreements with ALPA and the IAM, to be entered into upon consummation of the Plan of Recapitalization, and a salaried and management employee cost reduction program, to be established upon consummation of the Plan of Recapitalization, are estimated to provide United with approximately \$8.2 billion of improved operating earnings over a twelve year period, which earnings are estimated to have a net present value of approximately \$4.9 billion. Approximately \$5.2 billion of such improvement is expected to arise from savings in labor costs, while the remaining approximately \$3.0 billion is expected to arise from earnings of a new short-haul "airline-within-an-airline," referred to herein as "U2," which is expected to compete effectively with low-cost short-haul carriers.

Recommendation of the Board

THE BOARD HAS APPROVED THE PLAN OF RECAPITALIZATION AND HAS DETERMINED THAT THE RECAPITALIZATION IS FAIR TO THE HOLDERS OF OLD SHARES. THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE PLAN OF RECAPITALIZATION AND THE RELATED MATTERS IDENTIFIED IN CLAUSES (II) THROUGH (VII) UNDER "PURPOSE OF THE MEETING" ABOVE.

The Board noted that the Recapitalization permits the holders of Old Shares to receive in exchange for each Old Share either (i) cash in an amount equal to the sum of (a) \$25.80, (b) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 principal amount of Series A Debentures and \$15.55 principal amount of Series B Debentures pursuant to the United Debt Offering and (c) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1.244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock pursuant to the UAL Preferred Offering or (ii) (a) \$25.80 in cash, (b) \$31.10 in principal amount of Debentures and (c) Depositary Preferred Shares representing interests of \$31.10 in liquidation preference of Public Preferred Stock, while in either case retaining a significant ongoing equity interest in the Company, which would not differ under clause (i) or (ii). Under various circumstances, the value of the consideration to be received by stockholders could be less than the stated face amount or liquidation preference of the Debentures or Depositary Preferred Shares. In approving the Plan of Recapitalization, the Board also considered that the majority equity position of the employee stock ownership trusts is designed to provide additional incentives for the Company's employees to promote the success of the Company, which should, in part, inure to the benefit of the holders of shares of Common Stock of the Company. All directors, other than Dr. Brimmer, voted in favor of the Plan of Recapitalization (prior to the Definitive Documentation Amendment). Dr. Brimmer has indicated that he dissented from such vote because under current economic conditions, he did not think there were compelling reasons to do such a transaction at this time. With respect to the Definitive Documentation Amendment, the Board voted in favor of the Definitive Documentation Amendment, with Dr. Brimmer abstaining. It was mentioned at the meeting that Mr. Olson, who was not in attendance, had requested that his opposition to the Definitive Documentation Amendment be noted.

In reaching its decision to approve the Initial Plan of Recapitalization and the Plan of Recapitalization, its determination that the Recapitalization is fair to the holders of Old Shares and its decision to recommend that the holders of Old Shares vote for approval and adoption of the Initial Plan of Recapitalization and the Plan of Recapitalization and related matters, the Board consulted with its legal and financial advisors as well as the Company's management, and considered numerous factors, including, but not limited to: (i) the business, operations, earnings, properties and prospects of the Company and United and the perceived need for the Company to obtain a reduction of wages and benefits and work-rule changes in order to permit United to compete effectively in the aviation marketplace, (ii) the alternatives potentially available to the Company to achieve a reduction of wages and benefits and work-rule changes, as well as a comparison of the risks that would be associated with the Recapitalization and with such other alternatives, (iii) the terms of the employee investment contemplated by the Initial Plan of Recapitalization and Plan of Recapitalization, including the reduction in cost expense, the favorable tax treatment of ESOP transactions, the long-term labor contracts which limit salary increases and the ability to establish U2, (iv) the fact that the Recapitalization will provide the holders of Old Shares with an opportunity to receive cash, and, if the Offerings are not consummated, Debentures and Depositary Preferred Shares representing interests in Public Preferred Stock for a portion of the value of their Old Shares while retaining a significant ongoing equity interest in the Company through ownership of New Shares, (v) the terms of the proposed corporate governance structure, which contains both certain provisions required by the Coalition and certain provisions designed for the protection of the holders of New Shares, (vi) the identity of the new CEO and the new Board (especially the initial Independent Directors (as defined below)), and the Board's assessment of such individuals, (vii) recent market prices for the Old Shares as well as market prices for the past several years, (viii) the Federal income tax consequences

of the Recapitalization under existing law, (ix) (with respect to the Plan of Recapitalization) the terms of the Definitive Documentation Amendment providing for an increase in the percentage common equity and voting power initially to be acquired by the employee trusts and a decrease in the range of average stock prices determined one year after the Effective Time which would result in an increase in the percent of common equity and voting power to be held by the employee trusts, (x) (with respect to the Plan of Recapitalization) the terms of the Definitive Documentation Amendment providing for the Offerings and the resulting potential to distribute cash, instead of Debentures and Depositary Preferred Shares, to holders of Old Shares if the Offerings are consummated, (xi) (with respect to the Plan of Recapitalization) the use of a market price-based formula for the purchase of the ESOP Preferred Stock to be purchased at the Effective Time, and (xii) the opinions of CS First Boston, a nationally recognized investment banking firm, and the opinions of Lazard, another nationally recognized investment banking firm, that, based upon the matters described therein, as of the date of each such opinion, the consideration to be received by the holders of Old Shares pursuant to the Recapitalization for each Old Share, taken as a whole, is fair to such stockholders from a financial point of view. See "SPECIAL FACTORS--Opinions of the Financial Advisors to the Board," "--Certain Risk Factors" and "--Certain Revenue and Earnings Scenarios," "THE PLAN OF RECAPITALIZATION" and "MARKET PRICES OF THE SHARES; DIVIDENDS." The Board also considered (i) the fact that the repayment of the Debentures and the payment of dividends on the Public Preferred Stock will be dependent on the Company's operations, assets, credit, cash flow and earning power, (ii) that, as a result of the Recapitalization, there will be a significant increase in the Company's long-term indebtedness, as well as a substantial negative balance in stockholders' equity and a significant reduction in cash reserves and (iii) the opinion of American Appraisal with respect to certain solvency and surplus matters. See "SPECIAL FACTORS--Certain Risk Factors," "THE PLAN OF RECAPITALIZATION" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION."

In view of the circumstances and the wide variety of factors considered in connection with this evaluation of the Recapitalization, the Board did not find it practicable to assign relative weights to the factors considered in reaching its decision.

Opinions of the Financial Advisors to the Board

On July 20, 1993, the Company retained CS First Boston to assist it in evaluating the Coalition proposals. By letter dated November 30, 1993, the Company retained Lazard as an additional financial advisor. On December 22, 1993, March 14, 1994, March 24, 1994 and May 20, 1994, CS First Boston and Lazard delivered to the Board their oral opinions (which in the case of the December 22, 1993, March 24, 1994 and May 20, 1994 opinions were later confirmed to the Board by CS First Boston and Lazard in writing) that, as of such dates, the consideration to be received by holders of Old Shares of the Company in connection with the Recapitalization (as constituted as of each such date), taken as a whole, was fair to such holders of Old Shares from a financial point of view. For further details concerning the engagement of CS First Boston and Lazard, including fees payable to them, see "SPECIAL FACTORS--Opinions of the Financial Advisors to the Board."

THE FULL TEXT OF THE WRITTEN OPINIONS OF CS FIRST BOSTON AND LAZARD, EACH DATED JUNE , 1994, THAT SET FORTH THE ASSUMPTIONS MADE, THE MATTERS CONSIDERED AND THE REVIEW UNDERTAKEN WITH REGARD TO EACH SUCH OPINION, ARE ATTACHED AS ANNEXES I AND II RESPECTIVELY TO THIS PROXY STATEMENT/PROSPECTUS. STOCKHOLDERS ARE URGED TO READ SUCH OPINIONS IN THEIR ENTIRETY FOR A DESCRIPTION OF THE PROCEDURES FOLLOWED, MATTERS CONSIDERED, ASSUMPTIONS MADE AND LIMITATIONS ON THE REVIEW UNDERTAKEN BY SUCH FIRMS. THE OPINIONS ARE DIRECTED ONLY TO THE FAIRNESS OF THE CONSIDERATION TO BE RECEIVED BY THE HOLDERS OF OLD SHARES AND DO NOT CONSTITUTE A RECOMMENDATION TO ANY HOLDER OF OLD SHARES AS TO HOW SUCH HOLDER OF OLD SHARES SHOULD VOTE.

Interests of Certain Persons in the Recapitalization

In considering the Plan of Recapitalization, stockholders should be aware that the executive officers and the Board members have certain interests that present them with potential conflicts of interest in connection

with the Recapitalization. The Board was aware of these potential conflicts and considered them among the other matters described under "SPECIAL FACTORS--Recommendation of the Board." See "SPECIAL FACTORS--Interests of Certain Persons in the Recapitalization."

Certain Risk Factors

In addition to the other information contained in this Proxy Statement/Prospectus, holders of Old Shares should carefully consider the following risk factors concerning the New Shares, the Debentures and the Depositary Preferred Shares representing interests in the Public Preferred Stock.

Financial Effects; Delaware Law Considerations. The Recapitalization will immediately change the Company's capitalization to one that is more highly leveraged. In this regard, the following discussion compares the pro forma book effect of the Recapitalization on long-term debt, stockholder's equity and income/loss from continuing operations with recent historical financial information of the Company. On a pro forma book basis at March 31, 1994, the Company would have had approximately \$3.451 billion of long-term debt and a deficit of approximately \$448 million of stockholders' equity, as compared to the approximately \$2.693 billion of long-term debt and approximately \$1.097 billion of stockholders' equity that was shown on the Company's balance sheet on such date. In addition, if the Recapitalization had occurred as of January 1, 1993, the Company would have reported, on a pro forma basis, income from continuing operations of approximately \$38 million for the year ended December 31, 1993 and a loss from continuing operations of approximately \$58 million for the three months ended March 31, 1994, as compared to losses from continuing operations of \$31 million for the year ended December 31, 1993 and \$71 million for the three months ended March 31, 1994 that were reported for each period. See "UNAUDITED PRO FORMA FINANCIAL INFORMATION."

The Company's earnings were inadequate to cover fixed charges and preferred stock dividends by \$98 million in 1993, by \$748 million in 1992 and by \$599 million in 1991. On a pro forma basis, the Company's earnings in 1993 were inadequate to cover fixed charges and preferred stock dividends by \$109 million. In addition, the Company's ratio of earnings to fixed charges was inadequate to cover fixed charges and preferred stock dividends for the three month period ended March 31, 1994 by \$118 million, and on a pro forma basis they were inadequate by \$97 million. United's earnings were inadequate to cover fixed charges by \$77 million in 1993, by \$694 million in 1992 and by \$604 million in 1991. On a pro forma basis, United's earnings in 1993 were inadequate to cover fixed charges by \$63 million. In addition, United's earnings were inadequate to cover fixed charges for the three month period ended March 31, 1994 by \$130 million, and on a pro forma basis they were inadequate by \$102 million. Non-cash depreciation and amortization are deducted in computing earnings before fixed charges. Such non-cash charges do not significantly affect the ability of United to fund operations, service debt, or provide funds to service the Company's preferred stock dividends. Depreciation and amortization of United were \$722 million in 1993, \$695 million in 1992, \$604 million in 1991 and \$178 million for the three month period ended March 31, 1994.

The DGCL requires that the payments to be made to the holders of Old Shares in the Recapitalization be made from "surplus." For purposes of the DGCL, surplus equals the excess, if any, at any given time, of the net assets of the corporation over stated capital. In addition, such payments would not be permitted if after giving effect to them the Company would not be able to pay its debts as they become due in the usual course of business. The Board believes that the Company will be able to pay such debts, based in part on the revenue and earnings scenarios set forth below under "SPECIAL FACTORS--Certain Revenue and Earnings Scenarios" and on American Appraisal's opinion referred to below. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions," and "UNAUDITED PRO FORMA FINANCIAL INFORMATION." Given the more leveraged financial structure of the Company following the Recapitalization, certain airline industry risks could have a greater adverse impact on the Company after the Recapitalization than prior to the Recapitalization.

Governance Structure; Ability of Holders of Voting Preferred Stock to Exercise More than 50% of the Voting Power of the Company. Although the Company has attempted to achieve a balanced approach to its corporate governance structure after the Recapitalization, such structure is very unusual in the management of a large, complex public corporation, and it is not certain that the actual operation of the corporate governance process will not result in disputes or fail to achieve results that are in the best interests of the Company or the holders of New Shares.

Under the terms of the Restated Certificate, the participants in the ESOPs (and in certain circumstances the ALPA-MEC, the IAM and the Salaried and Management Director) will hold and will be entitled to exercise approximately 55% (which under certain circumstances may be increased to up to approximately 63%) of the voting power of the Company until the common equity held by (or credited to) the ESOPs and other employee benefit plans sponsored by the Company is less than 20% of the common equity of the Company, all as more fully described in "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Nondilution" and "DESCRIPTION OF SECURITIES--The Voting Preferred Stock." The termination of the right to exercise 55% or more of the voting power of the Company is referred to herein as the "Sunset." See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Sunset." Under current actuarial assumptions, the Company estimates that this Sunset provision will not become operative until 2016 if additional purchases are not made by eligible employee benefit plans. However, such plans will have the right, and may be expected, to make additional purchases, thereby delaying the occurrence of the Sunset. In addition, the Restated Certificate contains provisions which may prevent the Company prior to the Sunset from taking certain specified actions without the consent of one or both of the members of the Board elected by ALPA and the IAM or a 75% vote of holders of New Shares and Voting Preferred Stock. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure."

Currently, the Board is comprised of thirteen members elected annually by holders of the Old Shares. While the existing Board may in its deliberations consider the interests of employee groups, there is no direct representation on the Board of specific employee groups. As more fully described below (see "THE PLAN OF RECAPITALIZATION--Revised Governance Structure"), the Plan of Recapitalization contemplates that directors elected by representatives of the employee groups will participate in the governance of the Company. Following consummation of the Recapitalization and until the Sunset, the Board will consist of twelve members, comprised of (i) five public directors elected by holders of the New Shares, who will include (a) three members of the existing Board or other individuals with no previous material contact with the Company other than as directors (the "Outside Public Directors") and (b) two substantially full-time employees of the Company who, to the extent permitted by law, will be the CEO and an additional senior executive (the "Management Public Directors" and with the Outside Public Directors, the "Public Directors"), (ii) four independent directors (the "Independent Directors") elected by the holders of Class I Junior Preferred Stock, and intended to be a quasi-self-perpetuating body, (iii) three directors representing various employee groups elected as follows: (a) the ALPA Director elected by the Class Pilot MEC Junior Preferred Stock, which will be held by the ALPA-MEC, (b) the IAM Director elected by the Class IAM Junior Preferred Stock, which will be held by the IAM or its designee, and (c) the Salaried and Management Director elected by the Class SAM Preferred Stock, which will be held by the Salaried and Management Director and an additional designated stockholder. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Composition of the Board--Public Directors," "--Independent Directors," "--Employee Directors" and "ELECTION OF DIRECTORS."

Generally, Board actions will require a majority vote of the votes present at a meeting at which a quorum is present. Special quorum requirements apply to meetings of the Board. However, approval of certain extraordinary matters generally will require, subject to certain exceptions, approval of either three-quarters of the Board (including the concurrence of one Union Director) or three-quarters of the shares present and voting at a stockholder meeting at which a quorum is present. Certain extraordinary matters will require

approval of the Public Directors, the Independent Directors or a majority of New Shares not held by the ESOPs. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Quorum," "--Required Board Action" and "--Extraordinary Matters."

The Restated Certificate provides that until the Sunset the following committees will be constituted: the Audit Committee, the Competitive Action Plan ("CAP") Committee, the Compensation Committee, the Compensation Administration Committee, the Executive Committee, the Independent Director Nomination Committee, the Labor Committee, the Outside Public Director Nomination Committee and the Transaction Committee (collectively, the "Committees"). In addition, the Board may, by resolution passed by the affirmative vote of 80% of the votes of the entire Board, including the affirmative vote of at least one Union Director, designate one or more other committees of the Board. Subject to certain exceptions, any act of a Committee will require the affirmative vote of a majority of the votes entitled to be cast by the Directors present at a meeting of such Committee and entitled to vote on the matter in question. The Restated Certificate contains certain provisions relating to the required quorum for committee action. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Committees."

The CAP Committee will consist of eight Directors, including four Public Directors, two Independent Directors and the two Union Directors. Of the four Public Directors, three will be Outside Public Directors and one will be the CEO (if the CEO is a Public Director). The function of the CAP Committee will be, subject to certain exceptions, to oversee implementation of the Company's Competitive Action Plan which will involve implementation of U2. The CAP Committee will have the exclusive authority to approve on behalf of the Company any and all modifications of or amendments to the Competitive Action Plan and to approve on behalf of the Company any and all modifications of or amendments to the salaried and management employee investment described in "THE PLAN OF RECAPITALIZATION--Investment for Salaried and Management Employees."

The Executive Committee will be comprised of two Independent Directors, two Public Directors (the CEO, if the CEO is a Public Director, and one Outside Public Director) and two Union Directors. Subject to the DGCL, the Executive Committee will have all the powers of the Board to manage the affairs of the Company, except that it would not have the authority (i) to act with respect to "Extraordinary Matters," discussed under "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Extraordinary Matters," (ii) to take any action as to matters specifically vested in other Committees or (iii) to take any action that may be taken by the Board only with a vote greater than or additional to a majority of the Board.

The Labor Committee will consist of three or more Directors, including one Outside Public Director, at least one Independent Director and at least one other Director, as designated by the Board, but will not include any Employee Directors. The Labor Committee will have the exclusive authority on behalf of the Board to approve on behalf of the Company the entering into, or any modification of or amendment to, a collective bargaining agreement to which the Company or any of its Subsidiaries is a party.

The Compensation Administration Committee will be comprised of two Independent Directors and one Outside Public Director and its members will be responsible for administering certain stock option plans and executive compensation programs of the Company.

Fraudulent Conveyance. If a court in a lawsuit by an unpaid creditor or representative of creditors, such as a trustee in bankruptcy, were to find that, at the time the Company distributed to holders of Old Shares the cash and Debentures that such holders are to receive in the Recapitalization, the Company (i) was insolvent, (ii) was rendered insolvent by reason of such distributions, (iii) was engaged in a business or transaction for which the assets remaining with the Company constituted unreasonably small capital to carry on its business or (iv) intended to incur, or believed that it would incur, debts beyond its ability to pay as such debts matured, such court may void the distributions to stockholders and require that such holders return the same (or equivalent amounts) to the Company or to a fund for the benefit of its creditors. If a

court were to make similar findings about United's issuance of the Debentures, such court could avoid United's obligations under the Debentures or order the Debentures to be subordinated to all existing and future indebtedness of United. The measure of insolvency for purposes of the foregoing would vary depending upon the law of the jurisdiction that was being applied. Generally, the Company would be considered insolvent if at the time of the Recapitalization the fair value of the Company's assets is less than the amount of the Company's total debts and liabilities or if the Company has incurred debt beyond its ability to repay as such debt matures. In order to assist the Board to determine the solvency of the Company, the Company retained American Appraisal.

As stated in "SPECIAL FACTORS--Opinion of Valuation Firm," the American Appraisal Opinion stated that, based upon and subject to the conditions and assumptions contained therein, (a) the fair value of the aggregate assets of each of the Company (on a consolidated basis) and United (on a consolidated basis) will exceed their total respective liabilities (including, without limitation, subordinated, unmatured, unliquidated and contingent liabilities), (b) the present fair salable value of the aggregate assets of each of the Company (on a consolidated basis) and United (on a consolidated basis) will be greater than their respective probable liabilities on their debts as such debts become absolute and matured, (c) each of the Company (on a consolidated basis) and United (on a consolidated basis) will be able to pay their respective debts and other liabilities, including contingent liabilities and other commitments, as they mature, (d) the capital remaining in each of the Company (on a consolidated basis) and in United (on a consolidated basis) after consummation of the Recapitalization will not be unreasonably small for the businesses in which the Company and United are engaged, as management of the Company and United has indicated such businesses are conducted and as management has indicated the businesses are proposed to be conducted following the consummation of the Recapitalization, and after giving due consideration to the prevailing practices in the industry in which the Company and United will be engaged, (e) the excess of the fair value of the total assets of the Company over the total liabilities, including contingent liabilities, of the Company, is equal to or exceeds the value of the Recapitalization Consideration to stockholders plus the stated capital of the Company and (f) the excess of the fair value of the total assets of United over the total liabilities, including contingent liabilities, of United, is equal to or exceeds the value of the stated capital of United.

American Appraisal also indicated that it believed the excess of total assets over pro forma liabilities was approximately \$2.5 billion at December 31, 1993, compared to approximately \$1.203 billion in stockholders' equity as of such date, determined according to generally accepted accounting principles, so that, giving effect to the Recapitalization, the indicated excess assets of the Company for purposes of Delaware law exceeded \$1 billion. See "SPECIAL FACTORS--Certain Risk Factors--Fraudulent Conveyance," "--Certain Revenue and Earnings Scenarios" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION."

Certain Antitakeover Effects. Certain provisions of the governance structure will make it extremely difficult to acquire the Company in a transaction that was not approved by at least one of the Union Directors or a 75% vote of the New Shares and the Voting Preferred Stock, even if such transaction might be beneficial to the Company's stockholders. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure."

Pricing of Public Preferred and Debentures. As described in "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing of the Securities," the final interest rates on the Debentures and the final dividend rate on the Public Preferred Stock will be established shortly prior to the Meeting. Although the procedure for establishing such final rates is designed to determine the rates that such securities should bear for the Debentures and the Depositary Preferred Shares representing interests in the Public Preferred Stock to trade at par assuming such securities were fully distributed, the Plan of Recapitalization provides that such rates may not exceed certain caps. The underwriting agreements relating to the Offerings will provide that if the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Public

Preferred Stock may be adjusted to permit the Debentures and the Depositary Preferred Shares to be sold at or closer to par, but if that is done, the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares representing interests in the Public Preferred Stock, as the case may be, will be reduced so that the aggregate amount of interest payable annually by United on the Debentures or the aggregate amount of dividends payable annually by the Company on the Public Preferred Stock will not exceed certain maximum amounts calculated with reference to such caps. If the Offerings are not consummated, the interest rates borne by the Debentures and the dividend rate borne by the Public Preferred Stock will be subject to the caps. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities." If the prevailing market interest and dividend rates for securities comparable to the Debentures and the Depositary Preferred Shares are higher than the rate caps applicable to the Debentures or the Public Preferred Stock, as the case may be, the Debentures or the Depositary Preferred Shares representing interests in the Public Preferred Stock, as the case may be, may trade at a discount to par. Accordingly, if the rate caps are imposed for some or all of the Debentures or the Depositary Preferred Shares, (a) the proceeds from the Offerings, if the Offerings are consummated, could be less than the face amount thereof or (b) if the Offerings are not consummated, the securities constituting a part of the Mixed Recapitalization Consideration would have a trading value of less than the face amount thereof. Based on the current general market conditions, the Company believes that the rates for some or all of the Debentures or the Depositary Preferred Shares may approach or exceed the maximum rates.

Investment Values; Future Investment. Cost savings envisioned by the agreements with ALPA and the IAM and the anticipated productivity increases could be difficult to achieve, and even if all proposed plans for employee investment are implemented, the value of the reductions in wages and benefits and work-rule changes and anticipated productivity increases may not be as significant as currently calculated. Mandated job guarantees may make it difficult to achieve significant additional productivity improvements, and, if additional reductions in wages and benefits and work-rule changes become desirable in management's view, such reductions in wages and benefits and work-rule changes may be more difficult to achieve in light of the long-term nature of the revised collective bargaining agreements that constitute elements of the Recapitalization.

Lack of Employee Consensus. Certain employee groups may not be in favor of the changes arising from the Recapitalization and may react in a manner that does not facilitate achievement of the desired result. For example, the AFA has declined to date to participate in the transaction, certain other employees who will be participating in the wage and benefit reductions and work-rules changes were not in favor of the transaction, and certain union organizing activity, based on opposition to certain aspects of the transaction, has occurred. This lack of consensus may reduce the value of the increased employee commitments that the Company expects to achieve by virtue of the Recapitalization.

Management Change. The new CEO, Mr. Gerald M. Greenwald, will be required to implement reductions in wages and benefits and work-rule changes that were negotiated by the current management, certain members of which will retire at the Effective Time, in an industry in which he has not previously been engaged. In addition, it is possible that the Company may face attrition by officers and other members of management and that the Company's new senior management may face difficulties in implementing the new strategies or attracting additional management employees.

Reduced Flexibility. The corporate governance structure and collective bargaining agreements with ALPA and the IAM may inhibit management's ability to alter strategy in a volatile, competitive industry. Among the more significant constraints are (i) a prohibition on domestic code sharing in excess of 1% of domestic block hours, excluding several small existing agreements, without ALPA's consent, (ii) a no layoff guarantee for all currently employed participating union employees during the five- to six-year investment period and for pilots while U2 remains in operation, (iii) restrictions on international code sharing, unless the Company can demonstrate that international code sharing arrangements do not cause a reduction in

international flying and as long as the Company does not expand code sharing unless the Company reduces international flying below a certain level and (iv) an agreement not to sell the Company's Denver pilot training facility and certain maintenance facilities. In addition, the Restated Certificate contains significant limitations on the ability of the Company and United to sell assets and issue equity securities absent certain specified Board or stockholder approvals. In most circumstances, the issuance of additional equity securities would not be counted in determining whether the Sunset has occurred.

Limitations on asset sales and equity issuances included in the Company's Restated Certificate might make it more difficult to raise cash, even if management desired to do so to take advantage of a perceived opportunity.

Implementation of U2. Although the Company expects to develop "an airline within-an-airline" for short-haul markets at reduced operational costs ("U2") as an important component of its competitive posture and has ascribed a significant portion of the value of the transaction to the ability to implement U2, no assurance can be given that the Company will be able to do so effectively or to realize the financial benefits expected to be received by the Company from implementation of U2. See "SPECIAL FACTORS--Implementation of the 'Airline Within-an-Airline' (U2)" and "--Certain Risk Factors--Implementation of U2."

Competitive Response. Even if the Company is able to achieve cost reductions and productivity enhancements, the Company's higher cost competitors may be able to achieve comparable agreements with their labor groups or otherwise reduce their operating costs and the Company's low-cost competitors may modify their operations in response to the competitive threat posed by U2 and thus, in such cases, may eliminate or reduce the competitive gain sought by the Company and lead to reductions in fares and earnings. In this regard, for example, Continental Airlines (which already has a low cost structure) has implemented a short haul service with lower costs which would be competitive with U2, and Delta Airlines has announced its intent to lower its overall costs substantially. If the Company's higher cost competitors, such as Delta, were to achieve more significant reductions in wages and benefits and work-rule changes than those achieved by the Company, the Company's ability to respond to competition would be hampered by the fixed long-term nature of the agreements that constitute elements of the Recapitalization.

Labor Protective Provisions. The Company will continue in effect, or amend to include, certain provisions of agreements with ALPA and the IAM that (i) provide certain rights in the event of a change in control of the Company and (ii) prohibit furloughs, within certain conditions, if the Company disposes of 25 percent or more of its assets or assets which produce 25 percent or more of its block hours. The revised collective bargaining agreements obligate the Company to require any carrier purchasing route authority or aircraft that produce 25 percent or more of the Company's operating revenues or block hours to hire and integrate an appropriate number of United employees with seniority credit.

Tax Deductibility of Employee Stock Ownership Plan Contributions and Dividends. Although the Company has attempted to structure the ESOPs so that all amounts contributed thereto and dividends paid with respect to the stock held thereunder will be deductible to the Company for Federal income tax purposes, there are no regulations governing the deductibility of dividends paid on the ESOP Preferred Stock and there can be no assurance that one or more limitations under the Internal Revenue Code of 1986, as amended, will not adversely impact the deductibility of such amounts and dividends.

Amendments to Collective Bargaining Agreements; Future Labor Agreements. There can be no assurance that the new management of the Company in the future will not agree to amend the collective bargaining agreements with ALPA and the IAM in a manner that reduces or eliminates the cost savings that are the basis for the Recapitalization. However, any such amendment must be approved by the Labor Committee of the Board (which will not include any Union Directors). See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Committees." In addition, at the end of the

current employee investment period, there can be no assurance that the Company's labor agreements will be renegotiated in a manner that continues in subsequent periods the cost savings that are being sought through the Recapitalization or that does not reverse the effect of any cost savings that will have been obtained thereby.

Possible Effect of Organization of Additional Employees. In the event that any portion of the salaried and management employees who are not currently represented by a union elects union representation pursuant to the Railway Labor Act, the Company would be obligated to bargain with such union over the terms and conditions of employment applicable to such employees, including the terms, if any, of such employees' continuing participation in the ESOPs. This obligation to bargain requires the Company to "exert every reasonable effort" to reach an agreement but does not require it to agree to any change or particular term or condition sought by the union. During the period of negotiation, the Company would be entitled to maintain the then-existing terms of such employees' participation in the ESOPs.

The ESOPs provide that if any group of employees who are not currently represented by a union becomes covered by a new collective bargaining agreement, such group of employees will not be covered under the ESOPs unless the collective bargaining agreement so provides. Whether any new collective bargaining agreement would provide for continuing participation in the ESOPs by such group of employees is a matter that would be subject to mutual agreement between the Company and the applicable union. The ESOPs provide, however, that if the terms of any employee's employment no longer reflect all of the reductions in wage and benefits and work-rule changes set forth in the Plan of Recapitalization, then such employee shall cease to be covered by the ESOPs.

As a result, if any new collective bargaining agreement did not reflect the reductions in wage and benefits and work-rule changes required by the Plan of Recapitalization for particular employees, the Company could not agree, without amending the ESOPs, to allow such employees to participate in the ESOPs. If any currently unrepresented employees ceased to participate in the ESOPs under such circumstances, the ESOPs provide that the unrepresented employees remaining in the ESOPs would receive the shares previously intended for that newly-represented group. The employment terms, except base pay, for the unrepresented employees remaining in the ESOPs will be subject to change, at the Company's discretion, so long as the net economic value of the unrepresented employees' employment terms is not altered.

Employee Ownership and Influence. No assurance can be given that the Company, which will be subject to significant influence by employee groups (including through the right to voting representation in excess of economic equity ownership, Board and Board committee representation, the requirement of approval of certain matters by a Union Director or a 75% vote of the holders of New Shares and Voting Preferred Stock, and participation by Union Directors in the nomination of the Independent Directors), might not take actions that are more favorable to such employee groups than might be taken by a company that was not subject to such influence. The corporate governance structure after the Recapitalization will not, however, relieve the members of the Board of their fiduciary obligations under the DGCL.

Effect of Adjustment on Trading. As described under "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares," the ESOP Preferred Stock which the Company is initially obligated to issue or credit to the ESOPs is convertible into approximately 55% of the New Shares but, based on the trading prices of the New Shares in the twelve months after the Effective Time (the "Measuring Period"), may be increased to up to a maximum of approximately 63% of the New Shares. Such potential additional issuance may adversely limit the trading prices of the New Shares during the Measuring Period.

Additional Issuances of Recapitalization Consideration. United has registered under the Securities Act \$449,802,200 aggregate principal amount of each series of Debentures and the Company has registered 35,984,175 Depositary Preferred Shares representing interests in \$899,604,375 aggregate liquidation value of the Public Preferred Stock. If the Offerings are not consummated, United and the Company may be required

to issue a larger number of Debentures and Depositary Preferred Shares in connection with the exercise of Options (as defined below) in the event holders thereof fail to use a cashless exercise feature or in connection with the conversion of certain Convertible Company Securities (as defined below). However, the failure of Option holders to utilize a cashless exercise feature would have the effect of increasing the Company's available cash by an amount equal to the aggregate exercise price. See "DESCRIPTION OF SECURITIES--The Debentures--General" and "--The Public Preferred Stock--General." If the Offerings are not consummated, the Company currently intends to register in the future additional securities originally issued (or distributed following repurchase in the market), to satisfy the exercise or conversion of Options or Convertible Company Securities.

Financial Reporting; Market Assessment. The accounting rules governing employers accounting for employee stock ownership plans require that compensation expense be recorded for the ESOP Preferred Stock that is "committed to be released" during an accounting period based on the fair value of the ESOP Preferred Stock during such period. The difference between the fair value and the initial recorded cost of the ESOP Preferred Stock "committed to be released" is recorded as an adjustment to stockholders' equity. The ESOP Preferred Stock that has been "committed to be released" is considered to be outstanding in the if-converted earnings per share calculation for primary and fully diluted earnings per share if the effect is dilutive. The circular relationship between the employee stock ownership plan accounting charge and the Company's stock price, coupled with the size of the contemplated ESOPs, make future earnings difficult to forecast. In addition, reported book earnings will be depressed in early years due to a mismatch between the term of employee investments (which increase earnings) of from five years, nine months to twelve years and the shorter period of only six years over which employee stock ownership plan accounting charges will occur. While it is possible that the equity research community and investors may look through employee stock ownership plan accounting charges, it is also possible that the trading price of the New Shares may be negatively impacted by such accounting treatment.

Possible Cancellation of Facility. United is a party to a \$500 million commercial paper facility through agreements with United Airlines First Funding Corporation ("First Funding") and certain banks. As of the date of this Proxy Statement/Prospectus, approximately \$270 million of commercial paper is outstanding under such facility. As a result of provisions in the Second Amended and Restated Credit Agreement, dated as of September 20, 1993 (the "Credit Agreement"), among First Funding, Union Bank as agent and certain other banks, a "change in control" may be deemed to occur as a result of the Recapitalization, and First Funding may be restricted from issuing new commercial paper under the Credit Agreement. Although this will not have an effect on outstanding commercial paper under the Credit Agreement, the Company will need either to renegotiate the Credit Agreement or to obtain an alternate funding source to replace such facility with respect to future fundings. Although the Company does not expect it to be the case, the Company may not be able to renegotiate or to obtain such alternate facility, in which case the Company's liquidity may be impaired.

Complexity. Given the complex nature of the various provisions affecting the operation of the Company after the Effective Time, it is possible that the equity research community and investors may find the Company difficult to evaluate, which may have the effect of reducing the trading price of the New Shares from levels that might otherwise prevail.

Redistribution. If the Offerings are not consummated, in the Recapitalization, holders of Old Shares (an equity security) will receive Debentures and Depositary Preferred Shares representing interests in Public Preferred Stock in addition to New Shares and cash. It is expected that there will exist a period, perhaps of a lengthy duration, during which certain recipients of such securities, concluding that the characteristics thereof are not consistent with their investment criteria, distribute such securities into the marketplace. During such distribution period, the supply of such securities in the market may exceed levels that might

otherwise prevail, which would likely have the effect of depressing the price of such securities from levels that might otherwise prevail if such securities were held solely by persons or institutions for whom such securities satisfied their investment criteria. In addition, although the Company expects that it will apply for listing of the Debentures and the Depositary Preferred Shares on the NYSE, there can be no assurance that at or following the Effective Time such securities will be listed on the NYSE or any other securities exchange or that any trading market for the securities will develop.

Industry Conditions and Competition. The airline industry is highly competitive and susceptible to price discounting. United's competitors include both domestic and international carriers some of which have low cost structures. In addition, airline profit levels are highly sensitive to elements outside the control of the airline industry such as fuel costs, passenger demand, taxes and terrorist activities.

Regulatory Matters. In the last several years, the Federal Aviation Administration (the "FAA") has issued a number of maintenance directives and other regulations relating to, among other things, collision avoidance systems, airborne windshear avoidance systems, noise abatement and increased inspection requirements. The Company expects to continue incurring costs to comply with the FAA's regulations. Additional laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by, for instance, imposing additional requirements or restrictions on operations. Laws and regulations have also been considered from time to time that would prohibit or restrict the ownership and/or transfer of international airline routes or takeoff and landing slots. Also, the award of international routes to U.S. carriers (and their retention) is regulated by treaties and related agreements between the United States and foreign governments, which are amended from time to time. For example, there are significant aviation issues between the United States and such foreign governments as Germany, Japan and the United Kingdom that, depending on their resolution, may significantly impact the Company's existing operations or curtail potential expansion opportunities in important regions of the world. The Company cannot predict what laws and regulations will be adopted or what changes to international air transportation treaties will be effected, if any, or how they will affect United.

Holding Company Structure The Company is a holding company that conducts operations solely through its subsidiaries, principally United. The Company will rely on dividends from its subsidiaries to meet its cash requirements, including cash requirements in connection with dividends on or redemptions of Depositary Preferred Shares (and the Public Preferred Stock interest). As a result of the recapitalization, United will have substantial debt in relation to its stockholder's equity, as determined on a pro forma basis pursuant to the application of generally accepted accounting principles.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Recapitalization is expected not to be a taxable transaction to the Company but will be a taxable transaction to the Company's stockholders. A summary of certain Federal income tax consequences of the Recapitalization for stockholders is set forth under "CERTAIN FEDERAL INCOME TAX CONSEQUENCES." See also "SPECIAL FACTORS--Certain Risk Factors--Taxation of Recapitalization to Stockholders."

NO APPRAISAL RIGHTS

Stockholders of the Company will not be entitled to appraisal rights in connection with any of the matters to be voted upon at the Meeting. For a description of pending litigation related to the Recapitalization, see "LITIGATION."

MARKET PRICES OF THE OLD SHARES; DIVIDENDS

The Company's Old Shares are listed and traded, under the symbol UAL, on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Stock Exchange. At May 23, 1994 (the "Record

Date"), based on reports by the Company's transfer agent for the Company's Old Shares, there were 19,072 holders of record and there were Old Shares outstanding. The high and low sales prices per share for its common stock for each quarterly period during the past two fiscal years as reported on the NYSE Composite Tape are as follows:

| | HIGH | LOW |
|---|-----------|-----------|
| | ----- | ----- |
| 1992: | | |
| 1st quarter..... | \$159 | \$139 1/4 |
| 2nd quarter..... | 143 3/4 | 111 |
| 3rd quarter..... | 119 3/4 | 103 |
| 4th quarter..... | 128 1/8 | 106 1/4 |
| 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 (through May 25, 1994)..... | 130 1/2 | 116 3/4 |

No dividends have been declared on the Old Shares since 1987.

On December 22, 1993, the last trading day prior to the public announcement of the Agreement in Principle, the closing sales price for the Old Shares as reported on the NYSE Composite Tape was \$148 1/2 per share. On March 24, 1994, the last trading day prior to the public announcement of the execution of the Plan of Recapitalization, the closing sales price for the Old Shares as reported on the NYSE Composite Tape was \$123 3/4 per share. On June , 1994, the last trading day prior to the date of this Proxy Statement/Prospectus, the closing sales price for the Old Shares as reported on the NYSE Composite Tape was \$. STOCKHOLDERS SHOULD OBTAIN CURRENT MARKET QUOTATIONS FOR THE OLD SHARES AS ONE OF THE FACTORS RELEVANT TO ASSESSING THE VALUE OF THE NEW SHARES BEFORE VOTING ON THE PLAN OF RECAPITALIZATION. The New Shares are expected to be listed on the NYSE.

The Board does not expect to declare the regular dividend for the second quarter of 1994, and if the Recapitalization is consummated, the Company does not expect to pay dividends in the foreseeable future on the New Shares. See "SPECIAL FACTORS--Certain Risk Factors."

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL POSITION

The following are the unaudited Statements of Pro Forma Consolidated Financial Position for each of the Company and United. These statements are based on an assumed purchase price for the Class 1 ESOP Preferred Stock at the Effective Time of \$120 per share. The \$120 per share assumed purchase price of Class 1 ESOP Preferred Stock is based on [(i) an assumed market price of an Old Share at the Effective Time of \$131 per share, (ii) an assumed value of the non-New Share portion of the Recapitalization Consideration of \$88 per Old Share, and (iii) a purchase price premium for the Class 1 ESOP Preferred Stock over the assumed value of a New Share of 38%.] The actual purchase price for the Class 1 ESOP Preferred Stock at the Effective Time will be determined using a formula based on (i) the greater of the pre-Effective Time when issued market price of the New Shares and the pre-Effective Time market price of the Old Shares, (ii) [an expected value] for the non-New Share portion of the Recapitalization Consideration and (iii) a 38% purchase price premium. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Sale of ESOP Preferred Stock--Leveraged ESOP." There can be no assurance as to the actual purchase price of the Class 1 ESOP Preferred Stock, the pre-Effective Time when issued market price of the New Shares, the pre-Effective Time market price of the Old Shares, or the value of the non-New Share portion of the Recapitalization Consideration.

These statements do not purport to be indicative of the financial position that may be obtained in the future or that would actually have been obtained had the Recapitalization occurred on the dates indicated.

UAL CORPORATION AND SUBSIDIARY COMPANIES

The following statement sets forth the unaudited consolidated financial position of the Company and its subsidiaries at March 31, 1994, and the unaudited pro forma consolidated financial position of the Company and its subsidiaries after giving effect to the Recapitalization and the Offerings, and the payment of fees and expenses incurred in connection with the Recapitalization. The statement should be read in conjunction with the selected consolidated financial and operating information, the unaudited pro forma financial information and the respective related notes thereto appearing elsewhere herein. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION--UAL Corporation and Subsidiary Companies" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION--UAL Corporation and Subsidiary Companies." In addition, the statement should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1993 and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, as amended, which are included elsewhere in this Proxy Statement/Prospectus and which include the Company's Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The pro forma statement assumes the Recapitalization is not accounted for as an acquisition or merger and, accordingly, UAL's assets and liabilities have not been revalued. The reclassification of Old Shares into New Shares results in the elimination of the par value of the Old Shares and recognition of the par value of the New Shares. The distribution of cash to holders of Old Shares is charged to additional capital invested and retained earnings.

The ESOPs are being accounted for in accordance with the American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, the Company will issue Class 1 ESOP Preferred Stock through seven ESOP Tranches beginning at the Effective Time, thirteen months following the Effective Time, annually thereafter for four years with a final ESOP Tranche on January 1, 2000. As the shares are issued to the Leveraged ESOP, the Company will report the issuance of shares as a credit to additional capital invested based on the fair value of the stock when it occurs and report a corresponding charge to unearned ESOP Preferred Stock. As consideration for the shares, the Company will receive from the ESOP Trustee a series of promissory notes and cash. The notes will not be recorded in the Company's Statement of Consolidated Financial Position and the related interest income will also not be recorded in the Company's Statement of Consolidated Operations. As shares of Class 1 ESOP Preferred Stock are earned or "committed to be released," an employee stock ownership plan accounting charge will be recognized equal to the average fair value of the shares committed to be released with a corresponding credit to unearned ESOP Preferred Stock. Any differences between the fair value of the shares committed to be released and the cost of the shares to the ESOP will be charged or credited to additional capital invested. For the Non-Leveraged Qualified ESOP and the Supplemental ESOP, a credit for the shares of Class 2 ESOP Preferred Stock will be recorded as the shares are committed to be contributed to the ESOP, with the offsetting entry to compensation expense. Compensation expense will be recorded based on the fair value of the shares committed to be contributed to the ESOP, in accordance with the SOP.

The ESOP Preferred Stock is considered to be a common stock equivalent since the shares cannot remain outstanding indefinitely and participants cannot withdraw their shares from the plan. Under the SOP, when computing primary and fully diluted earnings per share, only those shares committed to be released are considered outstanding as common stock equivalents. Prospectively, as dividends are paid by UAL to the ESOP, only dividends on allocated shares will be recorded as a charge to equity. Since UAL controls the use of the dividends on unallocated ESOP Preferred Stock, such dividends will be recorded as compensation expense.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL POSITION

UAL CORPORATION AND SUBSIDIARY COMPANIES

MARCH 31, 1994

(IN MILLIONS, EXCEPT SHARE DATA)

| ASSETS | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|---|------------|--|-------------------|
| ----- | ----- | ----- | ----- |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 1,046 | \$ 1,498 (1a) (2,208)(1b) (140)(2) 8 (11) | \$ 204 |
| Short-term investments..... | 1,020 | | 1,020 |
| Other..... | 1,837 | 44 (3) | 1,881 |
| | ----- | ----- | ----- |
| | 3,903 | (798) | 3,105 |
| | ----- | ----- | ----- |
| Operating property and equipment..... | 12,226 | | 12,226 |
| Less: Accumulated depreciation and amortization..... | (5,177) | | (5,177) |
| | ----- | ----- | ----- |
| | 7,049 | | 7,049 |
| | ----- | ----- | ----- |
| Other assets: | | | |
| Other..... | 1,937 | | 1,937 |
| | ----- | ----- | ----- |
| | \$12,889 | \$ (798) | \$12,091 |
| | ===== | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | |
|--|--------|--|---------|
| Current liabilities: | | | |
| Short-term borrowings, long-term debt maturing within one year and current obligations under capital leases..... | \$ 486 | \$ | \$ 486 |
| Other..... | 4,502 | (11)(11) | 4,491 |
| | ----- | ----- | ----- |
| | 4,988 | (11) | 4,977 |
| | ----- | ----- | ----- |
| Long-term debt..... | 2,693 | 758 (1c) | 3,451 |
| | ----- | ----- | ----- |
| Long-term obligations under capital leases. | 777 | | 777 |
| | ----- | ----- | ----- |
| Other liabilities, deferred credits and minority interest..... | 3,334 | | 3,334 |
| | ----- | ----- | ----- |
| Shareholders' equity: | | | |
| Series A Preferred Stock, \$.01 stated value, 6,000,000 shares issued, \$100 liquidation value..... | -- | -- | -- |
| Series B Preferred Stock, \$.01 stated value, 30,566 shares issued, \$25,000 liquidation value..... | | -- (1d) | -- |
| Class 1 ESOP Preferred Stock, \$.01 par, 1,899,059 shares issued, \$120 liquidation value..... | | -- (4) | -- |
| Class 2 ESOP Preferred Stock, \$.01 par, none issued | | -- (4) | -- |
| Voting Preferred Stocks, \$.01 par, 3 shares issued, \$.01 liquidation value.... | | -- (5) | -- |
| Common stock, \$5 par value, 25,500,662 shares issued and outstanding-- historical..... | 128 | (128)(1e) | -- |
| Common stock, \$.01 par value, 13,006,564 shares issued and outstanding--pro forma(12)..... | | -- (1e) | -- |
| Additional capital invested..... | 963 | (963)(1e) 740 (1d) 228 (4) 13 (6) | 981 |
| Retained earnings (deficit)..... | 142 | (1,117)(1e) (108)(7) | (1,083) |
| Pension liability adjustment..... | (53) | | (53) |
| Unearned compensation..... | (14) | 14 (8) | -- |
| Unearned ESOP Preferred Stock..... | | (228)(4) | (228) |

| | | | |
|--|----------|----------|----------|
| Unrealized loss on investments..... | (2) | -- | (2) |
| Common stock held in treasury, 929,631 shares--historical, 439,816 shares--pro forma | (67) | 4 (9) | (63) |
| | ----- | ----- | ----- |
| | 1,097 | (1,545) | (448) |
| | ----- | ----- | ----- |
| | \$12,889 | \$ (798) | \$12,091 |
| | ===== | ===== | ===== |

See the accompanying notes to Pro Forma Statement of Consolidated Financial
Position.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA STATEMENT OF CONSOLIDATED FINANCIAL POSITION

- (1) To record the Recapitalization (as described in "THE PLAN OF RECAPITALIZATION--Terms and Conditions"). The entries assume that (i) the Offerings of Debentures and Depositary Preferred Shares representing interests in Public Preferred Stock are consummated, (ii) all in-the-money options are vested and exercised at the Effective Time using a cashless exercise mechanism, (iii) treasury stock held by the Company immediately prior to the Effective Time will convert into New Shares that remain outstanding after the Recapitalization and (iv) Convertible Company Securities that are outstanding immediately prior to the Effective Time will not convert into the Recapitalization Consideration at the Effective Time. The cashless exercise feature permits holders of Options to exercise them by surrendering to the Company a portion of the proceeds of the Option in lieu of paying the exercise price in cash. When the cashless exercise feature is used, each element of the Recapitalization Consideration that is issuable upon the exercise of such Options is reduced proportionately, and the net Recapitalization Consideration (including the New Shares) that is issued is equal in value to the spread value of the Options exercised. See footnote number 8 to the Pro Forma Condensed Statement of Consolidated Operations for the year ended December 31, 1993.
- (a) To record the proceeds from the Offerings of approximately \$765 million of Debentures and approximately \$765 million of Depositary Preferred Shares representing interests in Public Preferred Stock, net of underwriting discount of \$7 million for the Debentures and \$25 million for the Public Preferred Stock. (If the Offerings are not consummated, the Debentures and the Depositary Preferred Shares included in entry 1(c) and 1(d) will be issued to the holders of Old Shares upon redemption of the Redeemable Preferred Stock.)
- (b) To record the cash payment to holders of Old Shares upon the redemption of the Redeemable Preferred Stock. The cash payment includes \$25.80 per share plus proceeds from the sales of \$31.10 of face amount Debentures and Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock (before deducting underwriting discount), and assumes that the proceeds of the sales equals the face amount of the securities. The pro forma adjustment also includes the cash payment of \$88 per share upon exercise of Options. (If the amount to be sold in the Offerings is reduced as discussed in entry 1(c) and 1(d), the amount paid to holders of Old Shares will be reduced.)
- (c) To record the issuance of \$382.5 million of principal amount of Series A Debentures and \$382.5 million of principal amount of Series B Debentures. The Debentures are being recorded at their face amount on the assumption that they will be priced to trade at par, less the underwriting discount of \$7 million. The actual rate on the Debentures will be reset prior to the Effective Time and the Debentures are subject to a maximum interest rate of 112.5 basis points above the Initial Pricing. The underwriting agreement for the Offerings are expected to provide that if the Offerings are consummated, the interest rate may be adjusted in order for the Debentures to be sold at or close to par, in which case the principal amount of the Debentures will be reduced so that the annual interest expense will not exceed the stated maximum which was calculated based upon the rate cap. If the Offerings are not consummated and the interest rate exceeds the cap, the Debentures will be recorded at a discount.
- (d) To record the issuance of Depositary Preferred Shares representing interests in \$765 million liquidation preference of Public Preferred Stock, net of underwriting discount of \$25 million. The Public Preferred Stock is recorded at its stated value of \$.01 per share, with the excess of liquidation value over stated value and net of underwriting discount recorded as additional capital invested. The dividend rate on the Public Preferred Stock will be reset prior to Closing and is subject to a

maximum of 11.375%. If the Offering is consummated, the dividend rate may be adjusted in which case the number of Depositary Preferred Shares will be reduced.

- (e) To record the reclassification of Old Shares into New Shares and Redeemable Preferred Stock. The Redeemable Preferred Stock is assumed to immediately convert to cash, including proceeds from the sale of Debentures and Depositary Preferred Shares representing interests in Public Preferred Stock. (The pro forma adjustments do not reflect the Redeemable Preferred Stock issued to the Company upon reclassification of the treasury stock because such shares are surrendered for cancellation immediately after issuance.)

The New Shares are recorded at their par value of \$.01 per share. Following is a summary of the entries to additional capital invested and retained earnings (in millions):

| | ADDITIONAL CAPITAL INVESTED | RETAINED EARNINGS |
|---------------------------------|-----------------------------------|----------------------|
| | ----- | ----- |
| Cancellation of Old Shares..... | \$ 128 | \$ -- |
| Distribution of Cash..... | (1,091) | (1,117) |
| | ----- | ----- |
| Pro forma adjustment..... | \$ (963) | \$(1,117) |
| | ===== | ===== |

- (2) To record the cash impact of the estimated fees and transaction expenses, including expenses for the Company, ALPA and the IAM, severance payments to terminated officers and flight kitchen employees and payments relating to the employment agreement with Mr. Greenwald.
- (3) To record the tax effects relating to nonrecurring charges recognized as a result of the Recapitalization.
- (4) To record the initial issuance of Class 1 ESOP Preferred Stock to the Leveraged ESOP for an aggregate purchase price of \$228 million. The \$228 million was determined based on (i) 1,899,059 shares of Class 1 ESOP Preferred Stock expected to be issued in the first ESOP Tranche as of the Effective Time and (ii) an assumed purchase price of \$120 per share. UAL and the Unions may, prior to the Effective Time, agree to increase or decrease the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time. The agreement with the ESOP Trustee provides that the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time shall be no more than 2,088,965 and no fewer than 1,709,153. The actual price per share for the first ESOP Tranche will be 1.38 times the average price of a New Share at the Effective Time. Thus, the ultimate amount recorded at the Effective Time will differ from the pro forma adjustment in order to reflect the actual number of shares issued and the average closing price of the New Shares.

Six additional ESOP Tranches will be issued to the Leveraged ESOP during the 69 months subsequent to the Effective Time, with the total shares of Class 1 ESOP Preferred Stock issued in the seven ESOP Tranches aggregating approximately 14,000,000 shares (subject to increase, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares). The price for the subsequent ESOP Tranches will be as agreed between the Company and the ESOP Trustee at the time of each sale. As the subsequent ESOP Tranches are issued, the shares will be reported as a credit to additional capital invested based on the fair value of the stock when such issuances occur with a corresponding charge to "Unearned ESOP Preferred Stock."

The Unearned ESOP Preferred Stock recorded in the pro forma adjustment together with the Unearned ESOP Preferred Stock recorded from subsequent ESOP Tranches will be recognized as compensation expense over the approximately six year investment period as the shares are committed to be released. The difference between the compensation expense recorded, which is based on the fair value of the stock

during an accounting period, and the recorded cost of the unearned ESOP Preferred Stock will be recorded to additional capital invested.

The shares of Class 2 ESOP Preferred Stock will be recorded over the approximately six year investment period as the shares are committed to be contributed to the Non-Leveraged Qualified ESOP and credited to employees pursuant to the Supplemental ESOP with the offsetting entry being to compensation expense. The number of shares of Class 2 ESOP Preferred Stock that will be issued will be equal to 17,675,345 less the number of shares of Class 1 ESOP Preferred Stock that will be sold to the Qualified ESOP.

The ESOP Preferred Stock is convertible into New Shares at any time at the election of the ESOP Trustee at a rate of one New Share for each share of ESOP Preferred Stock (subject to adjustment). Primarily because of limitations imposed by the Internal Revenue Code, the ESOP consists of three major portions: (i) the Leveraged ESOP, the Non-Leveraged Qualified ESOP, and the Supplemental ESOP. Shares of ESOP Preferred Stock issued under the Leveraged ESOP and the Non-Leveraged Qualified ESOP will be held by the ESOP Trustee under the Qualified Trust. Under the Supplemental ESOP, shares will be credited as Book-Entry Shares when earned by employees, and will be issued to employees as New Shares, generally upon termination of employment. ALPA has the right to elect at any time, before or after the Effective Time, that the Supplemental ESOP be maintained by the actual issuance of Class 2 ESOP Preferred Stock to a non-qualified trust established under the Supplemental Plan. In general, the Plan of Recapitalization is designed to maximize the number of shares of ESOP Preferred Stock that may be sold to the Qualified Trust. However, because of certain limitations imposed by the Internal Revenue Code, a portion of the equity interest to be obtained by the ESOP Trustee may not be sold to the Qualified Trust. The Class 1 ESOP Preferred Stock contains a fixed dividend feature which is intended to maximize the number of shares of Class 1 ESOP Preferred Stock that may be sold to the Qualified Trust consistent with the applicable provisions of the Internal Revenue Code. To the extent the Qualified Trust is unable to purchase the Class 1 ESOP Preferred Stock, Class 2 ESOP Preferred Stock will be issued, to the extent permitted by the limitations of the Internal Revenue Code, to the ESOP Trustee pursuant to the Non-Leveraged Qualified ESOP. Class 2 ESOP Preferred Stock will not contain a fixed dividend. To the extent that Class 2 ESOP Preferred Stock cannot be issued to the ESOP Trustee because of the limitations of the Internal Revenue Code, the Company will credit Book-Entry Shares to accounts established for the employees.

- (5) To record the issuance at par of one share of Class P Voting Preferred Stock, one share of Class M Voting Preferred Stock, and one share of Class S Voting Preferred Stock to the Qualified ESOP. The remaining Voting Preferred Stock will be issued when it is contributed to the Qualified ESOP and the Supplemental ESOP. The Class P Voting Preferred Stock, the Class M Voting Preferred Stock and the Class S Voting Preferred Stock, which are referred to collectively as the Voting Preferred Stock, represent and permit, in connection with the establishment of the ESOPs, the exercise of the voting power representing 55% (which under certain circumstances may be increased to up to 63%) of the voting power of the Company. See "DESCRIPTION OF SECURITIES--The Voting Preferred Stock." The Restated Certificate provides that upon the conversion of all the ESOP Preferred Stock into New Shares, each share of Voting Preferred Stock will be converted into one ten-thousandth of a New Share.
- (6) To account for the cashless exercise of options in the event of the Recapitalization. (Amount of the entry is based on an assumed Old Share price at the Effective Time of approximately \$131 per share.)
- (7) Represents the offset to entries (2), (3), (6), (8), (9) and (11).
- (8) To record the vesting of the unvested restricted stock as a result of the Recapitalization.

- (9) To record 25,000 restricted shares to Mr. Greenwald that will vest at the Effective Time.
- (10) Does not reflect the issuance of four shares of Class I Preferred Stock, one share of Class Pilot MEC Preferred Stock, one share of Class IAM Preferred Stock, and three shares of Class SAM Preferred Stock. These stocks have a \$.01 par value and nominal economic value. The Class I Preferred Stock will be issued to the Independent Directors and will have the power to elect such directors to the Board. The Class Pilot MEC Preferred Stock will be issued to the ALPA-MEC and will have the power to elect the ALPA Director. The Class IAM Preferred Stock will be issued to the IAM or its designee and will have the power to elect the IAM Director. The Class SAM Preferred Stock will be issued to the Salaried and Management Director and to the senior executive at United who has primary responsibility for human resources and will have the power to elect the Salaried and Management Director. Such classes of stock are referred to collectively as the Director Preferred Stock. See "DESCRIPTION OF SECURITIES--The Director Preferred Stock." Upon the occurrence of an Uninstructed Trustee Action (as defined below), the Class Pilot MEC Preferred Stock will succeed to the voting power previously held by the Class P Preferred Stock, the Class IAM Preferred Stock will succeed to the voting power previously held by the Class M Preferred Stock and the Class SAM Preferred Stock will succeed to the voting power previously held by the Class S Preferred Stock. See "DESCRIPTION OF SECURITIES--The Director Preferred Stock--Uninstructed Trustee Actions."
- (11) To reverse \$19 million of transaction fees and expenses recorded during the first quarter of 1994 because these expenses are included in entry (2).
- (12) The number of New Shares issued on a pro forma basis is based on Fully Diluted Old Shares assuming the Convertible Company Securities do not convert. See "The PLAN OF RECAPITALIZATION--Terms and Conditions--General."

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

The following statement sets forth the unaudited consolidated financial position of United and its subsidiaries at March 31, 1994 and the unaudited pro forma consolidated financial position of United and its subsidiaries after giving effect to the Recapitalization and the Offerings, and the payment of fees and expenses incurred in connection with the Recapitalization. The statement should be read in conjunction with the selected consolidated financial and operating information, the unaudited pro forma financial information and the respective related notes thereto appearing elsewhere herein. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION--United Air Lines, Inc. and Subsidiary Companies" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION--United Air Lines, Inc. and Subsidiary Companies." In addition, the statement should be read in conjunction with United's Annual Report on Form 10-K for the year ended December 31, 1993 and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, which are included elsewhere in this Proxy Statement/Prospectus and which include United's Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The pro forma statement assumes the Recapitalization is not accounted for as an acquisition or merger and, accordingly, United's assets and liabilities have not been revalued.

The ESOPs are being accounted for in accordance with the American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, the Company will issue Class 1 ESOP Preferred Stock through seven ESOP Tranches beginning at the Effective Time, thirteen months after the Effective Time, annually thereafter for four years with a final ESOP Tranche on January 1, 2000. As the shares are issued to the Leveraged ESOP, United will report the issuance of shares as a credit to ESOP capital based on the fair value of the

stock when it occurs and report a corresponding charge to unearned ESOP Preferred Stock. As shares of Class 1 ESOP Preferred are earned or committed to be released, compensation expense will be recognized equal to the average fair value of the shares committed to be released with a corresponding credit to unearned ESOP Preferred Stock. Any differences between the fair value of the shares committed to be released and the cost of the shares to the ESOP will be charged or credited to ESOP capital. For the Non-Leveraged Qualified ESOP and the Supplemental ESOP, the shares of Class 2 ESOP Preferred Stock will be recorded as the shares are committed to be contributed to the ESOP, with the offsetting entry to compensation expense. Compensation expense will be recorded based on the fair value of the shares committed to be contributed to the ESOP, in accordance with the SOP. The unearned ESOP Preferred Stock, ESOP capital and employee stock ownership accounting charge will be recorded on United's books since participants in the ESOP are employees of United.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

MARCH 31, 1994
(IN MILLIONS, EXCEPT SHARE DATA)

| ASSETS ----- | HISTORICAL | ADJUSTMENTS ----- | PRO FORMA ----- |
|--|------------|----------------------|--------------------|
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 666 | \$(140) (1) | \$ |
| | | 758 (3) | |
| | | (765) (3) | |
| | | 8 (9) | 527 |
| Short-term investments..... | 542 | | 542 |
| Other..... | 2,241 | 44 (2) | 2,285 |
| | ----- | ----- | ----- |
| | 3,449 | (95) | 3,354 |
| | ----- | ----- | ----- |
| Operating property and equipment..... | 12,211 | | 12,211 |
| Less: Accumulated depreciation and amortization..... | (5,164) | | (5,164) |
| | ----- | ----- | ----- |
| | 7,047 | | 7,047 |
| | ----- | ----- | ----- |
| Other assets: | | | |
| Other..... | 1,700 | | 1,700 |
| | ----- | ----- | ----- |
| | \$12,196 | \$ (95) | \$12,101 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDER'S EQUITY ----- | | | |
| Current liabilities: | | | |
| Short-term borrowings, long-term debt maturing within one year and current obligations under capital leases..... | \$ 466 | \$ | \$ 466 |
| Other..... | 4,473 | (11) (9) | 4,462 |
| | ----- | ----- | ----- |
| | 4,939 | (11) | 4,928 |
| | ----- | ----- | ----- |
| Long-term debt..... | 2,596 | 758 (3) | 3,354 |
| | ----- | ----- | ----- |
| Long-term obligations under capital leases.. | 774 | | 774 |
| | ----- | ----- | ----- |
| Other liabilities, deferred credits and minority interest..... | 3,317 | | 3,317 |
| | ----- | ----- | ----- |
| Shareholder's equity: | | | |
| Common stock, \$5 par value; 1,000 shares authorized; 200 shares outstanding..... | -- | | -- |
| Additional capital invested..... | 839 | (765) (3) | |
| | | 13 (5) | |
| | | 4 (6) | 91 |
| Retained earnings (deficit)..... | (200) | (108) (7) | (308) |
| ESOP capital..... | | 228 (4) | 228 |
| Unearned ESOP Preferred Stock..... | | (228) (4) | (228) |
| Unearned compensation..... | (14) | 14 (8) | -- |
| Pension liability adjustment | (53) | | (53) |
| Unrealized loss on investments..... | (2) | -- | (2) |
| | ----- | ----- | ----- |
| | 570 | (842) | (272) |
| | ----- | ----- | ----- |
| | \$12,196 | \$ (95) | \$12,101 |
| | ===== | ===== | ===== |

See the accompanying notes to Pro Forma Statement of Consolidated Financial Position.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA STATEMENT OF CONSOLIDATED FINANCIAL POSITION

- (1) To record the cash impact of the estimated fees and transaction expenses, including expenses for United, ALPA and the IAM, severance payments to terminated officers and flight kitchen employees, and payments relating to the employment agreement with Mr. Greenwald.
- (2) To record the tax effects relating to nonrecurring charges recognized as a result of the transaction.
- (3) To record the offering of \$382.5 million of Series A Debentures and \$382.5 million of Series B Debentures and to record the distribution of proceeds to UAL. The Debentures are being recorded at their face amount based on the assumption that they are being priced to trade at par, less the underwriting discount of \$7 million. The actual rate on the Debentures will be reset prior to the Effective Time and the Debentures are subject to a maximum interest rate of 112.5 basis points above the Initial Pricing. The underwriting agreements for the Offerings are expected to provide that if the offering is consummated, the interest rate may be adjusted in order for the Debentures to be sold at or close to par, in which case the principal amount of the Debentures will be reduced so that the annual interest expense will not exceed the stated maximum which was calculated based upon the rate cap. If the offering is not consummated and the interest rate exceeds the cap, the Debentures will be recorded at a discount.
- (4) To record the ESOP capital as a result of the initial issuance of shares of UAL's Class 1 ESOP Preferred Stock to the Qualified Trust for an aggregate purchase price of \$228 million and to record the related charge to unearned ESOP Preferred Stock. The \$228 million was determined based on (i) 1,899,059 shares of Class 1 ESOP Preferred Stock expected to be issued in the first ESOP Tranche as of the Effective Time and (ii) an assumed purchase price of \$120 per share. UAL and the Unions may, prior to the Effective Time, agree to increase or decrease the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time. The agreement with the ESOP Trustee provides that the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time shall be no more than 2,088,965 and no fewer than 1,709,153. The actual price per share for the first ESOP Tranche will be 1.38 times the average price of a New Share at the Effective Time. Thus, the ultimate amount recorded at the Effective Time will differ from the pro forma adjustment in order to reflect the actual number of shares issued and the average closing price of the New Shares.

Six additional ESOP Tranches will be issued to the Leveraged ESOP during the 69 months subsequent to the Effective Time, with the total shares of Class 1 ESOP Preferred Stock issued in the seven ESOP Tranches aggregating approximately 14,000,000 shares (subject to increase, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares). The price for the subsequent ESOP Tranches will be as agreed between the Company and the ESOP Trustee at the time of each sale. As the subsequent ESOP Tranches are issued, the shares will be reported as a credit to additional capital invested based on the fair value of the stock when such issuances occur with a corresponding charge to "Unearned ESOP Preferred Stock."

The Unearned ESOP Preferred Stock recorded in the pro forma adjustment together with the Unearned ESOP Preferred Stock recorded from subsequent ESOP Tranches will be recognized as compensation expense over the approximately six year investment period as the shares are committed to be released. The difference between the compensation expense recorded, which is based on the fair value of the stock during an accounting period, and the initial recorded cost of the unearned ESOP Preferred Stock will be recorded to ESOP capital.

ESOP capital will also be recorded over the six year investment period as the shares of UAL's Class 2 ESOP Preferred Stock are committed to be contributed to the Non-Leveraged Qualified ESOP and credited to employees pursuant to the Supplemental ESOP with the offsetting entry being to compensation expense. The number of shares of Class 2 ESOP Preferred Stock that will be issued will be equal to 17,675,345 less the number of shares of Class 1 ESOP Preferred Stock that will be sold to the Qualified ESOP.

- (5) To account for the cashless exercise of options in the event of the Recapitalization. (Amount of the entry is based on an assumed Old Share price at the Effective Time of approximately \$131 per share.)
- (6) To record 25,000 restricted shares to Mr. Greenwald that will vest at the Effective Time.
- (7) Represents the offset to entries (1), (2), (5), (6), (8) and (9).
- (8) To record the vesting of the unvested restricted stock as a result of the Recapitalization.
- (9) To reverse \$19 million of transaction fees and expenses recorded during the first quarter of 1994 because these expenses are included in entry (1).

SELECTED CONSOLIDATED HISTORICAL AND PRO FORMA OPERATING INFORMATION

UAL CORPORATION AND SUBSIDIARY COMPANIES

The following consolidated financial information has been derived from the Company's consolidated financial statements, for each of the fiscal years in the five year period ended December 31, 1993, which statements have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports included elsewhere herein. Reference is made to said reports for the years 1993 and 1992 which include an explanatory paragraph with respect to the changes in methods of accounting for income taxes and postretirement benefits other than pensions as discussed in the notes to the consolidated financial statements for such years. The consolidated financial information for the three months ended March 31, 1994 and 1993 is unaudited but in the opinion of management includes all adjustments necessary for a fair presentation. The table also sets forth certain information on a pro forma basis giving effect to the Recapitalization and the Offerings. The following should be read in conjunction with the selected consolidated financial and operating information and the unaudited pro forma financial statements and the respective related notes thereto appearing elsewhere herein. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION--UAL Corporation and Subsidiary Companies" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION--UAL Corporation and Subsidiary Companies." In addition, this table should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, as amended, which are included elsewhere in this Proxy Statement/Prospectus and which include the Company's Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|----------------------------------|----------|----------|----------|----------|----------|
| | 1993 PRO FORMA (UNAUDITED) | 1993 | 1992 | 1991 | 1990 | 1989 |
| | (DOLLARS IN MILLIONS) | | | | | |
| STATEMENT OF CONSOLIDATED OPERATIONS DATA: | | | | | | |
| Operating revenues(a).. | \$13,297 | \$13,325 | \$11,853 | \$10,706 | \$10,296 | \$ 9,288 |
| Earnings (loss) from operations..... | 354(e) | 263 | (538) | (494) | (36) | 465 |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes.... | (38) | (31) | (417) | (332) | 94 | 324 |
| Net earnings (loss).... | N.A. | (50) | (957) | (332) | 94 | 324 |
| STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA (at end of period): | | | | | | |
| Total assets..... | (b) | \$12,840 | \$12,257 | \$ 9,876 | \$ 7,983 | \$ 7,194 |
| Total long-term debt and capital lease obligations, including current portion..... | (b) | 3,735 | 3,783 | 2,531 | 1,327 | 1,405 |
| Shareholders' equity... | (b) | 1,203 | 706 | 1,597 | 1,671 | 1,564 |
| OTHER DATA: | | | | | | |
| Ratio of earnings to fixed charges..... | (c) | (c) | (c) | (c) | 1.16 | 1.95 |
| Ratio of earnings to fixed charges and preferred stock dividends..... | (c) | (c) | (c) | (c) | 1.16 | 1.95 |
| UNITED OPERATING DATA: | | | | | | |
| Revenue passengers (millions)..... | 70 | 70 | 67 | 62 | 58 | 55 |
| Average length of a passenger trip in miles..... | 1,450 | 1,450 | 1,390 | 1,327 | 1,322 | 1,269 |
| Revenue passenger miles (millions)..... | 101,258 | 101,258 | 92,690 | 82,290 | 76,137 | 69,639 |
| Available seat miles (millions)..... | 150,728 | 150,728 | 137,491 | 124,100 | 114,995 | 104,547 |
| Passenger load factor.. | 67.2% | 67.2% | 67.4% | 66.3% | 66.2% | 66.6% |
| Break even passenger load factor..... | 65.0% | 65.5% | 70.6% | 69.7% | 66.5% | 62.8% |
| Revenue per passenger mile..... | 11.6c | 11.6c | 11.3c | 11.5c | 11.8c | 11.6c |
| Cost per available seat mile..... | 8.5c | 8.5c | 8.9c | 9.0c | 9.0c | 8.4c |

| | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Average price per gallon of jet fuel.... | 63.6c | 63.6c | 66.4c | 71.6c | 80.4c | 63.6c |
|---|-------|-------|-------|-------|-------|-------|

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(UNAUDITED) THREE MONTHS
ENDED MARCH 31,

1994
PRO FORMA 1994 1993

(DOLLARS IN MILLIONS)

STATEMENT OF CONSOLIDATED OPERATIONS DATA:

| | | | |
|---|----------|----------|----------|
| Operating revenues(a)..... | \$ 3,193 | \$ 3,195 | \$ 3,053 |
| Loss from operations..... | (8)(e) | (36) | (121) |
| Loss before extraordinary item and cumulative effect of accounting changes..... | (58) | (71) | (138) |
| Net Loss..... | N.A. | (97) | (157) |

STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA

(at end of period):

| | | | |
|--|----------|----------|----------|
| Total assets..... | \$12,091 | \$12,889 | \$13,288 |
| Total long-term debt and capital lease obligations, including current portion..... | 4,445 | 3,687 | 4,017 |
| Shareholders' equity..... | (448) | 1,097 | 1,137 |

OTHER DATA:

| | | | |
|---|-----|-----|-----|
| Ratio of earnings to fixed charges..... | (d) | (d) | (d) |
| Ratio of earnings to fixed charges and preferred stock dividends..... | (d) | (d) | (d) |

UNITED OPERATING DATA:

| | | | |
|---|--------|--------|--------|
| Revenue passengers (millions)..... | 16 | 16 | 16 |
| Average length of a passenger trip in miles.... | 1,471 | 1,471 | 1,433 |
| Revenue passenger miles (millions)..... | 23,289 | 23,289 | 22,443 |
| Available seat miles (millions)..... | 35,598 | 35,598 | 35,220 |
| Passenger load factor..... | 65.4% | 65.4% | 63.7% |
| Break even passenger load factor..... | 65.8% | 66.5% | 66.3% |
| Revenue per passenger mile..... | 11.9c | 11.9c | 12.0c |
| Cost per available seat mile..... | 9.0c | 9.0c | 8.8c |
| Average price per gallon of jet fuel..... | 58.6c | 58.6c | 65.9c |

- (a) In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commission expense, as adjustments to revenue. Operating revenues and certain operating statistics for periods prior to 1994 have been adjusted to conform with the current presentation.
- (b) The Pro Forma Statement of Consolidated Financial Position assumes the transaction occurred at March 31, 1994. Therefore, pro forma information at December 31, 1993 is not applicable.
- (c) Earnings were inadequate to cover both fixed charges and fixed charges and preferred stock dividends by \$98 million in 1993, by \$748 million in 1992 and by \$599 million in 1991. On a pro forma basis, earnings were inadequate to cover fixed charges by \$109 million in 1993.
- (d) Earnings were inadequate to cover both fixed charges and fixed charges and preferred stock dividends by \$118 million and \$224 million for the three month periods ended March 31, 1994 and 1993, respectively. On a pro forma basis earnings were inadequate to cover fixed charges by \$97 million for the three months ended March 31, 1994.
- (e) The loss from operations includes an ESOP accounting charge which is dependent on the fair market value of the ESOP Preferred Stock during the period. The pro forma amount is based on an assumed fair value of \$120 per share. See note 4 to the Pro Forma Condensed Statement of Consolidated Operations for both the year ended December 31, 1993 and the three months ended March 31, 1994 for the effects of different fair value assumptions on the ESOP accounting charge.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

The following consolidated financial information has been derived from United's consolidated financial statements, for each of the fiscal years in the five year period ended December 31, 1993, which statements have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports included elsewhere herein. Reference is made to said reports for the years 1993 and 1992 which include an explanatory paragraph with respect to the changes in methods of accounting for income taxes and postretirement benefits other than pensions as discussed in the notes to the consolidated financial statements for such years. The consolidated financial information for the three months ended March 31, 1994 and 1993 is unaudited but in the opinion of management includes all adjustments necessary for a fair presentation. The table also sets forth certain information on a pro forma basis giving effect to the Recapitalization and the Offerings. The following should be read in conjunction with the selected consolidated financial and operating information and the unaudited pro forma financial statements and the respective related notes thereto included elsewhere herein. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION--United Air Lines, Inc. and Subsidiary Companies" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION--United Air Lines, Inc. and Subsidiary Companies." In addition, this table should be read in conjunction with United's Annual Report on Form 10-K for the year ended December 31, 1993 and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, which are included elsewhere within this Proxy Statement/Prospectus and which include United's Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|-------------------------|----------|----------|----------|----------|----------|
| | 1993 | 1993 | 1992 | 1991 | 1990 | 1989 |
| | PRO FORMA | | | | | |
| | (UNAUDITED) | | | | | |
| | (DOLLARS IN MILLIONS) | | | | | |
| STATEMENT OF CONSOLIDATED OPERATIONS DATA: | | | | | | |
| Operating revenues(a) .. | \$13,140 | \$13,168 | \$11,688 | \$10,703 | \$10,282 | \$ 9,267 |
| Earnings (loss) from operations..... | 386(e) | 295 | (496) | (491) | (41) | 464 |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes.... | (8) | (17) | (386) | (335) | 96 | 358 |
| Net earnings (loss).... | N.A. | (36) | (933) | (335) | 96 | 358 |
| STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA (at end of period): | | | | | | |
| Total assets..... | (b) | \$12,153 | \$12,067 | \$ 9,907 | \$ 8,001 | \$ 7,217 |
| Total long-term debt and capital lease obligations, including current portion..... | (b) | 3,614 | 3,628 | 2,531 | 1,326 | 1,404 |
| Shareholder's equity... | (b) | 674 | 738 | 1,613 | 1,769 | 1,665 |
| OTHER DATA: | | | | | | |
| Ratio of earnings to fixed charges..... | (c) | (c) | (c) | (c) | 1.16 | 2.08 |
| UNITED OPERATING DATA: | | | | | | |
| Revenue passengers (millions)..... | 70 | 70 | 67 | 62 | 58 | 55 |
| Average length of a passenger trip in miles..... | 1,450 | 1,450 | 1,390 | 1,327 | 1,322 | 1,269 |
| Revenue passenger miles (millions)..... | 101,258 | 101,258 | 92,690 | 82,290 | 76,137 | 69,639 |
| Available seat miles (millions)..... | 150,728 | 150,728 | 137,491 | 124,100 | 114,995 | 104,547 |
| Passenger load factor.. | 67.2% | 67.2% | 67.4% | 66.3% | 66.2% | 66.6% |
| Break even passenger load factor..... | 65.0% | 65.5% | 70.6% | 69.7% | 66.5% | 62.8% |
| Revenue per passenger mile..... | 11.6c | 11.6c | 11.3c | 11.5c | 11.8c | 11.6c |
| Cost per available seat mile..... | 8.5c | 8.5c | 8.9c | 9.0c | 9.0c | 8.4c |
| Average price per gallon of jet fuel..... | 63.6c | 63.6c | 66.4c | 71.6c | 80.4c | 63.6c |

(UNAUDITED) THREE MONTHS
ENDED MARCH 31,

1994
PRO FORMA 1994 1993

(DOLLARS IN MILLIONS)

STATEMENT OF CONSOLIDATED OPERATIONS DATA:

| | | | |
|---|----------|----------|----------|
| Operating revenues(a)..... | \$ 3,171 | \$ 3,173 | \$ 3,001 |
| Loss from operations..... | (16)(e) | (44) | (107) |
| Loss before extraordinary item and cumulative effect of accounting changes..... | (62) | (79) | (129) |
| Net Loss..... | N.A. | (105) | (148) |

STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA

| | | | |
|--|----------|----------|----------|
| (at end of period): | | | |
| Total assets..... | \$12,101 | \$12,196 | \$12,515 |
| Total long-term debt and capital lease obligations, including current portion..... | 4,325 | 3,567 | 3,864 |
| Shareholders' equity..... | (272) | 570 | 592 |

OTHER DATA:

| | | | |
|---|-----|-----|-----|
| Ratio of earnings to fixed charges..... | (d) | (d) | (d) |
|---|-----|-----|-----|

UNITED OPERATING DATA:

| | | | |
|---|--------|--------|--------|
| Revenue passengers (millions)..... | 16 | 16 | 16 |
| Average length of a passenger trip in miles.... | 1,471 | 1,471 | 1,433 |
| Revenue passenger miles (millions)..... | 23,289 | 23,289 | 22,443 |
| Available seat miles (millions)..... | 35,598 | 35,598 | 35,220 |
| Passenger load factor..... | 65.4% | 65.4% | 63.7% |
| Break even passenger load factor..... | 65.8% | 66.5% | 66.3% |
| Revenue per passenger mile..... | 11.9c | 11.9c | 12.0c |
| Cost per available seat mile..... | 9.0c | 9.0c | 8.8c |
| Average price per gallon of jet fuel..... | 58.6c | 58.6c | 65.9c |

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- (a) In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commission expense, as adjustments to revenue. Operating revenues and certain operating statistics for periods prior to 1994 have been adjusted to conform with the current presentation.
- (b) The Pro Forma Statement of Consolidated Financial Position assumes the transaction occurred at March 31, 1994. Therefore, pro forma information at December 31, 1993 is not applicable.
- (c) Earnings were inadequate to cover fixed charges by \$77 million in 1993, by \$694 million in 1992 and by \$604 million in 1991. On a pro forma basis, earnings were inadequate to cover fixed charges by \$63 million in 1993.
- (d) Earnings were inadequate to cover fixed charges by \$130 million and \$211 million for the three month periods ended March 31, 1994 and 1993, respectively. On a pro forma basis, earnings were inadequate to cover fixed charges by \$102 million for the three months ended March 31, 1994.
- (e) The loss from operations includes an ESOP accounting charge which is dependent on the fair market value of the ESOP Preferred Stock during the period. The pro forma amount is based on an assumed fair value of \$120 per share. See Note 4 to the Pro Forma Condensed Statement of Consolidated Operations for both the year ended December 31, 1993 and the three months ended March 31, 1994 for the effects of different fair value assumptions on the ESOP accounting charge.

SUMMARY OF TERMS OF SECURITIES

The following table summarizes the terms of the securities of the Company and United that will be issued in connection with the Recapitalization and that will remain outstanding upon consummation of the Recapitalization. For a more complete description of such securities, see "DESCRIPTION OF SECURITIES." If the Offerings are consummated, Debentures will be sold pursuant to the United Debt Offering and Depositary Preferred Shares representing interests in the Public Preferred Stock will be sold pursuant to the UAL Preferred Offering. If the Offerings are not consummated, the securities that will constitute part of the Mixed Recapitalization Consideration will consist of the Debentures, the Depositary Preferred Shares representing interests in the Public Preferred Stock and the New Shares.

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| TITLE | ISSUER | DIVIDENDS/INTEREST | MATURITY | REDEMPTION |
|---|--------|---|----------------------------|---|
| DEBENTURES | | | | |
| Series A Debentures... | United | 9.00% (provisional, not to be adjusted above 10.125%; the cap can be exceeded if the optional redemption feature is added) | 2004 | at maturity (if Unions request prior to the Meeting, an optional redemption feature may be added) |
| Series B Debentures... | United | 9.70% (provisional, not to be adjusted above 10.825%; the cap can be exceeded if the optional redemption feature is added) | 2014 | at maturity (if Unions request prior to the Meeting, an optional redemption feature may be added) |
| Depository Preferred Shares, each representing 1/1,000 of a share of Public Preferred Stock (without par value).... | UAL | 10.25% (provisional, not to be adjusted above 11.375%) | perpetual unless redeemed | after fifth anniversary of issuance at liquidation value plus accrued and unpaid dividends |
| ESOP PREFERRED STOCK | | | | |
| Class 1 ESOP Preferred Stock (par value \$0.01 per share)..... | UAL | fixed dividend (rate to be determined, not to exceed 7% of the price paid for the Class 1 ESOP Preferred Stock by the ESOP Trustee at the Effective Time) accrues until March 31, 2000, participates in all distributions to New Shares if in excess of the fixed dividend but subject to an annual cap of 12 1/2% of the value of the New Shares | perpetual unless converted | not redeemable |
| Class 2 ESOP Preferred Stock (par value \$0.01 per share)..... | UAL | no fixed dividend; participates in all distributions to New Shares subject to an annual cap of 12 1/2% of the value of the New Shares | perpetual unless converted | not redeemable |
| VOTING PREFERRED STOCK | | | | |
| Class P Voting Preferred Stock (par value \$0.01 per share)..... | | | | |
| Class M Voting Preferred Stock (par value \$0.01 per share)..... | UAL | none | perpetual unless converted | not redeemable |
| Class S Voting Preferred Stock (par value \$0.01 per share)..... | | | | |
| DIRECTOR PREFERRED STOCK | | | | |
| Class Pilot MEC Preferred Stock (par value \$0.01 per share)..... | | | | automatically redeemed under certain |
| Class IAM Preferred Stock (par value | UAL | none | perpetual unless | circumstances, |

| | | | | |
|------------------------|-----|-------------|-----------|---------------------|
| \$0.01 per share)..... | | | redeemed | including |
| Class SAM Preferred | | | | upon termination of |
| Stock (par value | | | | voting rights, for |
| \$0.01 per share)..... | | | | liquidation value |
| Class I Preferred | | | | |
| Stock (par value | UAL | none | perpetual | automatically |
| \$0.01 per share)..... | | | unless | redeemed under |
| | | | redeemed | certain |
| | | | | circumstances, |
| | | | | including at |
| | | | | Sunset, for |
| | | | | liquidation value |
| New Shares (par value | | | | |
| \$0.01 per share)..... | UAL | as declared | perpetual | not redeemable |

- - - - -
* See "DESCRIPTION OF SECURITIES--The Debentures--Consolidation, Merger or Sale
by United."

| LIQUIDATION PREFERENCE/PRINCIPAL AMOUNT PER SECURITY | RANK | VOTING RIGHTS | CONVERSION RIGHTS | CONSOLIDATION, MERGER ETC. |
|---|--|---|---|--|
| \$100 | pari passu with all senior, unsecured debt of United | none | none | contains merger provision* |
| \$100 | pari passu with all senior, unsecured debt of United | none | none | contains merger provision* |
| \$25 per Depositary Preferred Share plus accrued and unpaid dividends | parity with Series A Preferred Stock; senior to all other preferred stock and New Shares | when six quarterly dividends are in arrears, Public Preferred Stock votes as a class with Series A Preferred Stock to elect two directors | none | no special rights |
| amount to be determined plus accrued and unpaid dividends | junior to Public Preferred Stock and Series A Preferred Stock; on parity with Class 2 ESOP Preferred Stock as to participating dividends and liquidation; senior to other preferred stock, New Shares, and as to fixed dividends, Class 2 ESOP Preferred Stock | none | each share convertible into one New Share, subject to adjustment | holder receives either (i) preferred stock with the same characteristics as Class 1 ESOP Preferred Stock or (ii) same consideration as New Shares into which Class 1 ESOP Preferred Stock is convertible |
| amount to be determined plus accrued and unpaid dividends | junior to Public Preferred Stock, Series A Preferred Stock and as to fixed dividends, Class 1 ESOP Preferred Stock; on parity with Class 1 ESOP Preferred Stock as to participating dividends and liquidation; senior to other preferred stock and New Shares | none | each share convertible into one New Share, subject to adjustment | holder receives either (i) preferred stock with the same characteristics as Class 2 ESOP Preferred Stock or (ii) same consideration as New Shares into which Class 2 ESOP Preferred Stock is convertible |
| \$0.01 | junior to Public Preferred Stock, Series A Preferred Stock and ESOP Preferred Stock; on parity with other Voting Preferred Stock; senior to other preferred stock and New Shares | votes as a class with the New Shares on all matters except election of directors on which it does not have a vote; until Sunset, Class P, Class M and Class S Preferred Stock represent approximately 24.5%, 19.7% and 8.8%, respectively, of the votes that may be cast (prior to adjustment for Additional Shares); after Sunset, Class P, Class M and Class S Preferred Stock represent the votes of New Shares issuable under the ESOPs | each share convertible into 0.0001 New Share, subject to adjustment | holder receives either (i) preferred stock with the same characteristics as Voting Preferred Stock held or (ii) same consideration as New Shares into which Voting Preferred Stock held is convertible |
| \$0.01 | junior to Public Preferred Stock, Series A Preferred Stock, ESOP Preferred Stock and Voting Preferred | Class Pilot MEC, Class IAM and Class SAM Preferred Stock vote to elect the ALPA Director, the IAM Director and the SAM Director, respectively; right to elect ALPA Director terminates when there are no longer ALPA members employed by the Company; right to elect IAM Director terminates when there are no longer IAM members employed by the Company; right | none | holder receives preferred stock with the same characteristics as Director Preferred Stock held |

| | | | | |
|--------|--|---|------|-------------------|
| | Stock; on parity with other Director Preferred Stock; senior to other preferred stock and New Shares | to elect SAM Director terminates on the earlier of when members of ALPA or IAM are no longer employees of the Company; under certain circumstances, Class Pilot MEC, Class IAM and Class SAM Preferred Stock succeed to the voting rights represented by Class P, Class M and Class S Preferred Stock, respectively | | |
| \$0.01 | junior to Public Preferred Stock, Series A Preferred Stock, ESOP Preferred Stock and Voting Preferred Stock; on parity with other Director Preferred Stock; senior to other preferred stock and New Shares | votes to elect Independent Directors | none | no special rights |
| na | junior to all preferred stock | until the Sunset, votes as a class with the Voting Preferred Stock on all matters except the election of directors and elects the Public Directors as a class without the Voting Preferred Stock; after the Sunset, votes on all matters as a class with the Voting Preferred Stock | none | no special rights |

PROXY STATEMENT/JOINT PROSPECTUS

UAL CORPORATION
UNITED AIR LINES, INC.

MEETING OF STOCKHOLDERS

TO BE HELD JUNE , 1994

INTRODUCTION

This Proxy Statement/Joint Prospectus (the "Proxy Statement/Prospectus") is being furnished in connection with the solicitation of proxies by the Board of Directors of UAL Corporation, a Delaware corporation ("UAL" or the "Company"), for use at the Meeting of Stockholders of the Company to be held on June , 1994, at a.m., local time, at , and at any adjournment or postponement thereof (the "Meeting"). This Proxy Statement/Prospectus, the attached Notice of Meeting and the enclosed form of proxy are being first mailed to holders of shares of common stock, par value \$5 per share, of the Company ("Old Shares") of the Company on or about June , 1994.

PURPOSE OF THE MEETING

The purpose of the Meeting is to consider and vote upon a proposal to recapitalize the Company as hereinafter described. Holders of Old Shares are being asked to consider and vote upon (i) the Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994 (the "Plan of Recapitalization"), which contemplates certain transactions collectively referred to as the "Recapitalization," (ii) subject to and conditioned upon approval of the Plan of Recapitalization, the amendment and restatement of the Company's Certificate of Incorporation and Bylaws (the "Charter and Bylaw Amendments"), (iii) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the approval of the issuance of (a) shares of Class 1 ESOP Convertible Preferred Stock (the "Class 1 ESOP Preferred Stock") to State Street Bank and Trust Company ("State Street"), as trustee of the UAL Corporation Employee Stock Ownership Plan Trust, (b) shares of Class 2 ESOP Convertible Preferred Stock (the "Class 2 ESOP Preferred Stock" and, together with the Class 1 ESOP Preferred Stock, the "ESOP Preferred Stock") (or the common shares into which they convert) to State Street, as trustee of the UAL Corporation Employee Stock Ownership Plan Trust (or in limited circumstances as trustee of the UAL Corporation Supplemental ESOP Trust) or underlying New Shares to participants in the UAL Corporation Supplemental ESOP, (c) shares of (1) Class P ESOP Voting Junior Preferred Stock, (2) Class M ESOP Voting Junior Preferred Stock and (3) Class S ESOP Voting Junior Preferred Stock to State Street, as trustee of the UAL Corporation Employee Stock Ownership Plan Trust and the UAL Corporation Supplemental ESOP Trust, (d) shares of Class I Junior Preferred Stock to certain individuals to be named as directors of the Company, (e) a share of Class Pilot MEC Junior Preferred Stock to the United Airlines Pilots Master Executive Council ("ALPA-MEC") of the Air Line Pilots Association, International ("ALPA"), (f) a share of Class IAM Junior Preferred Stock to the International Association of Machinists and Aerospace Workers (the "IAM") or its designee and (g) shares of Class SAM Junior Preferred Stock to an individual to be named as a director of the Company on behalf of salaried and management employees of the Company (the "Salaried and Management Employees") and to an additional designated stockholder (collectively, the "Stock Issuance"), (iv) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the election of four "Public Directors" of the Company, (v) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the amendment of the Company's 1981 Incentive Stock Program, as amended (the "1981 Stock Program"), (vi) subject to and conditioned upon approval of the Plan of Recapitalization and the Charter and Bylaw Amendments, the amendment of the Company's 1988 Restricted Stock Plan (the "1988 Restricted Stock Plan"), (vii) subject to and conditioned upon approval of the Plan of Recapitalization, the amendment

of the Company's Incentive Compensation Plan (the "Incentive Plan"), (viii) three stockholder proposals, (ix) ratification of the selection of Arthur Andersen & Co. ("Arthur Andersen") as the Company's independent accountants for the year ending December 31, 1994 and (x) such other business as may properly come before the Meeting or any adjournment or postponement thereof. See "BACKGROUND OF THE PLAN OF RECAPITALIZATION" and "THE PLAN OF RECAPITALIZATION." A copy of the Plan of Recapitalization and copies of the proposed Amended and Restated Certificate of Incorporation of the Company (the "Restated Certificate") and the Amended and Restated Bylaws of the Company are included elsewhere in this Proxy Statement/Prospectus.

The approval of matters (ii) through (vii) will be subject to the approval of the Plan of Recapitalization, and the approval of matters (iii) through (vi) will be subject to the approval of the Charter and Bylaw Amendments.

Contemporaneously with this solicitation, United Air Lines, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("United"), is offering for sale \$382,500,000 principal amount of its Series A Debentures due 2004 (the "Series A Debentures") and \$382,500,000 principal amount of its Series B Debentures due 2014 (the "Series B Debentures") (the "United Debt Offering") and the Company is offering for sale 30,600,000 depository shares (the "Depository Preferred Shares") representing interests in \$765,000,000 aggregate liquidation preference of Series B Preferred Stock, without par value, of the Company (the "Public Preferred Stock") (the "UAL Preferred Offering" and, together with the United Debt Offering, the "Offerings"). If the Offerings are consummated, the proceeds thereof will be used to fund a portion of the cash payment to be made to holders of Old Shares pursuant to the Recapitalization. The Offerings are conditioned on, and subject to, the consummation of the Recapitalization. In addition, each Offering is conditioned on, and subject to, the consummation of the other Offering. The Recapitalization is not conditioned on, or subject to, the consummation of either the United Debt Offering or the UAL Preferred Offering. If the Offerings are consummated, it is expected that they will be consummated at or immediately prior to the Effective Time (as defined below).

The Plan of Recapitalization provides, among other things, that the Old Shares will be reclassified. As a result of the reclassification, each Old Share outstanding at the consummation of the Recapitalization (the "Effective Time"), including each share of restricted stock issued pursuant to the 1988 Restricted Stock Plan (which will vest upon the Effective Time if not vested prior thereto), together with up to 1,000,000 Old Shares held by the Company as treasury stock or owned by any wholly-owned subsidiary of the Company immediately prior to the Effective Time, will be reclassified as follows:

(a) If the Offerings are consummated, upon the Effective Time, each outstanding Old Share will be reclassified as, and converted into, one-half (0.5) of a new share of common stock, par value \$0.01 of the Company (the "New Shares") and one one-thousandth of a share of Series E Redeemable Preferred Stock, without par value, of the Company (the "Series E Redeemable Preferred Stock"), which will be redeemed immediately after issuance for cash in an amount equal to the sum of (a) \$25.80, (b) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 principal amount of Series A Debentures and \$15.55 principal amount of Series B Debentures pursuant to the United Debt Offering and (c) the proceeds (without deducting the underwriting discount or other costs) from the sale of 1.244 Depository Preferred Shares representing interests in \$31.10 liquidation value of Public Preferred Stock pursuant to the UAL Preferred Offering.

(b) If the Offerings are not consummated, upon the Effective Time, each outstanding Old Share will be reclassified as, and converted into, one-half (0.5) of a New Share and one one-thousandth of a share of Series D Redeemable Preferred Stock, without par value, of the Company (the "Series D Redeemable Preferred Stock") (the Series E Redeemable Preferred Stock and the Series D Redeemable Preferred Stock are sometimes referred to herein as the "Redeemable Preferred Stock"), which will be redeemed immediately after issuance for (a) \$25.80 in cash, (b) \$15.55 principal amount of Series A Debentures, (c) \$15.55 principal amount of Series B Debentures and (d) 1.244 Depository Preferred Shares representing interests in \$31.10 in liquidation preference of the Public Preferred Stock.

Under various circumstances, the value of the consideration to be received by stockholders could be less than the stated face amount or liquidation preference of the Debentures or Depositary Preferred Shares.

The New Shares and cash distributed in respect of Old Shares if the Offerings are consummated are referred to herein as the "Proceeds Recapitalization Consideration." The New Shares, cash, Debentures and Depositary Shares distributed in respect of Old Shares if the Offerings are not consummated are referred to herein as the "Mixed Recapitalization Consideration." The Proceeds Recapitalization Consideration and the Mixed Recapitalization Consideration are each sometimes referred to herein as the "Recapitalization Consideration."

The terms of the Debentures, the Public Preferred Stock and the Depositary Preferred Shares are described under "DESCRIPTION OF SECURITIES--The Debentures," "--The Public Preferred Stock" and "--The Depositary Preferred Shares." Under the Plan of Recapitalization, the interest rate on the Series A Debentures has been fixed provisionally at 9.00%, the interest rate on the Series B Debentures has been fixed provisionally at 9.70% and the dividend rate on the Public Preferred Stock has been fixed provisionally at 10.25%. Under the Plan of Recapitalization, the interest rates on the Debentures and the dividend rate on the Public Preferred Stock will be adjusted not less than five nor more than ten days before the date of the Meeting (the "Announcement Date") to rates (which in each case, if there is an upward adjustment, may not be more than 112.5 basis points (i.e., 1.125 percentage points) higher than the respective provisional rates, but which in the case of a downward adjustment are not limited) that, in the opinion of certain financial advisors to the Company and the Unions and in the case of a deadlock, based on a process involving a third financial advisor identified by the Company and the Unions, would permit the Debentures and the Depositary Preferred Shares representing interests in the Public Preferred Stock to trade at par on such date on a fully distributed basis. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

The underwriting agreements relating to the Offerings will provide that if the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Preferred Stock may be adjusted (including in excess of their respective caps) to permit the Debentures and the Depositary Preferred Shares to be sold at or closer to par, but if that is done, the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares representing interests in the Public Preferred Stock, as the case may be, will be reduced so that the aggregate amount of interest payable annually by United on the Debentures or the aggregate amount of dividends payable annually by the Company on the Public Preferred Stock will not exceed certain amounts calculated in reference to such caps. If the Offerings are not consummated, the interest rates borne by the Debentures and the dividend rate borne by the Public Preferred Stock will be subject to the caps. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

Each share of Series A Convertible Preferred Stock of the Company ("Series A Preferred Stock") and each of the Air Wis Services, Inc. 7 3/4% Convertible Subordinated Debentures Due 2010 and the Air Wis Services, Inc. 8 1/2% Convertible Subordinated Notes Due 1995 outstanding immediately prior to the Effective Time (each, a "Convertible Company Security") will remain outstanding, and each holder of any such Convertible Company Security will have the right to receive, upon conversion thereof from and after the Effective Time, the Recapitalization Consideration with respect to each Old Share that such holder would have been entitled to receive had such holder converted such Convertible Company Security in full immediately prior to the Effective Time. If the Offerings are consummated, holders of Convertible Company Securities who convert their securities after the Effective Time will receive the Proceeds Recapitalization Consideration upon such conversion, and if the Offerings are not consummated, they will receive the Mixed Recapitalization Consideration upon such conversion.

At the Effective Time, each outstanding employee stock option of the Company granted under the 1981 Stock Program or the Air Wis Services, Inc. 1987 Non-Qualified Stock Option Plan will remain outstanding, each such option then held by active employees and officers (including persons who were officers of the Company or United as of July 1993) (collectively, the "Options") will become fully vested and exercisable at

the Effective Time and each such Option will thereafter represent the right to receive, until the expiration thereof in accordance with its terms, in exchange for the aggregate exercise price for such Option, the Recapitalization Consideration with respect to each Old Share that such holder would have been entitled to receive had such holder exercised such Option in full immediately prior to the Effective Time. If the Offerings

are consummated, holders of Options who exercise their Options after the Effective Time will receive the Proceeds Recapitalization Consideration upon such exercise, and if the Offerings are not consummated, they will receive the Mixed Recapitalization Consideration upon such exercise.

VOTING RIGHTS AND PROXY INFORMATION

The Board of Directors of the Company has fixed the close of business on May 23, 1994 as the record date (the "Record Date") for determining which holders of Old Shares are entitled to notice of and to vote at the Meeting. Accordingly, only holders of record of Old Shares at the close of business on the Record Date will be entitled to vote at the Meeting. At the close of business on the Record Date, there were Old Shares outstanding and entitled to vote, held by 19,072 stockholders of record. As of the close of business on the Record Date, there were also Old Shares held as treasury stock by the Company, which Old Shares will not be voted at the Meeting. Holders of Series A Preferred Stock will not be entitled to vote at the Meeting, although such holders may convert their shares of Series A Preferred Stock into Old Shares prior to the Record Date and vote such Old Shares at the Meeting.

Each holder of record of Old Shares on the Record Date is entitled to cast one vote per Old Share, in person or by properly executed proxy, at the Meeting. The presence in person or by properly executed proxy of the holders of a majority of the outstanding Old Shares entitled to vote is necessary to constitute a quorum at the Meeting.

Under Delaware law, the affirmative vote of the holders of a majority of the Old Shares outstanding on the Record Date will be required to approve and adopt the Plan of Recapitalization and the Charter and Bylaw Amendments, the affirmative vote of the holders of a plurality of Old Shares present in person or represented by proxy at the Meeting will be required to elect each of the directors and the affirmative vote of the holders of a majority of Old Shares present in person or represented by proxy at the Meeting will be required to approve or adopt each of the other matters identified in this Proxy Statement/Prospectus as being presented to holders of Old Shares at the Meeting. None of the votes described above requires the separate approval by a majority of the shares held by the Company's unaffiliated stockholders. The Company's directors (other than Dr. Brimmer) and executive officers, and their affiliates, have sole or shared voting power and beneficial ownership with respect to approximately 1.6 percent of the outstanding Old Shares, which they intend to vote in favor of the Plan of Recapitalization and the Charter and Bylaw Amendments. Accordingly, the affirmative vote of the holders of approximately 48.4 percent of the outstanding Old Shares (other than directors and executive officers and their affiliates) is required for approval of the Plan of Recapitalization. Dr. Brimmer expects to vote his shares against the Plan of Recapitalization and the Charter and Bylaw Amendments.

All Old Shares that are represented at the Meeting by properly executed proxies received prior to or at the Meeting and not revoked will be voted at the Meeting in accordance with the instructions indicated in such proxies. IF NO INSTRUCTIONS ARE INDICATED, SUCH PROXIES WILL BE VOTED FOR APPROVAL OF THE PLAN OF RECAPITALIZATION, THE CHARTER AND BYLAW AMENDMENTS, THE STOCK ISSUANCE, THE AMENDMENT OF THE 1981 STOCK PROGRAM, THE AMENDMENT OF THE 1988 RESTRICTED STOCK PLAN AND THE AMENDMENT OF THE INCENTIVE PLAN; FOR THE ELECTION OF FOUR PUBLIC DIRECTORS AND FOR THE RATIFICATION OF ARTHUR ANDERSEN AND AGAINST THE STOCKHOLDER PROPOSALS. The Board of Directors of the Company does not know of any matters, other than as described in the Notice of Meeting attached to this Proxy Statement/Prospectus, that are to come before the Meeting. IF A PROXY IS GIVEN TO VOTE IN FAVOR OF THE PLAN OF RECAPITALIZATION, THE PERSONS NAMED IN SUCH PROXY WILL HAVE AUTHORITY TO VOTE IN ACCORDANCE WITH THEIR

BEST JUDGMENT ON ANY OTHER MATTER THAT IS PROPERLY PRESENTED AT THE MEETING FOR ACTION, INCLUDING WITHOUT LIMITATION, ANY PROPOSAL TO ADJOURN THE MEETING OR OTHERWISE CONCERNING THE CONDUCT OF THE MEETING.

Abstentions will have the effect of a vote against the Plan of Recapitalization, the Charter and Bylaw Amendments and the other matters presented for a vote of the stockholders (other than the election of directors). With respect to abstentions, the Old Shares are considered present at the Meeting. The abstentions are not, however, affirmative votes for the matters presented for a vote and, therefore, they will have the same effect as votes against any matter presented for a vote of the stockholders (other than the election of directors). With respect to the election of directors, abstentions and broker non-votes will be disregarded and will have no effect on the outcome of the vote. Broker non-votes will have no effect on the outcome and the vote on any of the matters presented for a vote of stockholders at the Meeting, other than the Charter and Bylaw Amendments. With respect to the Charter and Bylaw Amendments, broker non-votes are considered present and, accordingly, will have the effect of a vote against the Charter and Bylaw Amendments.

In the event that a quorum is not present at the time the Meeting is convened, or if for any other reason the Company believes that additional time should be allowed for the solicitation of proxies, the Company may adjourn the Meeting with a vote of the stockholders then present. The persons named in the enclosed form of proxy will vote any Old Shares for which they have voting authority in favor of such adjournment.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Company, before the polls are closed with respect to the vote, a written notice of revocation bearing a later date than the proxy, (ii) duly executing a subsequent proxy relating to the same Old Shares and delivering it to the Secretary of the Company or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute a revocation of a proxy). Any written notice revoking a proxy in accordance with clause (i) above should be sent to: UAL Corporation, P.O. Box 66919, Chicago, Illinois 60666, Attention: Francesca M. Maher, Secretary. In addition, both proxies and revocations of proxy may be given by delivering to Georgeon & Co. by means of facsimile at (212) 440-9009, before the close of business on the day before the Meeting, both sides of an executed form of proxy or a notice of revocation bearing a later date than the proxy.

Stockholders are urged to read this Proxy Statement/Prospectus carefully in its entirety before deciding how to vote their Old Shares.

NO APPRAISAL RIGHTS

Stockholders of the Company will not be entitled to appraisal rights in connection with any of the matters to be voted upon at the Meeting.

BACKGROUND OF THE PLAN OF RECAPITALIZATION

In the years following a 29-day strike by ALPA in 1985, relations between the Company and its principal unions, ALPA, the IAM and the Association of Flight Attendants ("AFA"), have often been discordant. During this period, a number of significant events involving a potential change in corporate control or the sale of substantial assets of the Company have occurred or were proposed, many of which events involved the participation of one or more of the Company's unions, including (i) an offer by ALPA to acquire United and the Company's computerized reservation system for \$4.5 billion in April 1987, (ii) a consent solicitation by a group including Coniston Partners in May 1987, (iii) a planned recapitalization, announced by the Company in May 1987, that would have resulted in the Company's stockholders receiving \$60 per share while retaining their shares, (iv) the adoption in June 1987, following the resignation of Richard J. Ferris as chairman of the Company, of a restructuring plan involving the sale of the Hertz Company, Westin Hotel Company and Hilton International Co. and a distribution of cash, which led to such sales through a tender

offer by the Company for its own shares which was completed in March 1988, (v) a proposal by a pilot-organized entity to acquire the Company for \$110 per share in May 1988, (vi) a proposal from Marvin Davis to acquire the Company for \$240 per share in August 1989, (vii) the entry into a merger agreement with Airline Acquisition Corp. (an entity which was intended to be owned 75% by employee stock ownership plans for the benefit of the Company's employees, 15% by British Airways and 10% by the Company's senior management) providing for consideration of \$300 per share, which agreement was entered into in September 1989 and thereafter failed due to an inability to obtain necessary financing, and (viii) the entry into a merger agreement with United Employee Acquisition Corp. (an entity formed by ALPA, the IAM and AFA) providing for consideration of \$155 per share in cash, \$35 per share in Company debt securities and \$13 per share in debt securities of Covia Corp., which agreement was entered into in April 1990 and terminated in October 1990 due to an inability to obtain necessary financing following Iraq's invasion of Kuwait.

During this period, earnings per share from continuing operations, helped by both the strength of the global economy and operating improvements undertaken by the Company, grew from a loss of \$3.43 in 1985 to positive earnings of \$20.20 in 1988 and \$14.96 in 1989. This improving earnings posture came to a dramatic halt in 1990 when Iraq's invasion of Kuwait sent fuel prices skyrocketing while simultaneously dampening consumer demand for air travel. These events, combined with the downturn in the global economy, led to disappointing earnings per share of \$4.33 in 1990 and a per share loss of \$14.31 in 1991.

In recent years, including during 1992, the Company has noted the emergence of a fundamental shift in consumer behavior, with an increased focus on the price/value relationship. Travel preference (of both business and leisure travellers) has continued to shift to low-cost travel as provided by carriers such as Southwest Airlines, Inc. ("Southwest"), Morris Air and Reno Air. The Company believed that this trend was long-term and would continue even if the weak economic conditions of the early 1990s improved. The Company determined that its ability to be competitive in such an environment required a substantial reduction of its operating costs.

Thus, on January 6, 1993, the Company, while recognizing that it had put in place progressively leaner operating budgets over the prior few years, nevertheless announced a further \$400 million cost reduction program, including the subcontracting of skycaps and certain janitorial services and the furlough of 2,800 employees. Additionally, the Company restructured its fleet plan and aircraft purchase commitments, cancelling firm orders for 49 Boeing aircraft, deferring acceptance of 14 Airbus aircraft and accelerating the retirement of 25 older aircraft. The net effect of these changes was to reduce the Company's planned capital spending through 1996 by over \$6.2 billion and reduce the size of the planned 1996 year-end fleet size by over 85 aircraft.

The Company determined that even with these changes it would be necessary to reduce its single largest expense, labor costs, to be competitive in the changed environment of the 1990s. Thus, in addition to the subcontracting, furloughs and the implementation of a 5% salary reduction program for certain management employees, the Company requested concessions from its three principal unions on January 14, 1993. AFA rejected such request on January 14, 1993 and the IAM rejected such request on January 19, 1993. ALPA indicated that it desired to conduct a financial review of the Company.

In light of the unwillingness of the Company's unions to participate in the Company's cost-cutting efforts, the Company thereafter announced its intention to undertake various other cost-cutting actions, including selling its flight kitchens, subcontracting certain ground services, opening a flight attendant domicile in Taiwan and evaluating the sale of the Denver flight training center. CS First Boston Corporation ("CS First Boston") was retained February 12, 1993 to assist the Company in connection with the evaluation of a sale of the United States flight kitchens. The Company also discussed the possibility of subcontracting its jet repair work, selling its jet engine overhaul maintenance facility in San Francisco, subcontracting its components business and ground equipment overhaul business, and subcontracting its line maintenance work, building maintenance work, and computer terminal technician work.

In March, 1993, Booz . Allen & Hamilton ("BAH") was engaged by the Company to provide a description of, and outlook for, the U.S. airline industry and United. The assessment focused on the domestic airline industry as represented by the thirteen leading carriers, who together represent 99% of the U.S. airline industry's capacity. At a meeting of the Company's Board of Directors (the "Board") held on April 28, 1993, BAH presented a report to the Board. In its report, BAH noted "the U.S. airline industry has historically underperformed, particularly since deregulation when overall financial returns, in the aggregate, have been negative. Despite this poor performance, the industry expanded rapidly after deregulation. However, to fill the rapidly expanding capacity, the industry had to drop prices almost continuously. Unfortunately, for a significant portion of the post-deregulation period--most notable in the last three years--the industry has been unable to reduce costs as rapidly as prices, which has led to significant industry-wide losses." The report noted that it seemed unlikely that carriers such as United could achieve sufficient cost reduction without a major restructuring. The report concluded that United had to respond to major industry imperatives by reducing competitive intensity, through redeploying capacity into core segments and reducing costs to narrow the gap with its principal low-cost competitors. BAH advised that to redeploy capacity to defensible segments, United should (i) identify core capabilities as a basis for market advantage, (ii) focus product, capacity and resource investments into specific core areas to capitalize on those advantages, (iii) form partnerships/alliances to serve complementary segments and (iv) withdraw from non-core activities. In order to reduce its cost gap, United should (i) reduce controllable costs wherever possible, (ii) work with labor to achieve wage reductions and productivity improvements and (iii) pursue alternatives for radical restructuring and product redesign.

In a further presentation to the Board on June 24, 1993, BAH indicated that, in the absence of labor cooperation, the Company had four options: (i) restructure and downsize to focus on those markets where United could be profitable in the long term, (ii) restructure and grow to create a stronger domestic and international competitive position, (iii) return value to stockholders by monetizing flying assets, services and/or other hard assets and (iv) sell the airline in whole or in parts.

On April 19, 1993, the Board received a letter from the United Airlines Union Coalition (the "Coalition"), a group then composed of ALPA, the IAM and AFA, expressing concern over asset sales and extensive restructuring. In response, the Company sent a letter to the Coalition inviting a "shared solution" to the Company's need to reduce operating costs. On June 2, 1993, Mr. Stephen M. Wolf, Chairman of the Company, and Mr. Paul George, Senior Vice President--Human Resources of United, met with Captain Roger D. Hall, Chairman, ALPA-MEC, Ms. Diane Tucker, then President of the UAL/AFA Master Executive Council, and Mr. Ken Thiede, President and General Chairman of IAM-District 141. At such meeting, the Coalition indicated it was working on such a "shared solution". At the time, the Company was engaged in discussions with potential purchasers of its United States flight kitchens and final bids were due on July 20, 1993. The Company agreed to defer any major restructuring action until July 19, 1993 and requested that the Coalition submit a proposal by that time.

July 16 Proposal

On July 16, 1993, the Board received a letter from the Coalition (the "Coalition July 16 Proposal") that stated that the Coalition's participation in a cooperative restructuring was predicated on (i) employee investments by ALPA, the IAM, AFA and United's salaried and management employees that would be intended to produce an aggregate of \$3.345 billion in employee cost savings over five years, (ii) joint development over a 12-18 month period of a plan intended to meet the competitive challenges facing United and projected to provide at least \$100 million in additional operating income in 1995, \$200 million in 1996 and \$300 million in 1997 and each year thereafter, (iii) contribution of a substantial majority of the Company's common equity to a trust or trusts for the benefit of the Company's employees, (iv) a recapitalization of the Company (without additional external financing) in which the existing stockholders would receive a substantial minority of the Company's common stock and other consideration, (v) a balanced corporate governance structure, (vi) a restructuring that was not dependent on third parties (i.e., that did not require bank financing, a financial partner or a strategic partner), (vii) a restructured Company that

maintained a substantial cash balance, (viii) negotiation of collective bargaining provisions intended to protect the job security and work opportunities of United's employees and (ix) preservation of the status quo during negotiation of the proposal. The Coalition July 16 Proposal emphasized that such points were "all essential elements of the restructuring" and "available only in the context of a restructuring that meets the other characteristics outlined above."

On July 20, 1993, the Company retained CS First Boston to assist it in its evaluation of the Coalition program. On July 21, 1993, the Coalition publicly confirmed that it had provided "several concepts" to the Company with respect thereto. On the same day, the Company publicly confirmed it was in communication with the Coalition regarding the concepts provided to the Company by the Coalition. Thereafter, representatives of the Company and the Coalition commenced a series of meetings to discuss the Coalition program.

August 5 Board Meeting

On August 5, 1993, the Board held a meeting at which it considered a presentation by BAH and members of Company management concerning ways to improve the Company's profitability and provide stockholder value, with specific focus on establishment of one or more domestic short-haul carriers which would be owned independently of the Company and United and which would virtually eliminate short-haul flying by United, along with other fundamental alterations of the Company's business and structure (the "Fundamental Restructuring Plan"). The Board also received a report on the status of discussions with the Coalition. The Board discussed the alternative of proceeding with the Fundamental Restructuring Plan and declining participation in the program outlined in the Coalition July 16 Proposal, the alternative of proceeding with the Coalition program and deemphasizing the Fundamental Restructuring Plan and the alternative of proceeding to develop both the Coalition program and the Fundamental Restructuring Plan. The Board, recognizing that the Coalition was offering very substantial concessions but that significant structural matters limited the ability to provide value to stockholders, determined both to work with the Coalition and to develop additional details of the Coalition July 16 Proposal. The Board concluded that a Coalition proposal should be considered only in light of, among other things, its valuation compared to the going concern value of the Company not taking into account any restructuring plan and the value to stockholders of other alternatives. The Board also instructed management to continue to explore the alternatives discussed by BAH and to pursue the sale of the United States flight kitchens.

On August 10, Mr. Wolf and Mr. George met with Captain Hall, Mr. Kevin Lum, who had replaced Ms. Tucker as President of the UAL/AFA Master Executive Council, and Mr. Thiede and on August 11 the Company's representatives met with the Coalition's representatives. At both meetings the Company conveyed the view that, although the Company had not completed its valuation analysis, after reviewing the program outlined by the Coalition, particularly the limitations it imposed, the Company did not see how the program as outlined by the Coalition permitted the Company to satisfy its key requirement in any transaction involving the transfer of control: to deliver an appropriate premium over market to the holders of Old Shares in a transaction that was fair to such stockholders. At the same time, the Company expressed to the Coalition the Board's willingness to discuss actively a transaction that involved majority employee ownership, substantial corporate governance protection and comprehensive job protection provisions, provided that it also satisfied the Company's key requirement of providing substantial value to holders of Old Shares. At the meeting among representatives, some specific approaches were expressed as to possible areas of modifications to or enhancements of the Coalition program in order to bridge what appeared to the Company to be a substantial value gap. See "SPECIAL FACTORS--Certain Revenue and Earnings Scenarios."

August 25 Board Meeting

In a meeting held on August 25, 1993, the Board reviewed the process that was being followed and the steps that had been taken to obtain additional details and evaluate the Coalition proposal. The Board then

reviewed in detail the various alternatives if the Company did not engage in a transaction involving the sale of a majority of the equity to its employees, including:

- . maintaining the "status quo" without undertaking extraordinary actions,
- . pursuing an alternative, referred to as the "enhanced status quo" alternative, whereby the Company would undertake certain extraordinary cost-cutting actions, including, for example, a sale of the flight kitchens, designed to enhance stockholder value over the "status quo" alternative without undertaking a major restructuring of the Company and
- . pursuing the Fundamental Restructuring Plan.

In considering the "status quo" alternative, the Board considered as positive factors the prospect of labor peace, the possibility that the aviation environment might improve and the fact that this alternative preserved the Company's opportunity to carry out a fallback strategy. It considered as negative factors the fact that this alternative did not address the Company's fundamental problems (especially the continued expansion of low-cost carriers), and would result in continuing unsatisfactory financial performance, the loss of a "window of opportunity" before labor contracts reopened, the failure to provide sufficient incentive to the unions to lower costs and the prospect of a declining price of the Old Shares.

The Board viewed the positive aspects of pursuing the "enhanced status quo" alternative as improved financial performance versus the "status quo" alternative and the use of a "window of opportunity" before labor contracts reopened. It viewed as negative factors the potential labor disruption in the workplace, the lack of sufficient improvement of financial performance, the failure to address the low-cost carrier problem and the possibility that United would be subject to some adverse media/political attention, which factors would potentially reduce the positive effects on the stock price.

Because the "enhanced status quo" alternative was viewed as preferable to the "status quo" alternative in all aspects except the potential for labor disruption, the Board felt the "enhanced status quo" alternative was the appropriate comparison when evaluating the Fundamental Restructuring Plan and other alternatives.

In considering the Fundamental Restructuring Plan, the Board noted that pursuit of such plan would significantly improve financial performance if successful, significantly improve stock price if successful, and take advantage of the "window of opportunity" before labor contracts reopened. The Board also noted that the ability of the Company to implement successfully this alternative was uncertain and that this alternative had the potential to cause extreme labor disruption in the workplace, to place severe limits on the Company's ability to pursue an acceptable fallback strategy, to subject United to extreme adverse media/political attention and to significantly depress the Company's stock price if not successful.

The Board also recognized that the Fundamental Restructuring Plan was likely to be challenged by the Company's unions both in Federal court and in arbitration under the Railway Labor Act. Such a challenge could involve issues such as (i) whether the Fundamental Restructuring Plan violated statutory prohibitions against interference with union rights and/or unilateral carrier actions, (ii) whether the Fundamental Restructuring Plan violated provisions in the ALPA or AFA agreements that prohibit the Company from controlling, managing or holding any equity interest in another carrier, (iii) whether the Fundamental Restructuring Plan violated a provision in the AFA agreement that prohibits establishment of an "alter ego" carrier and (iv) whether the Fundamental Restructuring Plan violated a clause in the ALPA agreement that restricts marketing agreements with United Express carriers. The Board recognized that resolution of these issues could delay or prevent implementation of the Fundamental Restructuring Plan. The Board also considered the corporate taxation aspects of the Fundamental Restructuring Plan, including whether the creation of one or more new short-haul carrier entities would qualify as a tax-free reorganization under Section 355 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

Finally, the Board considered that a strategy involving a sale of a majority of the Company's equity to employees would be expected to result in labor peace, provide significant value to the stockholders, potentially

address the low-cost carrier problem and potentially preserve the Company's opportunity to pursue a fallback strategy. The negative aspects of such a strategy were determined to include the fact that, if not successful, the Company would lose some of the "window of opportunity" and that the labor unions might initiate a destructive public relations campaign coupled with significant disruptive job action. The Board noted that such a strategy might provide potentially less value to stockholders than a fully successful Fundamental Restructuring Plan, although it would likely provide more value than a failed Fundamental Restructuring Plan.

At the August 25, 1993 Board meeting, CS First Boston made a presentation summarizing its analyses of three alternatives to the Coalition program: maintaining the "status quo", implementing the "enhanced status quo" alternative (consisting of management actions that the Company believed would increase labor force productivity or reduce labor costs but that would not require a major restructuring) and implementing the Fundamental Restructuring Plan, including an overview of the steps that would be required for implementation of each. The presentation also included a preliminary valuation analysis of the "enhanced status quo" alternative and the Fundamental Restructuring Plan. In order to arrive at a range of values per share of the Company assuming implementation of the "enhanced status quo" alternative, CS First Boston used a discounted cash flow analysis to estimate the present value of the future cash flows that the Company could be expected to produce over a five-year period from 1994 through 1998 in accordance with management's forecasts adjusted to reflect the cost reductions of the "enhanced status quo" alternative. CS First Boston estimated a preliminary value range for the Company, assuming the implementation of the "enhanced status quo" alternative, by adding the present value of the five-year unleveraged free cash flows of the Company under that scenario to the present value of the Company's 1998 terminal value. The discount rates and terminal multiples reflected then-current market conditions. This analysis resulted in a preliminary range of values per share of the Company, assuming the implementation of the "enhanced status quo" alternative, of from \$150 to \$180.

CS First Boston's presentation included a preliminary range of values for the Company assuming implementation of the Fundamental Restructuring Plan. CS First Boston applied the same discounted cash flow methodology used in the "enhanced status quo" case to the cash flows that the Company could be expected to produce over the five-year period from 1994 through 1998 if the Fundamental Restructuring Plan were adopted. This analysis resulted in a preliminary range of values per share, if the Fundamental Restructuring Plan were successfully implemented, of from \$225 to \$275. CS First Boston noted that this preliminary range of values must be reduced by the expected costs of the transition to such plan and the assumed costs of labor disruption related to the implementation of the Fundamental Restructuring Plan, which were estimated to range from \$22 to \$42 per share. After such reduction, this analysis resulted in a preliminary range of values per share of the Company, if the Fundamental Restructuring Plan were successfully implemented, of \$183 to \$253 per share. CS First Boston noted that this range of values assumed that the transaction would not be taxable to the Company or its stockholders and must be further reduced by the following factors, which were not quantified: (i) the ownership share expected to be retained by the new operators and accordingly not distributed to the Company's stockholders, (ii) structural inefficiencies, (iii) national labor leadership response, (iv) government reaction and (v) public relations risk.

CS First Boston also presented a preliminary analysis of a range of values for the Company if implementation of the Fundamental Restructuring Plan was attempted by the Company, but was ultimately blocked as a result of legal action, and the Company subsequently adopted the "enhanced status quo" alternative described above. CS First Boston assumed for purposes of its analysis that the Company would have absorbed the transition expenses and labor disruption costs associated with the Fundamental Restructuring Plan during the pendency of the legal action. Accordingly, this analysis resulted in a preliminary range of values per share of the Company, if the "enhanced status quo" alternative were adopted following an unsuccessful attempt to implement the Fundamental Restructuring Plan, of from \$108 to \$158.

For information relating to the qualifications of CS First Boston, the method of its selection, the nature of, and purpose for, its analyses, the procedures it followed in connection therewith and the compensation it has received or will receive, see "SPECIAL FACTORS--Opinions of the Financial Advisors to the Board."

The Board then further discussed issues concerning the various alternatives, including their potential impact on the Company and the factors influencing the potential success of each alternative.

At the conclusion of its deliberations, the Board determined that the Company should identify for the Coalition a set of possible enhancements to the Coalition program but at the same time management should proceed with the development of various restructuring activities as and to the extent management deemed appropriate.

In a letter to the Coalition dated August 25, 1993, the Company stated that since August 11, 1993, the Company and its financial advisors "had performed further analysis which has provided the Company with a clearer view of value, both as to the Company if no Coalition transaction occurs and as to the value of the Coalition program as reflected in the July 16th letter. The Company's analysis has confirmed that a substantial value gap exists between the Coalition program and the inherent value of the Company."

In the August 25th letter, the Company outlined an approach to enhance the Coalition's program for a majority employee ownership transaction for consideration by the Coalition. This approach involved the following components to enhance the Coalition's proposed structure: (i) one or more trusts for the benefit of the Company employees would acquire 50.1% of the economic and voting power of the Company's equity, (ii) (a) employee investment as described in the Coalition July 16 Proposal would be supplemented by additional employee investment amounting to \$120 million in year 1 and growing to \$160 million in year 8, (b) an extension of the duration of the employee investment period by three years, (c) the entire investment would be by verifiable pay rate/defined contribution reductions, unless the Company agreed to alternative achievable work-rule changes of equal value, (d) there would be no "snap-backs" and contracts would be amendable after 8 years pursuant to Section 6 of the Railway Labor Act, (e) in each of years 6, 7 and 8 of the investment period, all employees would be provided a general wage rate increase of 2% per year if the Company achieved its earnings projections and there would be no other wage rate, per diem, allowance/premium or benefit increases during the investment period (other than step, longevity or comparable increases for non-contract salaried and management employees or status/promotional increases) and (f) a profit-sharing plan to provide potential for annual lump sum cash payments to employees if corporate performance targets are met, (iii) contract revisions allowing the establishment of a low-cost short-haul airline within United or the Company would be made, (iv) collective bargaining terms designed to provide reasonable job security provisions acceptable to the Company and to United's employees, which would not impose additional costs on United, would be agreed to, (v) upon consummation of the transaction, each existing Old Share would receive one new share of common stock and \$100 in additional consideration, consisting of approximately \$25 in cash and additional "cash equivalent value," consisting of approximately \$37 in value of debt with specified terms and approximately \$37 in value of preferred stock with specified terms and (vi) special governance provisions would be applicable to the "new company."

The Company noted that the outlined approach was intended to provide a basis for discussion and was not intended to be exhaustive and that the Company "recognized that the [outlined] approach to enhancing the Coalition's program . . . will require amplification, modification and amendment of various aspects of the approach."

On September 1, 1993, the Company delivered additional material to the Coalition on the economics of an "airline-within-an-airline" then described as "Friendship Express" (and subsequently referred to as "U2").

On September 13, 1993, the Company announced that it had agreed to sell certain of its United States flight kitchens to Dobbs International Services, Inc. ("Dobbs") and Caterair International Corp. ("Caterair"). The Company also stated that it retained the option to terminate such agreements at any time prior to November 13, 1993.

On September 30, 1993, AFA announced that it had "terminated its participation in the negotiations" due to the Company's decision to open a flight attendant domicile in Taiwan. The Company had previously delayed this action on several occasions (despite the Company's belief that it would meaningfully increase

the Company's productivity) in order to permit AFA time to consider its participation in the transaction. Following such withdrawal by AFA, the Company continued to have discussions with representatives of ALPA and the IAM. All references in this document to the "Coalition" or the "Unions" following September 30, 1993 refer to ALPA and the IAM, but not AFA.

On November 4, 1993, in response to media reports on the status of its discussions with the Coalition, the Company announced that no definitive proposal had been presented to the Company by the Coalition. On November 5, 1993, the Company announced it had sent a letter to the IAM containing a proposal whereby, among other things, the Company and the IAM would enter into a new seven-year contract relating to United States flight kitchens, in lieu of a sale thereof, that would reduce the Company's current catering expense.

On November 6, 1993, the Coalition delivered a draft proposal to the Company with respect to a transaction. On November 8, 1993, a representative of the Company delivered a response to the Coalition that stated, among other things, that such draft presented significant deficiencies in addition to reflecting a substantial shortfall in the level of employee investment.

November 11 Proposal

During the evening of November 11, 1993, the Coalition delivered a formal proposal to the Company (the "Coalition November 11 Proposal"). The Coalition November 11 Proposal provided, among other things, for the acquisition by one or more employee stock ownership plans of securities representing 60% of the equity interest and voting power of the Company, and receipt by the Company's existing stockholders of a package comprised of an aggregate of \$650 million in cash paid by the Company, \$500 million of debentures of the Company, \$750 million of preferred stock of the Company, and common stock representing 40% of the equity of the Company. The Coalition November 11 Proposal also stated that it would be immediately withdrawn in the event the Company sold the flight kitchens.

Under the Coalition November 11 Proposal, ALPA, the IAM and salaried and management employees would make wage concessions which the Coalition valued at \$3.496 billion in nominal amount, or \$2.874 billion in present value (at a 9% discount rate). Under collective bargaining agreement modifications provided for in such proposal, the Company would be permitted to establish a unit to compete with low-cost carriers in the domestic short-haul market. The Coalition indicated that it believed that the present value (at a 9% discount rate) of this competitive capability was approximately \$2.7 billion and valued its proposal at \$165.67 per Old Share. CS First Boston analyzed the Coalition November 11 Proposal and, at a Board meeting held on November 12, 1993, indicated to the Board that it had concluded that the Coalition November 11 Proposal was substantially deficient from the standpoint of providing adequate value to the Company's stockholders. CS First Boston indicated that, although it had not completed a full analysis, it had calculated the value of the Coalition November 11 Proposal as approximately \$140 per Old Share.

The Company communicated such conclusion to the Coalition on November 12, 1993 and further responded with a written alternative which sought to provide "appropriate value" to stockholders while enabling the Coalition to achieve its goal of majority employee ownership. Among other things, the Company's alternative extended the employee investment period by two years, required health insurance contributions and reduced many new hire rates. On November 12, 1993, the Coalition rejected such alternative, stating that it was willing to continue negotiations subject to certain conditions.

Based upon the Coalition response, the Board thereafter determined that the interests of the Company's stockholders would be best served by not exercising the right United had to terminate the flight kitchen sale contracts prior to November 13, 1993. The Company was then advised by the Coalition that the Coalition November 11 Proposal was withdrawn.

On November 12, 1993, the Company issued a press release describing the events of November 11 and 12 described above and stated that it remained willing to continue to hold discussions with its labor unions

and still believed that a cooperative approach to solving a non-competitive labor cost structure was in the best interests of all parties.

On November 16, 1993, Mr. Wolf met in New York with Mr. Felix Rohatyn, a general partner of Lazard Freres & Co. ("Lazard") and a member of the National Commission to Ensure a Strong Competitive Airline Industry from June 1993 through September 1993, in order to explore the basis for renewed discussions with the Company's labor unions. Thereafter, the Board authorized the retention of Lazard. After the retention of Lazard, Lazard and CS First Boston contacted advisors to the Coalition to see if a "firm basis for continued discussion" was possible. On December 1, 1993, Company management and representatives met with senior Coalition officials and discussed certain significant issues, including a mechanism designed to help bridge the difference between the Company and the Coalition of their respective valuations of the Company after giving effect to the concessions.

Thereafter, numerous meetings were held between representatives of the Company and representatives of the Coalition to discuss elements of a possible transaction.

December 16 and 22 Board Meetings

On December 16, 1993, the Board met to discuss the status of a revised Coalition proposal (the "Revised Coalition Proposal"). The Revised Coalition Proposal contemplated the acquisition by the employee trusts of a minimum of 53% of the common equity, subject to increase to up to 63% based on stock price performance in the year after closing, a recapitalization in which the holders of Old Shares would receive cash, debt and preferred stock valued at \$88, and \$4.548 billion net present value of wage and benefits reductions and work-rule changes relating to the Company's employees. In addition, the Revised Coalition Proposal contained a mechanism for resolving differences between the Company and the Coalition over the present value of the employee investment and the "Competitive Action Plan" contained in the proposal. The Coalition believed that the elements of the Revised Coalition Proposal provided a total market value of \$6.9 billion to the Company and its stockholders; applying the same methodology used by the Coalition, the Company and its outside advisors believed the elements of the Revised Coalition Proposal represented \$5.2 billion in market value. To resolve this dispute, the Revised Coalition Proposal contemplated an initial acquisition of 53% of the Company common equity by trusts for the participating employees based on the Company's valuation of the elements of the Revised Coalition Proposal at \$5.2 billion. However, the proposal also allowed the trusts for the participating employee groups to obtain additional equity of the Company, up to 63% in total, if and to the extent the average trading price of the New Shares over the initial year following the Effective Time exceeded certain levels. At such meeting, the Board reviewed, among other things, the amount and terms of the consideration to be received by the public stockholders, the nature of the employee concessions, other terms of a proposed Agreement in Principle (as defined below) incorporating such Revised Coalition Proposal, including proposed conditions, the impact of the proposed transaction on the Company's access to financing, and other issues related to the structure of an employee stock ownership plan, tax effects and earnings per share and other valuation effects. During such meeting, representatives of both CS First Boston and Lazard indicated that despite the publicity surrounding the proposed transaction, no third party had indicated interest in acquiring the Company as an entirety and noted that certain factors, including the state of the leveraged acquisition market and the fundamental need to address cost factors, might be responsible for the lack of third party acquisition interest. At the conclusion of such meeting, the Board instructed the Company's representatives to continue to negotiate the open issues in the proposed Agreement in Principle with a view towards having a definitive proposal for presentation at a December 22, 1993 Board meeting.

On December 22, 1993, the Board met again to discuss the substantially completed Agreement in Principle with respect to the Revised Coalition Proposal. During such meeting, the Board reviewed, among other things, the proposed corporate governance structure of the Company going forward, issues related to management and employee reaction to a transaction and the related transition, the alternatives available to the Company, including potential labor disruption (including the effect on public perception and relations with governmental authorities) if other alternatives were pursued, and the financial terms of the Revised

Coalition Proposal. The Board discussed the requirement of the unions that Mr. Wolf, Mr. John C. Pope, President, and Mr. Lawrence M. Nagin, Executive Vice President--Corporate Affairs and General Counsel, retire at the Effective Time as well as the fact that the majority of the Board would be replaced, and extensively discussed issues relating to management of the Company following the transaction.

At the December 22, 1993 Board meeting, CS First Boston and Lazard gave an overview of the Revised Coalition Proposal, including the improvements from the Coalition's November 11 Proposal. CS First Boston and Lazard described how the Revised Coalition Proposal would affect the Company's balance sheet. CS First Boston and Lazard also described how the accounting rules applicable to "stock based compensation" (which require that stock compensation expense for periodic stock allocations be measured by the then-current market value of the shares at the time of allocation) would apply to the share allocations in the employee stock ownership plans contemplated under the Revised Coalition Proposal, the resulting complexities to forecasting earnings per share and how the investment community might analyze the situation. CS First Boston and Lazard discussed certain valuation issues related to the debentures and the preferred stock proposed to be issued in the Revised Coalition Proposal (including redistribution issues and, in the case of the preferred stock, the limited precedent for a security of the size of the contemplated issue). CS First Boston and Lazard described the possible impact of the proposed transaction on the Company's credit ratings and the cash flow impact of the proposed transaction (including the fact that the proposed employee investment would exceed the incremental fixed charges). CS First Boston and Lazard also described the structure and operation of the stock ownership adjustment mechanism contained in the Revised Coalition Proposal that would increase the employee trusts stock ownership percentage from 53% to a maximum of 63% if the Company's average closing stock price for one year after the Effective Time exceeded specified levels.

At such meeting, CS First Boston and Lazard indicated to the Board that, as of such date, the consideration that would be received by holders of the Old Shares in connection with the transaction contemplated by the proposed Agreement in Principle, taken as a whole, was fair to such holders of Old Shares from a financial point of view. See "SPECIAL FACTORS--Opinions of the Financial Advisors to the Board." Following the presentations and discussions, the Board voted (with Dr. Andrew Brimmer dissenting) to approve the Agreement in Principle.

The Agreement in Principle (the "Agreement in Principle") was executed on December 22, 1993 and thereafter the parties commenced preparation of definitive documentation. The Agreement in Principle provided for a preservation of the "status quo," subject to ratification of the transaction by the ALPA-MEC and the IAM membership occur by January 31, 1994 and an automatic termination of the agreement to preserve the "status quo" if definitive documentation was not completed by March 15, 1994. The IAM membership ratified the transaction on January 26, 1994 and the ALPA-MEC ratified the transaction on January 28, 1994.

March 14 Board Meeting

On March 14, 1994, the Board met to discuss the status of the proposed definitive documentation. At such meeting, the Board received presentations from management and counsel with respect to such status, including the documentation, the differences between such documentation and the Agreement in Principle (including, without limitation, the issuance of the Debentures by United rather than the Company, the inclusion of other employee plans in calculating the 20% "Sunset" threshold as described below in "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Sunset" and the provision for payment of expenses of the Unions if the Plan of Recapitalization were terminated because of another proposed transaction which was subsequently consummated), the significant issues which remained unresolved (including, without limitation, certain issues relating to indemnification of the IAM relating to certain alleged claims by a former financial advisor, certain issues relating to expenses of the Unions, certain issues relating to the retention of a new CEO, certain issues related to the investment by Salaried and Management Employees, the standard for Unions' review of the proxy, various issues relating to the pricing

of the Debentures and Public Preferred Stock and to the "treasury stock method" of calculating the number of outstanding Old Shares, and certain issues related to the ESOPs) and a discussion of the employee stock ownership plan contemplated by the Agreement in Principle and its relationship to the transaction, a presentation from American Appraisal Associates, Inc. ("American Appraisal") with respect to issues of solvency and surplus under Delaware law and a financial presentation from CS First Boston and Lazard.

Subsequent to such Board meeting, the parties continued to discuss various issues, principally the salaried and management employees' contribution, adjustments based on variances in share capitalization resulting from options and convertible securities, the terms of the employment agreement for the new chief executive officer and advisory fees. The Board had telephonic status meetings on March 15 and March 16, where management advised the Board about developments in the discussions with the Coalition.

March 24 Board Meeting

On March 24, 1994, the Board met telephonically to consider the definitive Plan of Recapitalization. At such meeting, the Board discussed the proposed transaction, focusing on issues that had either been resolved since the March 14 Board meeting or that remained unresolved, including the maximum final pricing of the Debentures and the Public Preferred Stock, the adjustments necessary to reflect the treasury stock method of calculating fully diluted shares, the method of pricing a call feature on the Debentures, the nature of the salaried and management employee concession package and a proposed indemnity to the IAM against certain alleged claims asserted against the IAM by a former financial advisor. In addition, the proposed Independent Directors (as defined below) were identified. After discussion, the Board voted (with Dr. Andrew Brimmer dissenting) to approve the definitive documentation for the Recapitalization. Dr. Brimmer has indicated that he dissented from the vote because under current economic conditions, he did not think there were compelling reasons to effect such a transaction at this time. See "SPECIAL FACTORS--Recommendation of the Board." On March 25, 1994, the initial Plan of Recapitalization was executed by the Company, ALPA and the IAM (the "Initial Plan of Recapitalization") reflecting the terms of the agreement in principle.

Definitive Documentation Amendment

In light of prevailing market prices for the Old Shares in May 1994 and in view of provisions in the Initial Plan of Recapitalization which enabled the Coalition to assert that pricing conditions to consummation of the Recapitalization relating to the purchase of ESOP Preferred Stock would not be satisfied, the Coalition determined to approach the Company over possible adjustments to the financial terms of the transaction in order to provide greater certainty of completion of the Recapitalization. At the same time, the Company felt that the Offerings would benefit the Company's stockholders as part of the Recapitalization. In response to a proposal to modify the definitive documentation from the Coalition, on May 20, 1994 the Board determined to make an alternative proposal to the Coalition. The Coalition accepted the Company's alternative proposal on May 22, 1994. On May , 1994, the Company and the Coalition executed an amendment to the definitive documentation (the "Definitive Documentation Amendment") providing for, among other things, (i) an increase in the percent of the common equity and voting power initially to be acquired by the employee trusts from 53% to 55%; (ii) a decrease in the range of average stock prices for the one year following the Effective Time which would result in an increase to up to 63% in the percent of common equity and voting power to be received by the employee trusts (prior to the Definitive Documentation Amendment, the range had been \$170.00-\$178.44 per share and it was decreased to \$136.00-\$149.10 per share (giving effect to the 1 for 2 common stock exchange ratio)) (see "THE PLAN OF RECAPITALIZATION--Terms and Condition--Additional Shares"); (iii) the inclusion of the Offerings, and (iv) revisions to the manner in which the ESOP Preferred Stock will be purchased (see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs"). As a result of the Definitive Documentation Amendment, the purchase of the ESOP Preferred Stock to occur at the Effective Time will be determined using a market price-based formula and, accordingly, the Coalition is not entitled to assert that the Recapitalization may not be consummated based on the market price of the Old Shares or the expected market price of the New Shares.

SPECIAL FACTORS

CERTAIN COMPANY ANALYSES

In connection with the consideration of the Recapitalization, United's internal financial analysis group prepared an analysis (the "Company Analysis") of the expected present value of the employee investments. The Company Analysis estimated the net present value (using a 10% discount rate) of such investment to be approximately \$4.9 billion. The employee investments are expected to be in the form of wage and benefit reductions, work-rule changes and the startup of a new short-haul "airline-within-an-airline" referred to herein as "U2" (See "--Implementation of the 'Airline-Within-an-Airline' (U2)").

THE COMPANY ANALYSIS IS BASED UPON A VARIETY OF ASSUMPTIONS THAT MAY NOT BE REALIZED AND ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. THE ACTUAL VALUE OF THE EMPLOYEE INVESTMENTS MIGHT BE HIGHER OR LOWER THAN THE VALUE ESTIMATED IN THE COMPANY ANALYSIS. THE COMPANY ANALYSIS HAS NOT BEEN UPDATED FOR PURPOSES OF THIS PROXY STATEMENT/PROSPECTUS. NO ASSURANCE CAN BE GIVEN THAT THE ESTIMATED COST SAVINGS IN THE COMPANY ANALYSIS WILL BE ACHIEVED OR THAT THE U2 OPERATION WILL ACHIEVE THE POTENTIAL BENEFITS DESCRIBED BELOW. SEE "--CERTAIN RISK FACTORS-- INVESTMENT VALUES, FUTURE INVESTMENTS."

The employee investment relating to wage, benefit and work-rule modifications was estimated to have a net present value in excess of \$3.3 billion, including modifications associated with U2. While the current contracts for both ALPA and the IAM become amendable in November 1994, the value of this portion of the employee investment was not based on any "projected" future wage rates, but rather using wage scales under the existing contracts. Additionally, the Plan of Recapitalization specifically does not guarantee any "snap-back" in wages or benefits at the end of the investment period. Further, the valuation of the employee investment was reduced by the potential for certain wage adjustments (that were not contractually guaranteed) beginning in 1997. Despite the absence of "snap-back" provisions, as these contracts will become amendable at that time, no valuation was made of the benefit associated with the lack of a "snap-back" provision in the post-investment period. In addition to the employee investment relating to wage benefit and work-rule modifications, net benefits of U2 (excluding labor savings) were estimated to have a net present value of approximately \$1.6 billion.

ALPA INVESTMENT

The ALPA investment consists of savings that are system-wide in nature and that will continue for five years, nine months, as well as an additional investment applicable solely to those pilots in the U2 operation and that will remain in force for twelve years.

The base investment includes the following features:

- . Reduction in hourly wages for all pilots of 15.7%
- . Reduction in the Company contribution to the defined contribution retirement plan from current 9% of wages (ordinary earnings, excluding expense reimbursements) to 1% of post-transaction (reduced) wages
- . No pay raise during first three years other than existing seniority and promotion increases

An additional investment that should assist United in competing against low-cost carriers on short-haul routes includes:

- . Further reduction of approximately 7.1% in hourly wage rates for B737 pilots in the U2 operation
- . Adjustments in work-rules for U2 pilots to increase productivity vis-a-vis the mainline United operation

Partially offsetting these investments were changes to the following contract features:

- . Increased hourly rates for pilots flying the A320 aircraft

- . Potential increase in per diem and potential increase in wages in years 4 and 5 under an arbitrated settlement based on the Company's profitability, industry wage trends and wages at specified comparable carriers

In addition, pilot benefits under the Company's defined benefit pension plan, disability plan and life insurance plan will continue to be based on pre-transaction "book" rates without regard to the 15.7% wage rate reduction.

IAM INVESTMENT

The IAM base investment will remain in force for six years. In lieu of creating a separate U2 workforce, the IAM made additional system-wide work-rule changes to improve productivity and competitiveness in all areas.

The base investment includes the following features:

- . Reduction in hourly wage rates for all IAM employees of 9.7%
- . Elimination of the contractually provided May 1, 1994 wage increase of 5%
- . No pay raise during first three years other than existing seniority and promotion increases

Additional work-rule changes that will remain in place for twelve years:

- . Elimination of the half-hour paid lunch period
- . Elimination of allowance for paid lunch period on overtime
- . Provide United with the ability to outsource up to 20% of maintenance work

Partially offsetting these investments were:

- . Potential wage increase in years 4 and 5 under an arbitrated settlement based on the Company's profitability, industry wage trends and wages at specified comparable carriers
- . Improved severance package for IAM employees affected by the flight kitchen sale, including reemployment incentives
- . Increase in pension benefits
- . Inefficiencies due to the impact of job security provisions on functions with variable workloads
- . Reimbursement for relocations caused by involuntary transfers
- . Subject to certain conditions and exceptions, provide IAM representation for ramp employees at stations with greater than 40 daily departures

SALARIED AND MANAGEMENT INVESTMENT

The Salaried and Management Employee investment remains in force for five years, nine months and consists of salary reductions and work-rule and policy changes. In lieu of creating a separate U2 workforce, the Salaried and Management Employee investment includes the introduction of a "market-based" new hire program.

The base investment includes the following features:

- . Reduction in wage rates of 8.25%
- . No pay raise during first three years other than promotion and existing progression increases
- . Reduction in force of 127 management positions

Additional work-rule changes include:

- . Elimination of the half-hour paid lunch period on overtime
- . Reduced eligibility for shift differential pay
- . Reduction of compensation for extended medical leave
- . Reduced reimbursement for certain management relocations
- . Four holidays changed to "floating" status to eliminate premium pay for such holidays worked
- . Reduce salary guarantee for part-time employees

The market-based new-hire program includes the following features:

- . Maximum compensation levels reduced to market rates at other comparable employers (40-55% reduction)
- . Requirement of 25% employee copayment on medical coverage
- . Reductions in vacation, sick leave and dental insurance benefits

Partially offsetting these investments was:

- . Potential wage increase in years 4 and 5, based on similar factors to those for the ALPA and IAM-represented employees and taking into account wage increases, if any, for such represented employees

In addition, Salaried and Management Employee benefits under the Company's defined benefit pension plan, disability plan and life insurance plan will be based on each employee's pre-transaction hourly rate of pay (without regard to the 8.25% wage rate reduction) until such time as such employee's actual hourly rate exceeds that amount or until such employee is demoted, at which time in either case such employee's actual hourly rate will be used from that point forward.

TOTAL LABOR SAVINGS

The changes to salaries, benefits and work-rules discussed above represented approximately \$5.2 billion in estimated savings, with an estimated net present value of over \$3.3 billion:

TOTAL LABOR SAVINGS*
(MILLIONS)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | TOTAL | NPV** |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ----- | ----- |
| Salary Reduction | \$190 | \$396 | \$420 | \$433 | \$452 | \$488 | \$204 | \$ 57 | \$ 71 | \$ 87 | \$105 | \$125 | \$ 67 | \$3,095 | \$2,150 |
| Benefit Reductions..... | 62 | 129 | 139 | 149 | 158 | 171 | 78 | 45 | 52 | 59 | 67 | 74 | 39 | 1,222 | 801 |
| Potential Midterm Increase..... | 0 | 0 | 0 | (32) | (90) | (119) | (44) | (3) | (3) | (3) | (3) | (3) | (2) | (302) | (189) |
| Work-Rule Changes..... | 12 | 39 | 73 | 101 | 120 | 134 | 138 | 148 | 154 | 159 | 165 | 171 | 87 | 1,501 | 792 |
| Contract Improvements... | (33) | (53) | (41) | (43) | (46) | (47) | (25) | (9) | (9) | (9) | (9) | (9) | (4) | (337) | (240) |
| Total..... | \$231 | \$511 | \$591 | \$608 | \$594 | \$627 | \$351 | \$238 | \$265 | \$293 | \$325 | \$358 | \$187 | \$5,179 | \$3,313 |

* ESTIMATES WERE PREPARED BY THE COMPANY FOR ANALYSIS PURPOSES. ACTUAL RESULTS MAY VARY. SEE "--CERTAIN RISK FACTORS--INVESTMENT VALUES, FUTURE INVESTMENTS." ASSUMED CLOSING DATE OF RECAPITALIZATION IS JULY 1, 1994.

** NET PRESENT VALUE WAS BASED ON A DISCOUNT RATE OF 10%.

SHORT-HAUL SAVINGS

With the emergence of low-cost, low-frills carriers such as Southwest, United's cost structure has not been competitive in certain short-haul markets. To date, United, burdened by higher costs than these carriers, has maintained a full-service product in these markets to retain passengers connecting to long-haul domestic and international flights, which are the core of United's route network. See "--Implementation of the 'Airline-Within-An-Airline' (U2)".

The employee investments are expected to provide United with wage rates and work-rules that are believed to be competitive with low-cost carriers. This should permit United to be more competitive on many short-haul routes. Given these wage rates and work-rules, United should be able to implement a low-frills, high-frequency "airline-within-an-airline" that can compete for the extremely price-sensitive local passenger. Lower labor costs and work-rule changes are the cornerstones for achieving a variety of related cost saving actions. The combination of labor, work-rule changes and other cost savings are intended to allow United to be service, price and cost competitive with low-frills, low-cost carriers.

The U2 operation is expected to have the following features:

- . Improved Utilization Through a combination of reducing aircraft turnaround times, increasing frequency on existing routes and adding service in new markets, U2 is intended to operate with a greatly improved asset utilization. These enhancements are expected to allow United to leverage its fixed asset base--aircraft, airport space, ground equipment and both field and staff personnel--across a greater number of departures, and thereby to permit improvement in the profitability of marginal operations.
- . Limited Product Product and service levels will be reduced to more closely match the service levels offered by the competition on short-haul routes: beverage and peanuts service only, limited onboard amenities, streamlined reservations and airport check-in processes and a reduced Mileage Plus frequent flyer program.
- . Reduced Distribution Expense The experience of low-cost carriers has demonstrated that offering (and promoting) consistent, believably low fares and high-frequency service increases direct airline-to-customer ticketing. These and similar strategies employed by low-cost carriers are intended to be implemented to reduce distribution costs.

SHORT-HAUL SAVINGS*
(MILLIONS)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | TOTAL | NPV** |
|--------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| Improved Utilization.... | \$11 | \$33 | \$ 53 | \$ 70 | \$ 80 | \$81 | \$ 85 | 95 | \$103 | \$115 | \$127 | \$140 | \$ 73 | \$1,066 | \$ 557 |
| Limited Product..... | 10 | 32 | 52 | 67 | 77 | 78 | 82 | 91 | 100 | 111 | 123 | 135 | 70 | 1,028 | 538 |
| Reduced Distribution.... | 10 | 28 | 46 | 60 | 69 | 70 | 73 | 81 | 89 | 99 | 109 | 120 | 63 | 917 | 478 |
| Total..... | \$31 | \$93 | \$151 | \$197 | \$226 | \$229 | \$240 | \$267 | \$292 | \$325 | \$359 | \$395 | \$206 | \$3,011 | \$1,573 |

* ESTIMATES WERE PREPARED BY THE COMPANY FOR ANALYSIS PURPOSES. ACTUAL RESULTS MAY VARY. SEE "--CERTAIN RISK FACTORS--INVESTMENT VALUES, FUTURE INVESTMENTS." ASSUMED CLOSING DATE OF THE RECAPITALIZATION IS JULY 1, 1994.

**NET PRESENT VALUE WAS BASED ON A DISCOUNT RATE OF 10%.

SUMMARY OF INVESTMENTS AND SAVINGS

In total, the Plan of Recapitalization was estimated to provide United with approximately \$8.2 billion in improved operating earnings over the twelve-year period, equating to a net present value of approximately \$4.9 billion. Approximately \$5.2 billion of the total improvement was expected to arise from savings in labor costs, with the remaining approximately \$3.0 billion expected to arise from improvements associated with the U2 operation. Of course, future financial results are inherently subject to significant business, economic

and competitive uncertainties and contingencies and to future business decisions taken by corporate management, and no assurance can be given that the estimated earnings improvement will be achieved.

SUMMARY OF TOTAL SAVINGS*
(MILLIONS)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | TOTAL | NPV** |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| Labor Savings..... | \$231 | \$511 | \$591 | \$608 | \$594 | \$627 | \$351 | \$238 | \$265 | \$293 | \$325 | \$358 | \$187 | \$5,179 | \$3,313 |
| Short-Haul Savings..... | 31 | 93 | 151 | 197 | 226 | 229 | 240 | 267 | 292 | 325 | 359 | 395 | 206 | 3,011 | 1,573 |
| Total Savings..... | \$262 | \$604 | \$742 | \$805 | \$820 | \$856 | \$591 | \$506 | \$557 | \$618 | \$684 | \$753 | \$393 | \$8,190 | \$4,886 |

* ESTIMATES WERE PREPARED BY THE COMPANY FOR ANALYSIS PURPOSES. ACTUAL RESULTS MAY VARY. SEE "--CERTAIN RISK FACTORS--INVESTMENT VALUES, FUTURE INVESTMENTS." ASSUMED CLOSING DATE FOR THE RECAPITALIZATION IS JULY 1, 1994.

**NET PRESENT VALUE WAS BASED ON A DISCOUNT RATE OF 10%.

CERTAIN REVENUE AND EARNINGS SCENARIOS

The Company does not as a matter of course publicly disclose projections or forecasts as to future revenues or earnings. MANAGEMENT HAS NOT UPDATED AND REVISED AND DOES NOT INTEND TO UPDATE FURTHER OR OTHERWISE REVISE THE REVENUE OR EARNINGS SCENARIOS CONTAINED HEREIN TO REFLECT CIRCUMSTANCES EXISTING OR CHANGES OCCURRING AFTER MARCH 1994.

NONE OF THE COMPANY, BAH OR ANY OTHER PARTY ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OF THE REVENUE AND EARNINGS SCENARIOS CONTAINED HEREIN. THESE REVENUE AND EARNINGS SCENARIOS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE BASED UPON A VARIETY OF ASSUMPTIONS RELATING TO THE BUSINESSES OF THE COMPANY THAT MAY NOT BE REALIZED AND ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. THERE CAN BE NO ASSURANCE THAT ANY OF THE REVENUE AND EARNINGS SCENARIOS WILL BE REALIZED, AND ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE SHOWN.

The revenue and earnings scenarios should be read together with the information contained in "Business of the Company," "Selected Consolidated Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements, all of which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1993 as amended and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, as amended, both of which are included elsewhere in this Proxy Statement/Prospectus.

August 1993 Revenue Scenarios. In connection with its negotiations with the Coalition, the Company delivered in August 1993 certain revenue scenarios to the Coalition. All of such scenarios assumed that (i) United maintained status quo operations, (ii) recovering worldwide economies would result in higher yields and (iii) in the longer term, unit revenue growth would slow, reflecting a tapering off of the economic recovery and the addition of incremental capacity in the domestic system, principally due to continued expansion of low-cost carriers.

Such scenarios, which assumed average annual unit revenue growth rates for the 1993-98 period ranging from 2.0% to 4.2%, were based upon certain assumptions regarding highly uncertain variables, including but not limited to sustained world economic upturn, absence of significant non-compensatory competitive fare actions, absence of fuel price shocks, relatively constant consumer propensity to spend on air travel and relatively stable industry capacity growth. The various scenarios differed by the assumed intensity of the early economic recovery and the severity of later economic slowdowns.

Of the revenue scenarios developed, the Company's management assigned the highest probability of occurrence to "Scenario C" which assumed medium unit revenue growth. The other scenarios, which varied

in assumed economic conditions, growth rates, yields, capacities, and unit revenue growth were used to test the sensitivity of the various valuations to revenue changes from the baseline "Scenario C" case. The August 1993 version of "Scenario C" showed operating profits increasing from \$168 million in 1993 to \$620 million in 1998. The highest growth scenario showed operating profit increasing to \$1.182 billion in 1998. The August 1993 scenarios did not provide for any wage increases other than promotion and progression increases, unless there existed contractual raises, in which case the contract raise was included.

"Scenario C" relied upon the following assumptions: (i) passenger unit revenues growth of 5.5% in 1994 and 4.0% in 1995, reflecting a sustained economic recovery, (ii) domestic airline industry capacity growth of 1%, (iii) significant yield increases of 3.0% to 4.5%, reflecting a return of fares to levels prevailing prior to Value Pricing (a pricing strategy introduced by American Airlines ("American") in 1992 which led to significant discounting in the airline industry) and prior to the recession, (iv) moderate traffic increases of 2% and (v) unit revenue growth to slow to 3.0% in 1996, 2.5% in 1997 and 2.0% in 1998, reflecting industry capacity growth rising to 2% per year, yield growth moderating to 2.0%, and traffic increases of 2%.

March 1994 Revenue Scenario C. Subsequent to the initial development of the revenue scenarios, the Company updated Scenario C for use in valuations (including the valuations performed by American Appraisal and Houlihan Lokey Howard & Zukin ("Houlihan Lokey"), the financial advisor to State Street, the trustee (the "ESOP Trustee") of the employee stock ownership plans contemplated by the Plan of Recapitalization (the "ESOPs"); and presentations to rating agencies (including those given to Standard & Poor's and Moody's). The status quo case ("Status Quo Scenario C") is based on the assumption that (i) operations continue as they are with no labor cost reductions and (ii) no salary increases are granted to any labor group (other than promotion and progression increases) unless there exists contractual raises in which case the contractual raise was included.

THE MOST RECENT STATUS QUO SCENARIO C MODEL WAS PREPARED AS OF MARCH 29, 1994. THIS MODEL, WHICH WAS SUBJECT TO VARIOUS ASSUMPTIONS THAT MAY NOT BE REALIZED, HAS NOT BEEN UPDATED SINCE MARCH 29, 1994 AND IS SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES. NO STOCKHOLDER OR OTHER PERSON SHOULD RELY ON SUCH MODEL IN MAKING AN INVESTMENT DECISION WITH RESPECT TO ANY SECURITIES OF THE COMPANY.

STATUS QUO SCENARIO C INCOME STATEMENT
(MILLIONS)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------------|----------|----------|----------|----------|----------|----------|----------|
| Operating Revenues..... | \$14,725 | \$15,794 | \$16,970 | \$17,840 | \$18,760 | \$19,684 | \$20,649 |
| Operating Expenses..... | 14,476 | 15,417 | 16,468 | 17,308 | 18,288 | 19,148 | 20,017 |
| Operating Income..... | 249 | 377 | 502 | 532 | 472 | 536 | 632 |
| Interest Expense..... | (318) | (302) | (288) | (273) | (259) | (243) | (232) |
| Interest Capitalized..... | 51 | 33 | 42 | 27 | 18 | 15 | 15 |
| Interest Income..... | 73 | 73 | 94 | 113 | 150 | 184 | 225 |
| Other, Net..... | (10) | 10 | 44 | 52 | 60 | 79 | 41 |
| Earnings Before Taxes..... | 45 | 191 | 394 | 451 | 441 | 571 | 681 |
| Provision For Income Taxes. | 17 | 73 | 150 | 171 | 168 | 217 | 259 |
| Net Income..... | 28 | 118 | 244 | 280 | 273 | 354 | 422 |
| Addback | | | | | | | |
| Depreciation/Amortization. | 745 | 756 | 812 | 872 | 942 | 974 | 1,023 |
| Cash From Operations..... | \$ 773 | \$ 874 | \$ 1,056 | \$ 1,152 | \$ 1,215 | \$ 1,328 | \$ 1,445 |

EFFECT OF THE RECAPITALIZATION ON INCOME STATEMENT, BOOK EQUITY AND CASH FLOW

The effect of the Recapitalization on the Company's equity will be to immediately reduce it by approximately \$1.5 billion due primarily to the distribution of cash and Debenture as part of the Recapitalization Consideration, vesting of unvested restricted stock and transaction costs. Based on the Company's analyses, the reduction in book equity was expected to be earned back by year end 1997. The reasons for the rapid recovery of the reduction in equity were increases in net income and the effect of employee stock ownership plan accounting. Additionally, the Company's cash balance was expected to grow to be \$3.7 billion greater than what it would have otherwise been had the Recapitalization not been consummated.

The following analysis shows the variance from the Status Quo Scenario C model resulting from the anticipated effects of the Recapitalization. This analysis is based on an assumed purchase price for the Class 1 ESOP Preferred Stock at the Effective Time of \$120 per share. The analysis for subsequent purchases of such Stock assumes a 14% compounded growth rate for the market price of New Shares and a purchase price premium for the Class 1 ESOP Preferred Stock in excess of the market price for the New Shares which is initially approximately 38%, declining in each successive year. The \$120 per share assumed purchase price of Class 1 ESOP Preferred Stock at the Effective Time is based on [(i) an assumed market price of an Old Share at the Effective Time of \$131 per share, (ii) an assumed value of the non-New Share portion of the Recapitalization Consideration of \$88 per Old Share, and (iii) a purchase price premium for the Class 1 ESOP Preferred Stock over the assumed value of a New Share of 38%.] The actual purchase price for the Class 1 ESOP Preferred Stock at the Effective Time will be determined using a formula based on (i) the greater of the pre-Effective Time when issued market price of the New Shares and the pre-Effective Time market price of the Old Shares, (ii) [an expected value] for the non-New Share portion of the Recapitalization Consideration and (iii) a 38% purchase price premium and following the Effective Time will be based on negotiations with the ESOP Trustee. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Sale of ESOP Preferred Stock--Leveraged ESOP." There can be no assurance as to the purchase price of the Class 1 ESOP Preferred Stock either at or subsequent to the Effective Time, the pre-Effective Time when issued market price of the New Shares, the pre-Effective Time market price of the Old Shares, the value of the non-New Share portion of the Recapitalization Consideration, or the actual growth rate, if any, for the market price of the New Shares during the six year wage investment period. This analysis does not purport to be indicative of the results of operations that may be obtained in the future. A change in the purchase price of the Class 1 ESOP Preferred or the New Share market price growth rate will effect the analysis set forth below. For example, a change in the assumed purchase price of the Class 1 ESOP Preferred Stock to \$130 would increase the cumulative change in the cash balance in the year 2000 by \$80 million. Changing the New Share market price growth rate assumption from 14% to 10% has the effect of reducing cumulative cash by approximately \$70 million.

CHANGES TO INCOME, BOOK EQUITY AND CASH FLOW*

(IN MILLIONS)

RECAPITALIZATION BETTER/(WORSE) THAN STATUS QUO SCENARIO C

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------------------------|--------|--------|----------|----------|----------|----------|----------|
| Flight Kitchen Sale | | | | | | | |
| Savings (Net)..... | \$ 16 | \$ 38 | \$ 49 | \$ 49 | \$ 45 | \$ 48 | \$ 50 |
| Employee Investment | | | | | | | |
| Savings..... | 262 | 604 | 742 | 805 | 820 | 856 | 591 |
| ESOP Accounting Charge.... | (191) | (390) | (391) | (393) | (397) | (405) | (99) |
| Operating Income..... | 87 | 252 | 400 | 461 | 468 | 499 | 542 |
| Interest Expense**..... | (37) | (73) | (80) | (84) | (84) | (84) | (84) |
| Interest Income..... | (7) | (3) | 16 | 36 | 60 | 84 | 100 |
| Earnings Before Taxes..... | 43 | 176 | 334 | 413 | 444 | 499 | 558 |
| Income Taxes***..... | (16) | (67) | (127) | (157) | (169) | (190) | (212) |
| Net Income..... | 27 | 109 | 207 | 256 | 275 | 309 | 346 |
| Non-Cash ESOP Accounting | | | | | | | |
| Charge****..... | 191 | 390 | 391 | 393 | 397 | 405 | 99 |
| Deferred Taxes..... | 1 | 16 | 43 | 59 | 67 | 82 | |
| Funds From Operations..... | 219 | 515 | 641 | 708 | 739 | 796 | |
| Series A and B Preferred | | | | | | | |
| Stock Dividends..... | (40) | (80) | (64) | (55) | (55) | (55) | (55) |
| Net Cash Flow..... | \$ 179 | \$ 435 | \$ 578 | \$ 653 | \$ 684 | \$ 741 | |
| Change in Cash Balance | | | | | | | |
| (cumulative)..... | \$ 179 | \$ 614 | \$ 1,192 | \$ 1,845 | \$ 2,529 | \$ 3,270 | \$ 3,700 |
| Change in Book Equity | | | | | | | |
| (cumulative)..... | \$ 178 | \$ 597 | \$ 1,132 | \$ 1,726 | \$ 2,343 | \$ 3,002 | \$ 3,391 |

* ASSUMES EXISTING SERIES A PREFERRED STOCK IS CONVERTED ON THE FIRST REDEMPTION DATE (MAY 1996). EXCLUDES EFFECTS OF NON-RECURRING CHARGES WITH THE EXCEPTION OF SEVERANCE BENEFITS PAID TO FLIGHT KITCHEN WORKERS WHICH WERE NETTED FROM EMPLOYEE INVESTMENT. SEE "UNAUDITED PRO FORMA FINANCIAL INFORMATION." ASSUMES CLOSING DATE OF THE RECAPITALIZATION IS JULY 1, 1994.

** INTEREST AND DIVIDEND RATES ON THE DEBENTURES AND THE PREFERRED STOCK HAVE NOT BEEN ADJUSTED FROM THE INITIAL PRICING (AS DEFINED BELOW, SEE "THE PLAN OF RECAPITALIZATION--TERMS AND CONDITIONS--PRICING THE SECURITIES"). IF THE RATES WERE TO BE ADJUSTED TO THEIR MAXIMUM RATES (ASSUMING NO CALL FEATURE IS INCLUDED), THE EFFECT WOULD BE, AFTER FULL CONVERSION OF THE SERIES A PREFERRED STOCK, TO INCREASE ANNUAL INTEREST EXPENSES BY \$10 MILLION AND ANNUAL DIVIDENDS PAYABLE BY \$10 MILLION AND REDUCE CUMULATIVE CASH FLOW OVER THE SEVEN YEAR PERIOD PRESENTED BY APPROXIMATELY \$100 MILLION.

*** FOR PURPOSES OF THIS ANALYSIS, INCOME TAXES WERE COMPUTED USING THE STATUTORY RATES.

**** SEE "--CERTAIN RISK FACTORS--FINANCIAL REPORTING; MARKET ASSESSMENT."

As shown above, the Recapitalization is expected to result in an improvement to cash flow averaging over \$550 million per year through the year 2000. This improvement, aggregating \$3.7 billion (excluding the cash consideration distributed to stockholders as part of the Recapitalization Consideration), is expected to result from (i) the employee investment which reduces cash expenses an average of \$700 million per year, (ii) favorable tax treatment on ESOP transactions, which provides over \$400 million in annual tax deductions during the ESOP allocation period, and (iii) partially offsetting the factors described above, the additional interest expense on the Debentures, dividends on the Depositary Preferred Shares and foregone interest on the cash consideration distributed to stockholders in the Recapitalization. The Company expects that at the Effective Time, taking into account the distribution of cash in the Recapitalization, it will have an opening cash balance of approximately \$1.6 billion (assuming the Effective Time occurs on June 30, 1994). Cash generated after the Effective Time is assumed to accumulate in a cash account; if the available cash was used to repay debt, free cash flow would improve further.

Due to the accounting rules for stock-based compensation such as the ESOPs, it is expected to be difficult to compare the financial performance of the Company to companies without significant stock-based compensation. In addition to this, since there is a circular relationship between the Company's financial results and its stock price (See "--Certain Risk Factors--Financial Reporting; Market Assessment" and "--Opinions of the Financial Advisors to the Board"), it is expected that certain financial analysts may adjust the way they analyze the Company's performance. While there can be no assurances the Company's financial performance will be considered other than as reported under generally accepted accounting principles, the Company believes that the following analysis is consistent with the manner in which certain analysts will evaluate the Company's performance.

EARNINGS PER SHARE ANALYSIS*

| | 1995 (MILLIONS) | PER SHARE BASIS** |
|--|--------------------|----------------------|
| | ----- | ----- |
| Net Income (Status Quo Scenario C)..... | \$118 | \$ 3.67 |
| Change in Net Income due to Recapitalization..... | 109 | 3.39 |
| | ---- | ----- |
| Net Income (Post-Recapitalization)..... | 227 | 7.06 |
| Preferred Stock Dividends Requirements***..... | (92) | (2.86) |
| | ---- | ----- |
| Net Income Available to Common..... | 135 | 4.20 |
| Employee Stock Ownership Plan Accounting Charge (after-tax)****..... | 242 | 7.53 |
| | ---- | ----- |
| Net Income Available to Common (adjusted)..... | \$377 | \$11.73 |
| | ==== | ===== |

* THE FIRST FULL YEAR OF THE RECAPITALIZATION (1995) WAS USED FOR ILLUSTRATIVE PURPOSE.

** PER SHARE AMOUNTS ASSUMES 32.14 MILLION FULLY DILUTED SHARES.

*** PREFERRED STOCK DIVIDEND REQUIREMENTS REPRESENT PUBLIC PREFERRED STOCK WHICH IS NOT CONVERTIBLE TO COMMON STOCK.

**** FOR PURPOSES OF THIS ANALYSIS, INCOME TAXES WERE COMPUTED USING STATUTORY RATES.

IMPLEMENTATION OF THE "AIRLINE-WITHIN-AN-AIRLINE " (U2)

Background

In recent years, low-cost carriers, especially Southwest, have grown rapidly. These carriers offer the consumer air travel service with frequent departures, minimal inflight service, and simplified fares that are substantially below standard industry pricing. The consumer acceptance of such carriers has been especially strong in short-haul markets (markets under 750 miles) in which consumers readily opt for reliable, low-priced air transportation over the full service product (typically at higher prices) traditionally offered by carriers.

Due to its current cost structure, United has experienced difficulty competing with low-cost carriers in short-haul markets. When a low-cost carrier enters a short-haul market, it typically does so with fares substantially below those existing prior to its entry and with the expectation of stimulating demand and gaining market share. When a low-cost carrier enters a short-haul market where United operates, United is faced with three choices:

- Do Nothing Continue service and do not match the lower fares. Traffic that is connecting to other United flights would be retained. However, without competitive fares in the non-stop short-haul market, lost market share as well as a decline in revenues would occur. As a result, the economics of the segment would deteriorate and it almost certainly would become very unprofitable.

- Abandon Discontinue service in the market. This would alleviate losses on the non-stop, short-haul segment, assuming the aircraft can be profitably redeployed or sold. However, it would also deprive United of traffic that connects from the short-haul segment to the carrier's long-haul operations. The loss of these passengers would hurt the profitability of "beyond" segments that rely on the connecting traffic. Typically, this decrease in profitability on all "beyond" segments more than offsets the benefit from abandoning a short-haul market.

- Match Fares Continue service and match the new low fares. Revenue and profitability would decline, but the retention of both local and connecting traffic would generally result in less deterioration to earnings than either the "Do Nothing" or "Abandon" choices.

Accordingly, United often elects to remain in markets following the entrance of low-cost competition and match the lower fares even though doing so results in operating losses.

While United believes that matching lower fares is the optimal strategy in the short-run, it recognizes that it cannot suffer losses in these markets indefinitely. The ideal strategy, which would allow United to compete profitably in markets with low-cost competition, is an alternative which is not currently available to United, that is, to compete with low-cost carriers on a cost basis. This strategy requires a cost structure similar to that of the low-cost carriers. United would need to reduce both labor and non-labor costs and increase productivity in order to establish a competitive cost structure that would allow United to profitably retain and increase market share. In order to achieve a competitive cost structure productivity increases are important elements of the Recapitalization.

The Plan of Recapitalization permits the implementation of the low-cost strategy described above by providing for the establishment of U2, an airline-within-an-airline. U2 provisions of the labor agreements permit reduced labor rates and work-rule changes which are expected to lower costs and improve productivity. To maximize the benefits associated with those provisions, the Company will establish separate pilot positions for the U2 operation as well as a set of U2 routes that are intended to fully leverage potential productivity and cost savings. The product, pricing, and distribution attributes of U2 markets will be altered from United's to resemble those of a low-cost airline. U2 markets are expected to be flown as a branded product feature of United bearing its own distinct name. THERE CAN BE NO ASSURANCE THAT THE U2 OPERATION WILL BE SUCCESSFULLY IMPLEMENTED OR, IF IMPLEMENTED, THAT THE RESPONSES OF VARIOUS COMPETITORS WILL NOT REDUCE OR ELIMINATE THE BENEFITS SOUGHT TO BE OBTAINED.

Operations and Route Systems

Key operational elements of U2 are expected to be as follows:

- Short-haul missions U2 will operate within the contiguous United States in non-stop city pairs of up to 750 nautical miles in "stage length," other than flying between United's hubs and/or international gateway cities (except for Los Angeles basin to San Francisco bay area service which may be flown by U2). At

least 10% of U2 flying must be in city pairs that United has not served for 24 months prior to the introduction of U2 service into that city pair.

High frequency

One of the key characteristics of an efficient short-haul operation is high frequency scheduling within a market. United intends to schedule U2 to average approximately ten frequencies per day in most markets.

Rapid turn-arounds

United intends to reduce aircraft turn-around time in the U2 operation to 20 minutes as compared to United's current 40 to 45 minutes. The rapid turn-around time is expected to be achieved through product simplification (e.g., reduced food service deliveries) and the streamlining of customer and ramp service procedures.

Increased utilization

By combining high frequency with faster turn-arounds, utilization of aircraft, facilities and other equipment is expected to increase, thereby lowering unit costs. As compared with United's fleet, the utilization goal of the U2 fleet is anticipated to improve 16% to 11.0 hours per day from 9.5 hours per day. The increased utilization should allow more trips to be flown by the same fleet of aircraft.

Product

U2 is expected to be marketed as a branded product of United with its own distinct name (such as "Business One" and "Connoisseur Class" are today). Travel between U2 and United should appear seamless to the consumer. U2 flights are expected to feed United long-haul domestic and international flights and connect with United Express flights.

U2 is expected to offer a simplified, lower-frills product as compared to mainline United service and will be cost competitive with other low-cost carriers. Key product features that will differentiate U2 from the mainline product are:

- . Reduced food service
- . Reduced onboard amenities
- . Expedited customer airport check-in

While the U2 product clearly should be different from mainline United, it is also expected to be distinguishable from other low-cost carriers.

- . Unlike some short-haul carriers, U2 may offer added value to the consumer by providing seat assignments
- . To help retain high yield connecting traffic to mainline United, U2 currently plans to offer first class seating
- . Capitalizing on United's marketing strength and global route network, U2 consumers will be able to participate in one of the industry's highest rated frequent flyer programs--United's Mileage Plus program. While the program may be adjusted somewhat for U2 travel, the program's benefits are expected to help to generate a U2 revenue premium over the competition.

Fare Structure

In most markets in which U2 is expected to compete, fares have already been reduced by other low-cost carriers, and United's fares have been reduced to competitive levels. U2 intends to maintain United's current pricing practice of matching competitors' low fares, although U2 intends to heavily promote low fare levels. The objective in maintaining and promoting the low fares is to build customer trust so that when they purchase a ticket on a U2 flight, they know they are obtaining competitive value in the market and do not need to shop the fare.

Distribution

The experience of low-cost carriers has demonstrated that offering and promoting consistent, believably low fares and high-frequency service increases direct airline-to-customer ticketing. These and similar strategies employed by low-cost carriers are expected to be implemented to reduce distribution costs.

Roll-out

The Company expects that U2 will be rolled out no later than four to six months after the Effective Time and will be implemented in the short-haul markets as quickly as possible. It is currently expected that by year 5, U2 will operate approximately 130 aircraft and represent approximately 20% of system "block hours". Block hours is a measure of the time an aircraft is in motion (i.e. from the time it pushes back from the gate at the departing airport until it pulls up to the gate upon arrival). Factors affecting the rate of roll-out include market conditions, pilot attrition, growth of the airline and changes in the fleet plan.

B737 aircraft are expected to be utilized in the U2 operations. To maximize fleet efficiency and to have the flexibility of swapping aircraft between the U2 and United fleet, no changes are expected to be made to livery or interior configuration.

UNIT COSTS

Unit cost, a common industry measure of cost effectiveness, measures the cost of flying one airplane seat one mile. Due principally to the base employee investments, increased productivity, the U2 labor provisions and the other savings associated with the U2 operation, U2's unit costs (calculated on an incremental basis for short-haul markets) are expected to drop by 30% from United's existing costs on short-haul routes:

U2 UNIT COST COMPARISON
(PER AVAILABLE SEAT MILE)

| Expense Category | U2 BETTER/(WORSE) THAN | | | | | | | |
|------------------------------|---------------------------|---------|--------|-------|------|--------|-----------|--|
| | CURRENT UNITED SHORT-HAUL | | UNITED | | | | SOUTHWEST | |
| | SOUTHWEST(1) | HAUL(2) | U2(2) | AMT. | PCT. | AMT. | PCT. | |
| Wages & Benefits(3)... | 2.4c | 3.5c | 2.6c | 0.9c | 25% | (0.2)c | (9)% | |
| Fuel & Oil..... | 1.1 | 1.1 | 1.1 | -- | -- | -- | -- | |
| Aircraft Ownership(4). | 0.7 | 0.8 | 0.7 | 0.1 | 16 | -- | -- | |
| Aircraft Maintenance(5)..... | 0.6 | 0.3 | 0.2 | 0.1 | 22 | 0.4 | 64 | |
| Commissions(6)..... | 0.5 | 1.0 | 0.6 | 0.4 | 36 | (0.1) | (21) | |
| Advertising..... | 0.2 | 0.2 | 0.3 | (0.1) | (12) | (0.1) | (10) | |
| Food & Beverage..... | 0.0 | 0.5 | 0.0 | 0.5 | 98 | -- | -- | |
| Other..... | 1.7 | 3.1 | 1.9 | 1.2 | 41 | (0.2) | (11) | |
| | 7.2c | 10.5c | 7.4c | 3.1c | 30% | (0.2)c | (2)% | |

(1) SOUTHWEST'S RESULTS ARE FOR 1993 (EXCLUDING MORRIS AIR).

(2) UNITED AND U2 STEADY-STATE UNIT COSTS REFLECTING OPERATING ECONOMICS ON ROUTES COMPARABLE TO SOUTHWEST'S AND ARE ADJUSTED TO REFLECT AN ALL-COACH CONFIGURATION.

(3) DUE TO THE NON-CASH NATURE OF THE EMPLOYEE STOCK OWNERSHIP PLAN ACCOUNTING CHARGE AND IN ORDER TO MAKE THE COMPANY'S UNIT EXPENSES MORE COMPARABLE TO SOUTHWEST'S UNIT EXPENSE LEVELS, THE EMPLOYEE STOCK OWNERSHIP PLAN ACCOUNTING CHARGE HAS BEEN EXCLUDED. THE INCLUSION OF SUCH CHARGE WOULD HAVE THE AFFECT OF INCREASING U2 WAGES AND BENEFITS EXPENSES BY 0.23c ASSUMING AN ESOP PREFERRED STOCK PURCHASE PRICE OF \$120.

(4) NORMALIZED TO SOUTHWEST LEVEL.

(5) SOUTHWEST OUTSOURCES A HIGHER PERCENTAGE OF MAINTENANCE WORK THAN UNITED DOES. THUS WHILE SOUTHWEST'S AIRCRAFT MAINTENANCE UNIT COST IS MUCH HIGHER THAN UNITED'S, ITS UNIT LABOR EXPENSE RELATED TO MAINTENANCE IS LOWER.

(6) FOR COMPARABILITY PURPOSES, UNITED AND U2 COMMISSION EXPENSE EXCLUDES INTERNATIONAL "OVERRIDE" COMMISSIONS.

System-wide labor unit costs are expected to be reduced by 11% as a result of the Recapitalization. The impact of this expected reduction is a 4% drop in United's total unit cost which would result in a unit cost 10% lower than the industry average.

UNITED VS. INDUSTRY AVERAGE NET UNIT COSTS(1)
(CENTS PER AVAILABLE SEAT MILE)

| Expense Category | INDUSTRY AVERAGE | CURRENT UNITED | POST- TRANSACTION UNITED(2) | POST-TRANSACTION BETTER/(WORSE) THAN | | | |
|-----------------------------|---------------------|-------------------|-----------------------------------|---|------|---------|------|
| | | | | CURRENT | | AVERAGE | |
| | | | | AMT. | PCT. | AMT. | PCT. |
| Wages & Benefits(3)..... | 3.3c | 3.1c | 2.8c | 0.3c | 11% | 0.5c | 16% |
| Fuel & Oil..... | 1.2 | 1.2 | 1.2 | -- | -- | -- | -- |
| Rentals & Landing Fees..... | 1.0 | 1.0 | 1.0 | -- | -- | -- | -- |
| Depr. & Amortization..... | 0.6 | 0.5 | 0.5 | -- | -- | 0.1 | 12 |
| Aircraft Maintenance..... | 0.3 | 0.2 | 0.2 | -- | -- | 0.1 | 29 |
| Other..... | 1.8 | 1.7 | 1.7 | -- | -- | 0.1 | 5 |
| | -- | -- | -- | -- | -- | -- | -- |
| | 8.2c | 7.7c | 7.4c | 0.3c | 4% | 0.8c | 10% |

(1) FULL YEAR 1993 RESULTS FOR THE "INDUSTRY" (DEFINED AS AMERICAN, DELTA, NORTHWEST, UNITED AND USAIR) BASED ON THE FINANCIAL RESULTS ANNOUNCED BY SUCH AIR CARRIERS.

(2) INCLUDES IMPACT OF FIRST FULL YEAR OF EMPLOYEE CONCESSIONS, BUT EXCLUDES "OTHER SAVINGS" ASSOCIATED WITH U2.

(3) DUE TO THE NON-CASH NATURE OF THE EMPLOYEE STOCK OWNERSHIP PLAN ACCOUNTING CHARGE AND TO IMPROVE COMPARABILITY TO THE INDUSTRY AVERAGE UNIT EXPENSE LEVELS, THE EMPLOYEE STOCK OWNERSHIP PLAN ACCOUNTING CHARGE HAS BEEN EXCLUDED. THE INCLUSION OF SUCH CHARGE WOULD HAVE THE AFFECT OF INCREASING POST-TRANSACTION WAGES AND BENEFITS EXPENSES BY 0.24c ASSUMING AN ESOP PREFERRED STOCK PURCHASE PRICE OF \$120. SEE "--CERTAIN RISK FACTORS-- FINANCIAL REPORTING; MARKET ASSESSMENT."

RECOMMENDATION OF THE BOARD

The Board has approved the Initial Plan of Recapitalization and the Plan of Recapitalization and has determined that the Recapitalization is fair to the holders of Old Shares. The Board recommends that stockholders vote FOR the Plan of Recapitalization and the related matters identified in clauses (ii) through (vii) in the first paragraph under "INTRODUCTION--Purpose of the Meeting."

The Board noted that the Recapitalization permits the holders of Old Shares to receive in exchange for each Old Share either (i) cash in an amount equal to the sum of (a) \$25.80, (b) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 principal amount of Series A Debentures and \$15.55 principal amount of Series B Debentures pursuant to the United Debt Offering and (c) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1.244 Depositary Preferred Shares representing interests in \$31.10 aggregate liquidation preference of Public Preferred Stock pursuant to the UAL Preferred Offering or (ii) (a) \$25.80 in cash, (b) \$31.10 in Debentures and (c) Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock, while in either case retaining the same significant ongoing equity interest in the Company. Under various circumstances, the value of the consideration to be received by stockholders could be less than the stated face amount or liquidation preference of the Debentures or Depositary Preferred Shares. In approving the Initial Plan of Recapitalization and the Plan of Recapitalization, the Board also considered that the majority equity position of the employee stock ownership plans is designed to provide additional incentives for the Company's employees to promote the success of the Company, which should, in part, inure to the benefit of the holders of Old Shares. The Board noted that no third party had expressed an interest in acquiring the Company as an entirety and considered the fact that the Initial Plan of Recapitalization and the Plan of Recapitalization would not prevent the Company from pursuing such an alternative if it arose. At the March 24, 1994 Board Meeting, the Board (with Dr. Brimmer dissenting) voted in favor of the Initial Plan of Recapitalization. Dr. Brimmer has indicated that he dissented from such vote because under current economic conditions, he did not think there were compelling reasons to effect such a

transaction at this time. With respect to the Definitive Documentation Amendment, the Board voted in favor of the Definitive Documentation Amendment, with Dr. Brimmer abstaining. It was mentioned at the meeting that Mr. Olson, who was not in attendance, had requested that his opposition to the Definitive Documentation Amendment be noted.

In reaching its decisions to approve the Initial Plan of Recapitalization and the Plan of Recapitalization, its determination that the Recapitalization is fair to the holders of Old Shares and its decision to recommend that the holders of Old Shares vote for approval and adoption of the Plan of Recapitalization, the Board consulted with its legal and financial advisors as well as the Company's management, and considered numerous factors, including, but not limited to: (i) the business, operations, earnings, properties and prospects of the Company and United and the perceived need for the Company to obtain wage concessions and work-rule changes in order to permit United to compete effectively in the aviation marketplace, (ii) the alternatives potentially available to the Company to achieve wage concessions and work-rule changes, as well as a comparison of the risks that would be associated with the Recapitalization and with such other alternatives, (iii) the terms of the employee investment contemplated by the Initial Plan of Recapitalization and the Plan of Recapitalization, including the reduction in cash expense, the favorable tax treatment of the ESOP transactions, the long-term labor contracts which limit salary increases and the ability to establish U2, (iv) the fact that the Recapitalization will provide the holders of Old Shares with an opportunity to receive cash and, if the Offerings are not consummated, Debentures and Depositary Preferred Shares representing interests in Public Preferred Stock for a portion of the value of their Old Shares while retaining a significant ongoing equity interest in the Company through ownership of New Shares, (v) the terms of the proposed corporate governance structure, which contains both certain provisions required by the Coalition and certain provisions designed for the protection of the holders of New Shares, (vi) the identity of the new chief executive officer and the new Board (especially the Independent Directors), and the Board's assessment of such individuals, (vii) recent market prices for the Old Shares as well as market prices for the past several years, (viii) the Federal income tax consequences of the Recapitalization under existing law, (ix) (with respect to the Plan of Recapitalization) the terms of the Definitive Documentation Amendment providing for an increase in the percentage of common equity and voting power initially to be acquired by the employee trusts and a decrease in the range of average stock prices determined one year after the Effective Time which would result in an increase in the percent of common equity and voting power to be held by the employee trusts, (x) (with respect to the Plan of Recapitalization) the terms of the Definitive Documentation Amendment providing for the Offerings and the potential to distribute cash, instead of securities, to holders of Old Shares if the Offerings are consummated, (xi) (with respect to the Plan of Recapitalization) the use of a market price-based formula for the purchase of the ESOP Preferred Stock to be purchased at the Effective Time; and (xii) the opinions of CS First Boston, a nationally recognized investment banking firm, and the opinions of Lazard, another nationally recognized investment banking firm, that, based upon the matters described therein, as of the date of each such opinion, the consideration to be received by the holders of Old Shares pursuant to the Recapitalization for each Old Share, taken as a whole, was fair to such stockholders from a financial point of view. See "--Opinions of the Financial Advisors to the Board," "--Certain Risk Factors" and "--Certain Revenue and Earnings Scenarios," "THE PLAN OF RECAPITALIZATION" and "MARKET PRICES OF THE SHARES; DIVIDENDS." In connection with considering such factors, the Board generally viewed factors (i) through (iv), (vii), (viii) and (x) through (xii) as supporting the Board's fairness belief and factor (vi) as neutral (however, the Board was favorably impressed with the identity of the Independent Directors). With respect to factor (v), while the Board generally viewed such factor as supporting the Board's fairness belief, the Board did consider that certain aspects of the governance provisions, such as the ability of the participants in the ESOP to continue to hold more than 50% of the voting power of the Company until the economic equity interest held by the ESOPs and other employee benefit plans sponsored by the Company becomes less than 20% of the value of the common equity of the Company (see "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Nondilution"), would not support the Board's fairness belief. With respect to factor (ix), while the Board viewed this factor as not supporting its fairness belief, it recognized that in order to obtain the benefits of the Definitive Documentation Amendment, it was necessary to make such changes. The Board also considered (a) the fact that the repayment of the Debentures

and the payment of dividends on the Public Preferred Stock will be dependent on the Company's operations, assets, credit, cash flow and earning power, (b) that, as a result of the Recapitalization, there will be a significant increase in the Company's long-term indebtedness, as well as a substantial negative balance in stockholders' equity and a significant reduction in cash reserves and (c) the opinion of American Appraisal with respect to certain solvency and surplus matters. See "--Certain Risk Factors," "THE PLAN OF RECAPITALIZATION" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION." In connection with considering such factors, the Board generally viewed factors (a) and (b) as not supporting the Board's fairness belief and factor (c) as neutral.

In view of the circumstances and the wide variety of factors considered in connection with this evaluation of the Recapitalization, the Board did not find it practicable to assign relative weights to the factors considered in reaching its decision.

OPINIONS OF THE FINANCIAL ADVISORS TO THE BOARD

Opinion of CS First Boston

On December 22, 1993, March 14, 1994, March 24, 1994 and May 20, 1994, CS First Boston delivered to the Board its oral opinion that, as of such dates, the consideration to be received by holders of Old Shares of the Company in connection with the Recapitalization, taken as a whole, was fair to such holders of Old Shares from a financial point of view. On December 22, 1993, March 24, 1994 and May 20, 1994, CS First Boston delivered to the Board its written opinions that, as of such dates, the consideration to be received by holders of Old Shares in connection with the Recapitalization, taken as a whole, was fair to such holders of Old Shares from a financial point of view.

THE FULL TEXT OF THE WRITTEN OPINION OF CS FIRST BOSTON DATED MAY 20, 1994 WHICH SETS FORTH THE ASSUMPTIONS MADE, THE MATTERS CONSIDERED AND THE REVIEW UNDERTAKEN WITH REGARD TO SUCH OPINION, IS ATTACHED AS ANNEX I TO THIS PROXY STATEMENT/PROSPECTUS. STOCKHOLDERS ARE URGED TO READ SUCH OPINION IN ITS ENTIRETY. CS FIRST BOSTON'S OPINION IS DIRECTED ONLY TO THE FAIRNESS OF THE CONSIDERATION TO BE RECEIVED BY THE HOLDERS OF OLD SHARES AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY HOLDER OF OLD SHARES AS TO HOW SUCH HOLDER SHOULD VOTE. THE SUMMARY OF THE OPINION OF CS FIRST BOSTON SET FORTH IN THIS PROXY STATEMENT/PROSPECTUS IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF SUCH OPINION. THE TEXTS OF THE WRITTEN OPINIONS OF CS FIRST BOSTON DATED DECEMBER 22, 1993 AND MARCH 24, 1994 ARE SUBSTANTIALLY THE SAME AS THE TEXT OF THE MAY 20, 1994 OPINION (EXCEPT WITH RESPECT TO CHANGES TO THE PLAN OF RECAPITALIZATION EFFECTED PURSUANT TO THE DEFINITIVE DOCUMENTATION AMENDMENT).

In arriving at its opinions, CS First Boston (i) reviewed the Plan of Recapitalization and its related schedules, (ii) reviewed certain publicly available business and financial information relating to the Company, (iii) reviewed certain other information, including financial forecasts, provided to CS First Boston by the Company and (iv) met with the Company's management to discuss the business of the Company. CS First Boston also considered certain financial and stock market data for the Company and compared that data with similar data for other publicly held companies in businesses similar to those of the Company, and it considered the financial terms of certain other business combinations that have recently been effected. CS First Boston also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant. CS First Boston also reviewed the alternative of not effecting the Recapitalization and of implementing the Fundamental Restructuring Plan described under "BACKGROUND OF THE PLAN OF RECAPITALIZATION," which, if fully implemented, might result in a greater value to stockholders than the Recapitalization; however, the opinion assumed that the Board determined, in light of various factors relating to the implementation of the Fundamental Restructuring Plan and the availability of the Recapitalization, not to pursue such implementation. CS First Boston did assume, however, for purposes of the analyses described below, that, if the Recapitalization were not effected, the Company would implement the "enhanced status quo" alternative described under "BACKGROUND OF THE PLAN OF RECAPITALIZATION," consisting of a variety of significant actions to reduce costs and, therefore, to enhance profitability and stockholder value.

In connection with its review, CS First Boston did not independently verify any of the foregoing information and CS First Boston relied on such information being complete and accurate in all material respects. With respect to the financial forecasts, CS First Boston assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's management as to the future financial performance of the Company. In addition, CS First Boston did not make an independent evaluation or appraisal of any of the assets of the Company, nor was it furnished with any such appraisals. CS First Boston was not requested to, and did not, solicit third party offers to acquire all or any part of the Company, nor, to CS First Boston's knowledge, has any interest in making such an offer been presented by any third party, including in response to the public disclosure regarding discussions between the Company and the Coalition. CS First Boston assumed that the results expected by the Company's management to be obtained from the Recapitalization, including those arising from the employee investment contemplated by the Plan of Recapitalization, will be realized. CS First Boston's opinion was necessarily based solely upon information available to it and business, market, economic and other conditions as they existed on, and could be evaluated as of, the date of such opinion. CS First Boston's opinion did not address the Company's underlying business decision to effect the Recapitalization.

The following is a summary of the analyses that CS First Boston utilized in arriving at its opinion as to the fairness of the consideration to be received by the holders of Old Shares of the Company in connection with the Recapitalization, taken as a whole, from a financial point of view and that CS First Boston discussed with the Board at the December 22, 1993, March 14, 1994, March 24, 1994 and May 20, 1994 Board meetings.

Valuation of the Company

For purposes of its opinion as to the fairness of the consideration to be received by holders of Old Shares in connection with the Recapitalization, taken as a whole, from a financial point of view, CS First Boston arrived at a reference range of values for the Company using three principal valuation methodologies: a discounted cash flow analysis, a publicly traded comparable company analysis and a comparable acquisitions analysis. At the December 22, 1993 Board meeting, CS First Boston advised the Board that its overall reference range per share was \$160 to \$200. CS First Boston did not update its overall reference range at the March 14, 1994 or March 24, 1994 Board meetings but it advised the Board at those meetings that if it had updated its reference range, the updated range would have been somewhat lower than the range given in December. At the May 20, 1994, Board meeting, CS First Boston advised the Board that its overall reference range per share was \$135 to \$175. CS First Boston advised the Board that the changes in the reference range resulted from changes in a number of factors, including, but not limited to, higher interest rates, lower airline stock prices and updated financial forecast information. The methodologies used by CS First Boston and the resulting ranges of values, which were described to the Board at the December 22, 1993 Board meeting but which were not updated for the Board at the March 14, 1994, March 24, 1994 or May 20, 1994 Board meetings, are described below. If CS First Boston had updated these analyses, the resulting ranges of values would have been lower than the ranges that resulted from CS First Boston's December 22, 1993 analyses.

Discounted Cash Flow Analysis. Using a discounted cash flow analysis, CS First Boston estimated the present value of the future cash flows that the Company could be expected to produce over a five-year period from 1994 through 1998 under various assumptions and in accordance with management's forecasts. The analysis assumed that the "enhanced status quo" alternative would be implemented. CS First Boston determined an equity market value reference range for the Company by adding (i) the present value (using discount rates determined on the basis of an industry weighted average cost of capital ranging from 8.0% to 10.0%) of the five-year unleveraged free cash flows of the Company and (ii) the present value of the Company's 1998 terminal value. The terminal values were determined by multiplying 1998 projected earnings before interest, taxes, depreciation and amortization ("EBITDA") and 1998 projected net income by a range of multiples determined based on comparable companies and comparable acquisitions (ranging from 3.5 times to 5.5 times 1998 EBITDA and 11.0 times to 15.0 times 1998 net income). This analysis resulted in a range of values per Old Share of the Company on December 22, 1993 of from \$160 to \$200.

Publicly Traded Comparable Company Analysis. CS First Boston reviewed and compared the financial, operating and market performance of the following group of five domestic commercial airline companies with that of the Company: AMR Corporation, Continental Airlines, Delta Air Lines, Southwest Airlines and USAir Group (the "Comparable Group"). CS First Boston examined certain publicly available or estimated financial data of the Comparable Group, including total revenue, operating cash flow, operating income, net income to common shares, earnings per share, depreciation and amortization, interest expense and capitalized interest, rental expense and net cash flow per share. CS First Boston also examined and compared various operating ratios and certain capitalization data. CS First Boston also reviewed market data, including various trading multiples such as stock price to earnings per share, equity market capitalization to net cash flow (net income plus depreciation and amortization) and enterprise value to EBITDA (before and after adjusting for off-balance sheet operating rental payments). CS First Boston also considered other financial data (including margins and growth rates) as well as certain operating information, such as yields and load factors, for the Comparable Group. This analysis resulted in a range of values per Old Share of the Company on December 22, 1993 of from \$130 to \$135.

Comparable Acquisition Analysis. CS First Boston also reviewed selected acquisitions in the airline industry, including Continental Air/Air Canada, Trans World Airlines/Carl Icahn and NWA Inc./Wings Holdings, including the multiples of enterprise value to revenues (ranging from .85 times to 1.10 times) and equity market value to net cash flow (ranging from 1.5 times to 7.6 times) represented by the consideration in those transactions. This analysis resulted in a range of values per Old Share of the Company on December 22, 1993 of from \$120 to \$200.

Recapitalization Consideration

For purposes of its opinion as to the fairness of the consideration to be received by holders of Old Shares in connection with the Recapitalization, taken as a whole, from a financial point of view, CS First Boston arrived at a reference range of values for the consideration to be received by the holders of Old Shares in the Recapitalization, consisting of cash, New Shares and, if the Offerings are not consummated, Debentures and Depositary Preferred Shares representing the Public Preferred Stock. The interest rates on the Debentures and the dividend rate on the Public Preferred Stock were initially set upon the execution of the Plan of Recapitalization. The interest or dividend rate on each such security will be reset, as of a date to be determined that is not fewer than five calendar days and not greater than ten calendar days prior to the Meeting to the rate required to cause each such security to trade at 100% of its aggregate principal amount (in the case of the Debentures) or at 100% of its aggregate liquidation preference (in the case of the Public Preferred Stock) (collectively, "par"), on a fully distributed basis, as of such date (subject to a maximum potential increase, in each case, of 112.5 basis points (1.125 percentage points)). Accordingly, CS First Boston's opinion was based on the assumption that (if the Offerings are not consummated) the final rates to be borne by such securities would be set so that the Debentures and the Public Preferred Stock would trade, as of such date, on a fully distributed basis, at par. CS First Boston advised the Board at the March 24, 1994 meeting that the reduction of the maximum potential increase in the interest rates on the Debentures and the dividend rate on the Public Preferred Stock from 150 basis points (1.5 percentage points) (which was the size of the rate cap arrangement provided for in the Agreement in Principle) to 112.5 basis points (1.125 percentage points) (the size of the rate cap arrangement provided for in the Plan of Recapitalization) could reduce the value of the Debentures and the Public Preferred Stock to be received by the holders of Old Shares in the Recapitalization by an amount that CS First Boston advised the Board was not material to the consideration to be received by the holders of Old Shares in the Recapitalization, taken as a whole. CS First Boston's opinion does not represent CS First Boston's view, if the Offerings are not consummated as to what the trading value of the securities actually will be when the securities are issued to the holders of the Old Shares following consummation of the Recapitalization. The actual trading values of such securities could be higher or lower depending upon changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. Because of the large aggregate amount of the securities (particularly the Public Preferred Stock) that would be issued to holders of Old

Shares if the Offerings are not consummated and other factors, such securities may trade initially, and for an extended period thereafter, at prices below those at which they would trade on a fully distributed basis. Furthermore, any valuation of securities is only an approximation, subject to uncertainties and contingencies. If the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Public Preferred Stock may be set at rates that are in excess of the limitation contained in the Recapitalization Agreement, in which event the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares, as the case may be, will be reduced so that the aggregate amount of interest payable by United or dividends payable by UAL, as the case may be, with respect to such security will not exceed amounts specified in the Recapitalization Agreement, and the amount of the proceeds from the sale of such securities to be received by holders of Old Shares will be reduced accordingly. In addition, in certain other circumstances such proceeds could be less than the stated face amount or liquidation preference of such securities. CS First Boston's opinion was based on the assumption that, if the Offerings are consummated, the proceeds of the Debentures and the Depositary Preferred Shares to be received by the holders of Old Shares will not be less than the principal amounts of Debentures and the number of Depositary Preferred Shares that would have been distributed to the holders of Old Shares had the Offerings not been consummated.

Valuation of the New Shares

The principal valuation methodology used by CS First Boston with respect to the New Shares to be received by holders of Old Shares in the Recapitalization was the earnings and cash flow multiple method. A supplemental method referred to as the "gives/gets" method was also analyzed. These methodologies are described below:

Earnings and Cash Flow Multiple Method. CS First Boston arrived at a range of values for the New Shares by reviewing the public market multiples of the Comparable Group and applying a range of multiples to the Company's estimated 1994 and 1995 earnings per share and net cash flow per share pro forma for the consummation of the Recapitalization. Because of the way the accounting rules applicable to "stock based compensation" (which require that stock compensation expense for periodic stock allocations be measured by the then-current market value of the shares at the time of allocation) will apply to the share allocations within the ESOPs, there are complexities as to forecasting future earnings per share of the Company. The size of the employee stock ownership plan accounting charge will be affected by the stock price, and the employee stock ownership plan accounting charge will reduce reported earnings per share which, in turn, may affect the stock price. In light of this, for purposes of its analyses, CS First Boston applied a range of multiples to forecasted results based on two cases: one assuming ratable allocation of the shares within the ESOPs over the period of the concessions and the other assuming immediate, full allocation (the latter methodology eliminates the need to estimate future stock price performance in order to project the Company's earnings per share). CS First Boston applied a discount to the resulting values to reflect the potential dilution from the equity collar arrangement (which will operate to increase the employee trusts' equity ownership from 55% to a maximum of 63% if the Company's average stock closing price for one year exceeds certain levels specified in the Plan of Recapitalization). This analysis resulted in a public market equity value reference range for the portion of a New Share to be received as part of the Recapitalization Consideration for one Old Share on December 22, 1993 of \$80 to \$82, on March 14, 1994 of \$73 to \$77 and on May 20, 1994 of \$55 to \$59. CS First Boston advised the Board that the change in the reference range resulted from changes in a number of factors, including, but not limited to, higher interest rates, lower airline stock prices, updated financial forecast information and the amendments to the Plan of Reorganization.

"Gives/Gets" Method

"Gives/Gets" is a summary valuation methodology whereby the impact of the employee investment and the distribution of the Debentures and Public Preferred Stock on the Company's unaffected stock price (i.e., unaffected by the possibility of an extraordinary transaction) is considered. The "gives/gets" analysis started with the trading value of Old Shares, reduced by the increase in the stock price attributable, in CS First

Boston's view, to market speculation about a possible employee investment transaction (minus the present value of the enhancements contained in the "enhanced status quo" alternative that the Company would have implemented if it had pursued such alternative but would not implement if the Recapitalization were effected) and added to this pre-transaction value the present value of the employee investment and the incremental value realized on the sale of the flight kitchens to arrive at an implied total equity value. CS First Boston subtracted from this amount the cash and securities (other than the New Shares) to be delivered to the holders of Old Shares to arrive at an implied post-transaction market value. Using this methodology, CS First Boston arrived at a valuation for the portion of a New Share to be received as part of the Recapitalization Consideration for one Old Share on December 22, 1993 of \$85, which was presented to the Board primarily for the purpose of describing the possible adjustment in the percent equity to be held by the ESOPs based on the trading price of the New Shares during the first year following the Effective Time (see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares"). CS First Boston did not update this analysis at the March 14, 1994, March 24, 1994 or May 20, 1994 Board meetings.

In arriving at its written opinions dated December 22, 1993, March 24, 1994 or May 20, 1994 and in discussing its opinions with the Board, CS First Boston performed certain financial analyses, portions of which are summarized above. The summary set forth above does not purport to be a complete description of CS First Boston's analyses. CS First Boston believes that its analyses must be considered as a whole and that selecting portions of its analyses could create an incomplete view of the process underlying the opinions. In addition, CS First Boston may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be CS First Boston's view of the actual value of the Company. No company or transaction used in the publicly traded comparable company analysis or the comparable acquisition analysis summarized above is identical to the Company or the Recapitalization. Accordingly, any such analysis of the value of the Company involves complex considerations and judgments concerning differences in the potential financial and operating characteristics of the comparable companies as well as other factors relating to the trading and the acquisition values of the comparable companies. These and other limitations, including potential legal restrictions on airline ownership, may detract from the usefulness of either publicly traded comparable company multiples or purchase price multiples from prior airline acquisitions as valuation methodologies. In performing its analyses, CS First Boston made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of the Company and all of which are beyond the control of CS First Boston. The results of the analyses performed by CS First Boston are not necessarily indicative of actual values, which may be significantly more or less favorable than suggested by such analyses.

The analyses described above were prepared solely as part of CS First Boston's analysis of the fairness of the Recapitalization Consideration to the holders of Old Shares. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the actual trading value of the Debentures, the Depositary Preferred Shares or the New Shares.

CS First Boston is an internationally recognized investment banking firm and regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions and for other purposes. The Board selected CS First Boston to act as its financial advisor on the basis of CS First Boston's international reputation and CS First Boston's familiarity with the Company and the airline industry in general and its experience in the restructuring of other public companies in similar types of transactions. CS First Boston has previously acted as financial advisor to the Company in connection with financing and other matters unrelated to the Recapitalization for which it has received customary compensation. In the course of its business, CS First Boston actively trades the debt and equity securities of the Company for its own account and for the accounts of customers. Accordingly, CS First Boston may at any time hold a long or short position in such securities.

As compensation for rendering the opinion described above and assisting the Company in evaluating, structuring, planning and negotiating the financial aspects of the Recapitalization, the Company has paid CS

First Boston a retainer of \$250,000 and since January 1994 CS First Boston has been receiving an advisory fee of \$100,000 per month, as well as reimbursement of reasonable out-of-pocket expenses (including fees and disbursements). While the Company agreed to pay CS First Boston a fee of \$2 million contingent upon consummation of the Recapitalization, CS First Boston's contingent fee is subject to adjustment based upon amounts paid to other financial advisors in the Recapitalization. Accordingly, the aggregate amount that CS First Boston will receive if the Recapitalization is consummated, including retainer and advisory fees and expense reimbursements paid by the Company, is \$5 million (the success fee to be paid to Lazard upon consummation of the Recapitalization, as described below under "--Opinion of Lazard") plus the amount by which CS First Boston's expense reimbursements exceed Lazard's expense reimbursements. The Company has agreed to indemnify CS First Boston and its affiliates, their respective directors, officers, partners, agents and employees and each person, if any, controlling CS First Boston or any of its affiliates against certain liabilities, including certain liabilities under the Federal securities laws, relating to or arising out of its engagement.

Opinion of Lazard

On December 22, 1993, March 14, 1994, March 24, 1994 and May 20, 1994, Lazard delivered to the Board its oral opinion that, as of such dates, the consideration to be received by holders of Old Shares in connection with the Recapitalization, taken as a whole, was fair to such holders of Old Shares from a financial point of view. On December 22, 1993 March 24, 1993 and May 20, 1994, Lazard delivered to the Board its written opinions that, as of such dates, the consideration to be received by holders of Old Shares in connection with the Recapitalization, taken as a whole, was fair to such holders of Old Shares from a financial point of view.

THE FULL TEXT OF THE WRITTEN OPINION OF LAZARD DATED MAY 20, 1994, WHICH SETS FORTH THE ASSUMPTIONS MADE, THE MATTERS CONSIDERED AND THE REVIEW UNDERTAKEN WITH REGARD TO SUCH OPINION, IS ATTACHED AS ANNEX II TO THIS PROXY STATEMENT/PROSPECTUS. HOLDERS OF OLD SHARES ARE URGED TO READ SUCH OPINION IN ITS ENTIRETY. LAZARD'S OPINION IS DIRECTED ONLY TO THE FAIRNESS OF THE CONSIDERATION TO BE RECEIVED BY THE HOLDERS OF OLD SHARES AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY HOLDER OF OLD SHARES AS TO HOW SUCH HOLDER SHOULD VOTE. THE SUMMARY OF THE OPINION OF LAZARD SET FORTH IN THIS PROXY STATEMENT/PROSPECTUS IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF SUCH OPINION. THE TEXTS OF THE WRITTEN OPINIONS OF LAZARD DATED DECEMBER 22, 1993 AND MARCH 24, 1994, ARE SUBSTANTIALLY THE SAME AS THE TEXT OF THE MAY 20, 1994 OPINION (EXCEPT WITH RESPECT TO CHANGES TO THE PLAN OF RECAPITALIZATION EFFECTED PURSUANT TO THE DEFINITIVE DOCUMENTATION AMENDMENT.

In arriving at its opinions, Lazard (i) reviewed the Plan of Recapitalization and its related schedules, (ii) reviewed certain publicly available business and financial information relating to the Company, (iii) reviewed certain other information, including financial forecasts, provided to Lazard by the Company and (iv) met with the Company's management to discuss the business of the Company. Lazard also considered certain financial and stock market data for the Company and compared that data with similar data for other publicly held companies in businesses similar to those of the Company. Lazard also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant. Lazard also reviewed the alternative of not effecting the Recapitalization and of implementing the Fundamental Restructuring Plan described under "BACKGROUND OF THE PLAN OF RECAPITALIZATION," which, if fully implemented, might result in a greater value to stockholders than the Recapitalization; however, the opinion assumed that the Board determined, in light of various factors relating to the implementation of the Fundamental Restructuring Plan and the availability of the Recapitalization, not to pursue such implementation. Lazard did assume, however, for purposes of the analyses described below, that, if the Recapitalization were not effected, the Company would implement the "enhanced status quo" alternative described under "BACKGROUND OF THE PLAN OF RECAPITALIZATION," consisting of a variety of significant actions to reduce costs and, therefore, to enhance profitability and stockholder value.

In connection with its review, Lazard did not independently verify any of the foregoing information and Lazard relied on such information being complete and accurate in all material respects. With respect to the financial forecasts, Lazard assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's management as to the future financial performance of the Company. In addition, Lazard did not make an independent evaluation or appraisal of any of the assets of the Company, nor was it furnished with any such appraisals. Lazard was not requested to, and did not, solicit third party offers to acquire all or any part of the Company, nor, to Lazard's knowledge, has any interest in making such an offer been presented by any third party, including in response to the public disclosure regarding discussions between the Company and the Coalition. Lazard assumed that the results expected by the Company's management to be obtained from the Recapitalization, including those arising from the employee investment contemplated by the Plan of Recapitalization will be realized. Lazard's opinion was necessarily based solely upon information available to it and business, market, economic and other conditions as they existed on, and could be evaluated as of, the date of such opinion. Lazard's opinion did not address the Company's underlying business decision to effect the Recapitalization.

The following is a summary of the analyses that Lazard utilized in arriving at its opinion as to the fairness of the consideration to be received by the holders of Old Shares of the Company in connection with the Recapitalization, taken as a whole, from a financial point of view and that Lazard discussed with the Board at the December 22, 1993, March 14, 1994, March 24, 1994 and May 20, 1994 Board meetings.

VALUATION OF THE COMPANY

For purposes of its opinion as to the fairness of the consideration to be received by holders of Old Shares in connection with the Recapitalization, taken as a whole, from a financial point of view, Lazard arrived at a reference range of values for the Company using three principal valuation methodologies: a discounted cash flow analysis, a publicly traded comparable company analysis and an unaffected trading value analysis. At the December 22, 1993 Board meeting, Lazard advised the Board that its overall reference range per share was \$150 to \$190. Lazard did not update its overall reference range at the March 14, 1994 or March 24, 1994 Board meetings but it advised the Board at those meetings that if it had updated its reference range, the updated range would have been somewhat lower than the range given in December. At the May 20, 1994, Board meeting, Lazard advised the Board that its overall reference range per share was \$135 to \$160. Lazard advised the Board that the changes in the reference range resulted from changes in a number of factors, including, but not limited to, higher interest rates, lower airline stock prices and updated financial forecast information. The methodologies used by Lazard and the resulting ranges of values, which were described to the Board at the December 22, 1993 Board meeting but which were not updated for the Board at the March 14, 1994, March 24, 1994 or May 20, 1994 Board meetings, are described below. If Lazard had updated these analyses, the resulting ranges of values would have been lower than the ranges that resulted from Lazard's December 22, 1993 analyses.

Discounted Cash Flow Analysis. Using a discounted cash flow analysis, Lazard estimated the present value of the future cash flows that the Company could be expected to produce over a ten-year period from 1994 through 2003 under various assumptions in accordance with management's forecasts. The analysis assumed that the "enhanced status quo" alternative would be implemented. Lazard determined a range of total values for the Company by adding (i) the present value (using discount rates ranging from 8.0% to 12.0%) of the ten-year unleveraged free cash flows of the Company and (ii) the present value of the Company's 2003 terminal value. A range of terminal values was determined by multiplying 2003 projected net income by a range of multiples determined based on the trading multiples of selected publicly traded comparable companies (AMR Corporation, Continental Airlines, Delta Air Lines, Southwest Airlines and USAir Group (the "Comparable Group")) and other factors (ranging from 11.0 times to 15.0 times 2003 net income). This analysis resulted in a range of values per Old Share for the Company on December 22, 1993 of from \$170 to \$210.

Publicly Traded Comparable Company Analysis. Lazard reviewed and compared the financial, market and operating performance of the companies in the Comparable Group with that of the Company. Of the companies in the Comparable Group, Lazard focused its analyses principally on AMR Corporation, Delta

Air Lines and Southwest Airlines. Lazard examined certain publicly available financial data, including total revenue, EBITDA, earnings before interest and taxes, earnings per share and net cash flow (net income plus depreciation) per share and reviewed various trading multiples for the Comparable Group. Lazard also considered other financial data (including margins and growth rates) as well as certain operating information (such as yields and load factors) for the Comparable Group. This analysis resulted in a range of appropriate multiples for the Company, which, in turn, resulted in a range of values per Old Share of the Company on December 22, 1993 of from \$140 to \$180.

Unaffected Trading Value Analysis. Lazard reviewed the history of the trading prices of the Company's common stock over various periods and at various times (including prior to the first public disclosure of the Coalition's proposal for a restructuring of the Company in July 1993) and compared such prices to the prices of other airline companies over such periods and at such times in order to estimate a normalized trading value for the Old Shares that would not reflect a significant premium attributable to the disclosure of, or market speculation about, a possible employee investment transaction. This analysis resulted in an unaffected trading range per Old Share of the Company on December 22, 1993 of from \$130 to \$135.

RECAPITALIZATION CONSIDERATION

For purposes of its opinion as to the fairness of the consideration to be received by holders of Old Shares of the Company in connection with the Recapitalization, taken as a whole, from a financial point of view, Lazard arrived at a reference range of values for the consideration to be received by the holders of Old Shares in the Recapitalization, consisting of cash, New Shares and, if the Offerings are not consummated, Debentures and Depositary Preferred Shares representing the Public Preferred Stock. The interest rates on the Debentures and the dividend rate on the Public Preferred Stock were initially set upon the execution of the Plan of Recapitalization. The interest or dividend rate on each such security will be reset, as of a date to be determined that is not fewer than five calendar days and not greater than ten calendar days prior to the Meeting, to the rate required to cause each such security to trade at 100% of its aggregate principal amount (in the case of the Debentures) or at 100% of its aggregate liquidation preference (in the case of the Public Preferred Stock) (collectively, "par"), on a fully distributed basis, as of such date (subject to a maximum potential increase, in each case, of 112.5 basis points (1.125 percentage points)). Accordingly, Lazard's opinion was based on the assumption that (if the Offerings are not consummated) the final rates to be borne by such securities would be set so that the Debentures and the Public Preferred Stock would trade, as of such date, on a fully distributed basis, at par. Lazard advised the Board at the March 24, 1994 meeting that the reduction of the maximum potential increase in the interest rates on the Debentures and the dividend rate on the Public Preferred Stock from 150 basis points (1.5 percentage points) (which was the rate cap provided for in the Agreement in Principle) to 112.5 basis points (1.125 percentage points) (the rate cap provided for in the Plan of Recapitalization) could reduce the value of the Debentures and the Public Preferred Stock to be received by the holders of Old Shares in the Recapitalization by an amount that Lazard advised the Board was not material to the consideration to be received by the holders of Old Shares in the Recapitalization, taken as a whole. Lazard's opinion does not represent Lazard's view, if the Offerings are not consummated, as to what the trading value of the securities actually will be when the securities are issued to holders of the Old Shares following consummation of the Recapitalization. The actual trading values of such securities could be higher or lower depending upon changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. Because of the large aggregate amount of the securities (particularly the Public Preferred Stock) that would be issued to holders of Old Shares if the Offerings are not consummated and other factors, such securities may trade initially, and for an extended period thereafter, at prices below those at which they would trade on a fully distributed basis. Furthermore, any valuation of securities is only an approximation, subject to uncertainties and contingencies. If the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Public Preferred Stock may be set at rates that are in excess of the limitation contained in the Recapitalization Agreement, in which event the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares, as the case may be, will be reduced so that the aggregate amount of

interest payable by United or dividends payable by UAL, as the case may be, with respect to such security will not exceed amounts specified in the Recapitalization Agreement, and the amount of the proceeds from the sale of such securities to be received by holders of Old Shares will be reduced accordingly. In addition, in certain other circumstances such proceeds could be less than the stated face amount or liquidation preference of such securities. Lazard's opinion was based on the assumption that, if the Offerings are consummated, the proceeds of the Debentures and the Depositary Preferred Shares to be received by the holders of Old Shares will not be less than the principal amounts of Debentures and the number of Depositary Preferred Shares that would have been distributed to the holders of Old Shares had the Offerings not been consummated.

Valuation of the New Shares

The principal valuation methodology used by Lazard with respect to the New Shares to be received by holders of Old Shares in the Recapitalization was the earnings and cash flow multiple method. The "gives/gets" method was also analyzed. These methodologies are described below:

Earnings and Cash Flow Multiple Method. Lazard arrived at a range of values for the New Shares by reviewing the public market multiples of the Comparable Group and the Company, and applying a range of multiples to the Company's estimated 1994 and 1995 earnings per share and net cash flow per share pro forma for the consummation of the Recapitalization. Because of the way the accounting rules applicable to "stock based compensation" (which require that stock compensation expense for periodic stock allocations be measured by the then-current market value of the shares at the time of allocation) will apply to the share allocations within the ESOPs, there are complexities to forecasting future earnings per share of the Company. The size of the employee stock ownership plan accounting charge will be affected by the stock price, and the employee stock ownership plan accounting charge will reduce reported earnings per share which, in turn, may affect the stock price. For purposes of its analyses, Lazard applied a range of multiples to forecasted results based on two cases: one assuming ratable allocation of the shares within the ESOPs over the period of the concessions and the other assuming immediate, full allocation (the latter methodology eliminates the need to estimate future stock price performance in order to project the Company's earnings per share). Lazard applied a discount to the resulting values to reflect the potential dilution from the equity collar arrangement which will increase the employee trusts' equity ownership from 55% to a maximum of 63% if the Company's average stock closing price for one year exceeds certain levels specified in the Plan of Recapitalization). This analysis resulted in a public market equity value reference range for the portion of a New Share to be received as part of the Recapitalization Consideration for one Old Share on December 22, 1993 of \$80 to \$82, on March 14, 1994 of \$73 to \$77 and on May 20, 1994 of \$55 to \$61. Lazard advised the Board that the changes in the reference range resulted from changes in a number of factors, including but not limited to, higher interest rates, lower airline stock prices, updated financial forecast information and the amendments to the Plan of Reorganization.

"Gives/Gets" Method

"Gives/Gets" is a summary valuation methodology whereby the impact of the employee investment and the distribution of the Debentures and Public Preferred Stock on the Company's unaffected trading value is considered. The "gives/gets" analysis started with the trading value of Old Shares, reduced by the increase in the stock price attributable, in Lazard's view, to market speculation about a possible employee investment transaction (determined as described under "-- Unaffected Trading Value Analysis" above) (minus the present value of the enhancements contained in the "enhanced status quo" alternative that the Company would have implemented but would not in the Recapitalization) and added to this pre-transaction value the present value of the employee investment and the incremental value realized on the sale of the flight kitchens to arrive at an implied total equity value. Lazard subtracted from this amount the cash and securities (other than the New Shares) to be delivered to the holders of the Old Shares to arrive at an implied post-transaction market value. Using this methodology, Lazard arrived at a valuation for the portion of a New Share to be

received as part of the Recapitalization Consideration for one Old Share on December 22, 1993 of approximately \$85, which was presented to the Board primarily for the purpose of describing the possible adjustment in the percent equity to be held by the ESOPs based on the trading price of the New Shares during the first year following the Effective Time (See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares"). Lazard did not update this analysis at the March 14, 1994, March 24, 1994 or May 20, 1994 Board meetings.

In arriving at its written opinions dated December 22, 1993, March 24, 1994 and May 20, 1994, and in discussing its opinions with the Board, Lazard performed certain financial analyses, portions of which are summarized above. The summary set forth above does not purport to be a complete description of Lazard's analyses. Lazard believes that its analyses must be considered as a whole and that selecting portions of its analyses could create an incomplete view of the process underlying the opinions. In addition, Lazard may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Lazard's view of the actual value of the Company. No company used in the publicly traded comparable company analysis summarized above is identical to the Company. Accordingly, any such analysis of the value of the Company involves complex considerations and judgments concerning differences in the potential financial and operating characteristics of the comparable companies as well as other factors relating to the trading values of the Comparable Group. In performing its analyses, Lazard made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of the Company and all of which are beyond the control of Lazard. The results of the analyses performed by Lazard are not necessarily indicative of actual values, which may be significantly more or less favorable than suggested by such analyses.

The analyses described above were prepared solely as part of Lazard's analysis of the fairness of the Recapitalization Consideration to the holders of Old Shares. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the actual trading value of the Debentures, the Depositary Preferred Shares or the New Shares.

Lazard is an internationally recognized investment banking firm and regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions and for other purposes. Lazard was chosen by the Company to act as financial advisor in connection with the negotiations with the Coalition and the Recapitalization because of its familiarity with the Company and the airline industry in general, because of its general experience in restructuring other public companies in similar types of transactions and because it was believed that the experience of Mr. Felix Rohatyn, a general partner of Lazard, who had been on the National Commission to Ensure a Strong Competitive Airline Industry, would provide additional valuable insight on the Company's situation and its discussions with the Coalition.

In consideration for Lazard's services, the Company paid Lazard a retainer of \$500,000 in January 1994 and agreed to pay Lazard a financial advisory fee of \$100,000 per month (prorated for any portion of a full month) payable on the last day of each month beginning January 31, 1994. The Company has agreed to reimburse Lazard for its out-of-pocket expenses, including reasonable fees and disbursements of counsel. The Company has also agreed to pay Lazard a success fee of \$5 million upon the completion of the Recapitalization against which the retainer and financial advisory fees and expense reimbursements will be credited. The Company has agreed to indemnify Lazard and its affiliates, their respective directors, officers, partners, agents and employees and each person, if any, controlling Lazard or any of its affiliates against certain liabilities, including certain liabilities under the Federal securities laws, relating to or arising out of its engagement.

OPINION OF VALUATION FIRM

In order to assist the Board, the Company retained American Appraisal, a nationally recognized independent valuation firm. American Appraisal delivered an oral report to the Board at the March 14, 1994

meeting and a written opinion to the Board and the Company dated as of March 14, 1994 (the "American Appraisal Opinion"). It is a condition to consummation of the Recapitalization that the Board shall have received an updated opinion from American Appraisal substantially similar to the American Appraisal Opinion as of the Effective Time. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions." The full text of the American Appraisal Opinion, which sets forth the assumptions made, the matters considered and the review undertaken with regard to such opinion is filed as an Exhibit to the Registration Statement of which this Proxy Statement/Prospectus is a part. The summary of the American Appraisal Opinion set forth in this Proxy Statement/Prospectus is qualified in its entirety by reference to the full text of such opinion.

In rendering the American Appraisal Opinion, American Appraisal valued the assets of the Company (on a consolidated basis) and United (on a consolidated basis), as going concerns, both immediately before and after, and giving effect to, the Recapitalization. The valuation included the aggregate assets of the business enterprise of each of the Company (on a consolidated basis) and United (on a consolidated basis), or total invested capital as represented by the total net working capital, tangible plant, property and equipment and intangible assets of the respective business enterprises. American Appraisal stated that it believed this to be a reasonable basis on which to value the Company and United and that nothing has come to its attention that caused it to believe that each of the Company (on a consolidated basis) and United (on a consolidated basis), before and after the Recapitalization, will not be going concerns.

The American Appraisal Opinion is subject to the conditions that (i) any sale of each of the Company (on a consolidated basis) or United (on a consolidated basis) will be completed as the sale of an ongoing business entity within a commercially reasonable period and (ii) a "commercially reasonable period" of time means at least twelve months for a willing buyer and a willing seller to agree on price and terms, plus the time necessary to complete the sale of the Company (on a consolidated basis) and United (on a consolidated basis). In connection with the opinion of the fair value of each of the Company (on a consolidated basis) and United (on a consolidated basis), American Appraisal was provided historical and projected operating results. In addition to this information, American Appraisal was provided other operating data and information, all of which has been accepted by American Appraisal, without independent verification, as representing a fair statement of historical and projected results of each of the Company (on a consolidated basis) and United (on a consolidated basis) in the opinion of the management of each of the Company and United. However, the American Appraisal Opinion states that, in the course of its investigation, nothing has led it to believe that its acceptance and reliance on such operating data and information was unreasonable.

American Appraisal's determination of the fair value of each of the Company (on a consolidated basis) and United (on a consolidated basis) was based on the generally accepted valuation principles used in the market and discounted cash flow approaches, described as follows:

Market Approach--Based on current stock market prices of publicly held companies whose businesses are similar to that of the Company (on a consolidated basis) and United (on a consolidated basis) and premiums paid over market price by acquirors of total or controlling ownership in such businesses.

Discounted Cash Flow Approach--Based on the present value of each of the Company's (on a consolidated basis) and United's (on a consolidated basis) future debt-free operating cash flow as estimated by the managements of each of the Company (on a consolidated basis) and United (on a consolidated basis) and contained in Status Quo Scenario C. The present value is determined by discounting the projected operating cash flow at a rate of return that reflects the financial and business risks of each of the Company (on a consolidated basis) and United (on a consolidated basis).

In determining the amount that would be required to pay the total probable liabilities on the respective dates that the Company's (on a consolidated basis) and United's (on a consolidated basis) liabilities and contingent liabilities become absolute and matured, for purposes of their opinion, American Appraisal applied valuation techniques, including present value analysis, using appropriate rates over appropriate periods to

the amounts that will be required from time to time to pay such liabilities and contingent liabilities as they become absolute and matured based on their scheduled maturities.

In the course of its investigation of identified contingent liabilities, the areas brought to the attention of American Appraisal by the managements of the Company (on a consolidated basis) and United (on a consolidated basis) included, (i) environmental matters, (ii) the adequacy of the corporate insurance program, (iii) tax audit exposure, (iv) the liability for the pension and welfare benefits program, (v) labor and collective bargaining issues and (vi) various lawsuits and claims filed and/or pending against the Company (on a consolidated basis) and United (on a consolidated basis).

Reserves for contingent liabilities have been made in the pro forma consolidated balance sheet prepared and furnished to American Appraisal by each of the managements of the Company (on a consolidated basis) and United (on a consolidated basis), and provisions for the ongoing expenses related to these issues have been included with the projection of income and expenses presented in the financial projections, and are considered in American Appraisal's valuation study as ongoing business operating expenses. American Appraisal has taken these identified contingent liabilities into account in rendering the American Appraisal Opinion and has concluded that such liabilities and ongoing expenses do not require any qualification of the American Appraisal Opinion. American Appraisal's conclusion is based on: (i) its review of various acquisition transactions, including leveraged transactions and significant debt-financed recapitalization transactions, involving corporations engaged in businesses similar to those of each of the Company (on a consolidated basis) and United (on a consolidated basis), (ii) the opinion of the managements of each of the Company (on a consolidated basis) and United (on a consolidated basis) that the issues concerning various lawsuits, claims and other identified contingent liabilities do not and are not reasonably likely to have a material adverse effect on the consolidated financial position of each of the Company (on a consolidated basis) and United (on a consolidated basis) and (iii) its discussions with the managements, accountants, consultants and counsel of each of the Company (on a consolidated basis) and United (on a consolidated basis), concerning claims and other contingent liabilities and the possible effect of the foregoing on each of the Company and United as well as its investigation of the various lawsuits.

American Appraisal assumed that the total liabilities of each of the Company (on a consolidated basis) and United (on a consolidated basis) will be only those liabilities set forth in the financial projections and the pro forma balance sheet as of December 31, 1993 of each of the Company (on a consolidated basis) and United (on a consolidated basis) and the identified contingent liabilities referred to in the American Appraisal Opinion. The American Appraisal Opinion states that, in the course of its investigation, nothing came to American Appraisal's attention that caused American Appraisal to believe such assumptions to be unreasonable. The pro forma balance sheet used by American Appraisal is the unaudited pro forma condensed balance sheet as of December 31, 1993 for each of the Company (on a consolidated basis) and United (on a consolidated basis), each adjusted to give effect to the planned financing of the Recapitalization and restated to reflect the fair value of each of the Company (on a consolidated basis) and United (on a consolidated basis).

The Company's and United's management has represented to American Appraisal, and American Appraisal has relied on the representations of the managements of the Company and United, that no adverse changes have occurred since the preparation of the Company's and United's pro forma balance sheet and financial analyses that would materially impact its content. The American Appraisal Opinion states that nothing has come to American Appraisal's attention that would lead it to believe that its reliance on such representations is unreasonable.

In connection with the American Appraisal Opinion, American Appraisal made such reviews, analyses and inquiries as it has deemed necessary and appropriate under the circumstances. Among other things, American Appraisal (i) reviewed the documents related to the Recapitalization and reporting documents filed with the Commission, (ii) reviewed financial analyses and inquired of managements of the Company and United as to the foundation for any such analyses and the basic assumptions made in the preparation of Status

Quo Scenario C relating to the type of business, geographic markets, domestic and international economic conditions and capital facilities and working capital requirements, (iii) reviewed audited and unaudited historical income statements, balance sheets and statements of sources and uses of funds of the Company and United as provided by management and its accountants, (iv) visited the Company's and United's headquarters and selected facilities to discuss historical and estimated operating results and industry data, including the impact of future trends on the industry and the Company and United, as well as the effects of the Recapitalization, (v) reviewed internal financial analyses and other internally generated data of the Company and United including asset valuations, (vi) inquired of managements of the Company and United and their respective financial advisors as to estimated levels of cash and working capital required by the Company and United, (vii) reviewed certain publicly available economic, financial and market information as it relates to the business operations of the Company and United, (viii) reviewed information regarding businesses similar to the Company and United and investigated the financial terms and post-transaction performance of recent acquisitions, (ix) consulted with industry, economic and statistical experts, as necessary, (x) discussed all of the foregoing information, where appropriate, with managements of the Company and United and their respective agents, accountants and financial advisors and (xi) conducted such other studies, analyses and investigations as American Appraisal deemed relevant or necessary for purposes of the opinion.

American Appraisal assumed, without independent verification, that the pro forma balance sheet and financial analyses provided to American Appraisal have been reasonably prepared and reflect the best available estimates, at the time they were prepared, of the future financial results and condition of the Company and United, and that there has been no material adverse change in the assets, financial condition, business or prospects of the Company and United since the date of the most recent financial statements made available to American Appraisal. American Appraisal stated that nothing has come to its attention that would lead it to believe that the foregoing assumption is unreasonable.

Although American Appraisal did not independently verify the accuracy and completeness of the Status Quo Scenario C and forecasts, or any of the assumptions, estimates or judgments referred to therein, or the basis therefor, and although no assurances can be given that such Status Quo Scenario C and forecasts can be realized or that actual results will not vary materially from those projected, American Appraisal stated that nothing had come to its attention during the course of its engagement that lead it to believe that any information reviewed by it or presented to it in connection with its rendering of the American Appraisal Opinion is unreasonable or inaccurate in any material respect or that it was unreasonable for it to utilize and rely upon the financial analyses, financial statements, assumptions, description of the business and liabilities, estimates and judgments or statements of the managements of the Company and United and their respective counsel, accountants and financial advisors. The American Appraisal Opinion is necessarily based on business, economic, market and other conditions as they existed at the time of the opinion and as they could be evaluated by American Appraisal at such time.

The American Appraisal Opinion stated that, based upon and subject to the conditions and assumptions contained therein, (a) the fair value of the aggregate assets of each of the Company (on a consolidated basis) and United (on a consolidated basis) will exceed their total respective liabilities (including, without limitation, subordinated, unmatured, unliquidated and contingent liabilities), (b) the present fair salable value of the aggregate assets of each of the Company (on a consolidated basis) and United (on a consolidated basis) will be greater than their respective probable liabilities on their debts as such debts become absolute and matured, (c) each of the Company (on a consolidated basis) and United (on a consolidated basis) will be able to pay their respective debts and other liabilities, including contingent liabilities and other commitments, as they mature, (d) the capital remaining in each of the Company (on a consolidated basis) and in United (on a consolidated basis) after consummation of the Recapitalization will not be unreasonably small for the businesses in which the Company and United are engaged, as management of the Company and United has indicated such businesses are conducted and as management has indicated the businesses are proposed to be conducted following the consummation of the Recapitalization, and after giving due consideration to the prevailing practices in the industry in which the Company and United will be engaged, (e) the excess of the

fair value of the total assets of the Company over the total liabilities, including contingent liabilities, of the Company, is equal to or exceeds the value of the Recapitalization Consideration to stockholders plus the stated capital of the Company and (f) the excess of the fair value of the total assets of United over the total liabilities, including contingent liabilities, of United, is equal to or exceeds the value of the stated capital of United.

American Appraisal indicated that it believed the excess of total assets over pro forma liabilities was approximately \$2.5 billion at December 31, 1993, compared to approximately \$1.203 billion in stockholders' equity as of such date, determined according to generally accepted accounting principles, so that, giving effect to the Recapitalization, the indicated excess assets of the Company for purposes of Delaware law exceeded \$1 billion.

The American Appraisal Opinion will not be binding on creditors of the Company. Accordingly, there can be no assurance that a court would value the Company's assets on a going-concern basis in order to determine whether the Company was insolvent at the time of the Recapitalization or that, regardless of the method of valuation, a court would not determine that the Company was insolvent at such time. The Board and management believe that the Debentures will be incurred by the Company for proper purposes and in good faith, that the Company will receive reasonably equivalent value or fair consideration for incurring such indebtedness and that, based on present forecasts and other financial information, at the time of the Recapitalization, the Company will be solvent, will have sufficient capital to carry on its business and will be able to pay its debts as they mature. See "--Certain Revenue and Earnings Scenarios" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION."

As compensation for its services, American Appraisal received a fee of \$50,000 from the Company upon execution of the engagement agreement and \$110,000 plus expenses upon delivery of the final American Appraisal Opinion and will receive \$20,000 plus expenses upon delivery of the updated opinion. In addition, the Company agreed to indemnify and hold harmless American Appraisal in any claim arising from any untrue information furnished by the Company or from any services relating to the American Appraisal Opinion, except in the case a loss is found to have resulted from American Appraisal's negligence or misfeasance or willful or knowing violation of law or breach of the engagement agreement.

PURPOSE AND STRUCTURE OF THE RECAPITALIZATION

The purpose of the Recapitalization is to recapitalize the Company and thereby provide the holders of Old Shares with an opportunity to receive cash or a combination of cash, Debentures and Depositary Preferred Shares representing interest in Public Preferred Stock for a portion of their Old Shares, while permitting the holders of Old Shares to retain a significant ongoing equity interest in a Company that is expected to have a lower cost structure and be more competitive and to provide performance incentives to the Company's employees by providing them with significant equity participation in the Company through the ESOPs. The Recapitalization is being effected at the present time because the Board believes that it is the best available alternative to maximize value to the Company's stockholders while achieving significant wage concessions and work-rule changes that the Board believes are necessary to position United to compete in the aviation marketplace. See "BACKGROUND OF THE PLAN OF RECAPITALIZATION" and "--Recommendation of the Board."

The use of shares of Redeemable Preferred Stock has been chosen in order to comply with technical aspects of Delaware law that may be applicable to the Recapitalization. The Company does not intend to send certificates for Redeemable Preferred Stock to the holders of Old Shares, and, in lieu thereof, cash (if the Offerings are consummated) or cash, Debentures and Depositary Preferred Shares (if the Offerings are not consummated) will be paid based upon the number of shares of Redeemable Preferred Stock issued in the Reclassification and the redemption price per one one-thousandth of a share of Redeemable Preferred Stock.

It is expected that if the Plan of Recapitalization is not approved by the Company's stockholders, or if the Recapitalization is not consummated for any other reason, the Company's current management, under the direction of the Board, will continue to manage the Company as an ongoing business. In such event, management would take other actions intended to achieve a lower cost structure intended to allow the Company to compete effectively in the global aviation marketplace, which may include actions described in this Proxy Statement/Prospectus relating to the "enhanced status quo" alternative or Fundamental Restructuring Plan described under "BACKGROUND OF THE PLAN OF RECAPITALIZATION."

INTERESTS OF CERTAIN PERSONS IN THE RECAPITALIZATION

In considering the Plan of Recapitalization, stockholders should be aware that the executive officers and the Board members have certain interests, described below, that present them with potential conflicts of interest in connection with the Recapitalization. The Board was aware of these potential conflicts and considered them among the other matters described under "-- Recommendation of the Board."

The transactions contemplated by the Plan of Recapitalization will constitute a "change in control" under the Employment Agreements (as defined below) with Messrs. Wolf and Pope, the severance agreements entered into by United with all other executive officers, the 1988 Restricted Stock Plan, and the 1981 Stock Program as well as the Retirement Plan for outside directors and its related trust. See "CERTAIN INFORMATION CONCERNING THE BOARD OF DIRECTORS--Compensation of Directors; Effect of 'Change in Control' " and "EXECUTIVE COMPENSATION-- Employment Contracts and Change in Control Arrangements."

The Plan of Recapitalization provides that Messrs. Wolf, Pope and Nagin will retire from all positions they hold with the Company and all of its subsidiaries at or immediately prior to the Effective Time and that no other officer of the Company or United may be terminated for a period of six months following the Effective Time unless such termination is approved by at least two Outside Public Directors (as defined below, see "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Public Directors") and the Chief Executive Officer (the "CEO") of the Company (Mr. Greenwald).

Pursuant to agreements originally entered into upon the commencement of their employment in 1987, 1988 and 1988, respectively, with the Company and United as subsequently amended (the "Officer Agreements"), upon their retirements in accordance with the Plan of Recapitalization, each of Messrs. Wolf, Pope and Nagin will be entitled to receive: (1) a cash payment (based on a multiple of three times current salary and deemed bonus) equal to approximately \$4.3 million, \$1.8 million and \$1.1 million, respectively, (2) lifetime travel privileges (and reimbursement of related taxes, with certain limitations in Mr. Nagin's case) on United for each of them and their spouses and other eligible dependents, (3) continued coverage under United's medical and other welfare benefit plans (limited to three years in Mr. Pope's case) and (4) certain other benefits, including certain pension-related benefits, see "EXECUTIVE COMPENSATION--Pension Plan Table."

The 1988 Restricted Stock Plan provides that all restricted shares awarded thereunder shall vest upon the occurrence of a "change in control." As of May 16, 1994, Messrs. Wolf, Pope, Nagin, Guyette, O'Gorman and George beneficially own 10,000, 26,500, 13,000, 11,000, 7,500 and 10,200 restricted shares, respectively.

Options to acquire Old Shares awarded under the 1981 Stock Program held by executive officers become exercisable in connection with the occurrence of a "change in control." Upon consummation of the transactions contemplated by the Plan, each such Option will automatically be converted into an option to acquire one half (0.5) of a New Share and (a) if the Offerings are consummated, one one-thousandth of a share of Series E Redeemable Preferred Stock, without par value, of the Company, which one one-thousandth of a share will be redeemed immediately after issuance, for an amount of cash equal to the sum of (i) \$25.80, (ii) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 face amount of Series A Debentures and \$15.55 face amount of Series B Debentures and (iii) the

proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of 1,244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock (under various circumstances the proceeds of the sale of the Debentures and the Depositary Preferred Shares could be less than their face amount) or (b) if the Offerings are not consummated, one one-thousandth of a share of Series D Preferred Stock, which one one-thousandth of a share will be redeemed immediately after issuance for (i) \$25.80 in cash, (ii) \$15.55 face amount of Series A Debentures, (iii) \$15.55 face amount of Series B Debentures and (iv) 1,244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock. As of May 31, 1994, Messrs. Wolf, Pope, Nagin, Guyette, O'Gorman and George held such Options (with an exercise price of \$131 or less) to purchase respectively 125,000 Old Shares (all of which are exercisable as of May 31, 1994 and with an average exercise price of \$89.99) 150,000 Old Shares, (all of which are exercisable as of May 31, 1994 with an average exercise price of \$95.81), 60,000 Old Shares (45,000 of which are exercisable as of May 31, 1994 and 15,000 of which will become exercisable immediately prior to the Effective Time and with an average exercise price of \$107.85), 82,120 Old Shares (67,120 of which are exercisable as of May 31, 1994 and 15,000 of which will become exercisable immediately prior to the Effective Time and with an average exercise price of \$101.59), 30,000 (15,000 of which are exercisable as of May 31, 1994 and 15,000 of which will become exercisable immediately prior to the Effective Time and with an average exercise price of \$124) and 56,250 Old Shares (41,250 of which are exercisable as of May 31, 1994 and 15,000 of which will become exercisable immediately prior to the Effective Time and with an average exercise price of \$108.69). In addition, Messrs. Wolf, Pope and O'Gorman hold such Options to purchase 225,000, 60,000 and 30,000 Old Shares at prices in excess of \$131.

The Company has amended the 1988 Restricted Stock Plan, the 1981 Stock Program and the Incentive Plan, in each case, subject to stockholders' approval and consummation of the transactions contemplated by the Plan of Recapitalization. Each of the amendments is intended to permit awards under the related plan to continue to be deductible by the Company for Federal income tax purposes under Section 162(m) of the Internal Revenue Code. In addition, the amendment to the 1981 Stock Program reserves an additional 1,200,000 New Shares (subject to increase in the event of an adjustment relating to the New Shares described in "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares") for issuance upon the exercise of options granted thereunder, and the amendment to the Incentive Plan permits each participant to elect to defer all or any portion of any bonus otherwise payable thereunder.

See "CERTAIN INFORMATION CONCERNING THE BOARD OF DIRECTORS--Compensation of Directors; Effect of 'Change in Control' " for certain information with respect to the effect of the Recapitalization on benefits provided to members of the Company's Board.

See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Fees and Expenses; Indemnification" for certain information with respect to indemnification and insurance coverage to be provided by the Company to, among others, directors and executive officers of the Company following the Effective Time.

CERTAIN RISK FACTORS

In addition to the other information contained in this Proxy Statement/Prospectus, holders of Old Shares should carefully consider the following risk factors concerning the New Shares, the Debentures and the Depositary Preferred Shares representing interests in the Public Preferred Stock.

Financial Effects; Delaware Law Considerations. The Recapitalization will immediately change the Company's capitalization to one that is more highly leveraged. In this regard, the following discussion compares the pro forma book effect of the Recapitalization on long-term debt, stockholder's equity and income/loss from continuing operations with recent historical financial information of the Company. On a pro forma book basis at March 31, 1994, the Company would have had approximately \$3.451 billion of long-term debt and a deficit of approximately \$448 million of stockholders' equity as compared to the approximately \$2.693 billion of long-term debt and approximately \$1.097 billion of stockholders' equity that was shown on the Company's balance

sheet on such date. In addition, if the Recapitalization had occurred as of January 1, 1993, the Company would have reported, on a pro forma basis, income from continuing operations of approximately \$38 million for the year ended December 31, 1993 and a loss from continuing operations of approximately \$58 million for the three months ended March 31, 1994, as compared to losses from continuing operations of \$31 million for the year ended December 31, 1993 and \$71 million for the three months ended March 31, 1994 that were reported for each period. See "UNAUDITED PRO FORMA FINANCIAL INFORMATION."

The Company's earnings were inadequate to cover fixed charges and preferred stock dividends by \$98 million in 1993, by \$748 million in 1992 and by \$599 million in 1991. On a pro forma basis, the Company's earnings in 1993 were inadequate to cover fixed charges and preferred stock dividends by \$109 million. In addition, the Company's ratio of earnings to fixed charges was inadequate to cover fixed charges and preferred stock dividends for the three month period ended March 31, 1994 by \$118 million, and on a pro forma basis they were inadequate by \$97 million. United's earnings were inadequate to cover fixed charges by \$77 million in 1993, by \$694 million in 1992 and by \$604 million in 1991. On a pro forma basis, United's earnings in 1993 were inadequate to cover fixed charges by \$63 million. In addition, United's earnings were inadequate to cover fixed charges for the three month period ended March 31, 1994 by \$130 million, and on a pro forma basis they were inadequate by \$102 million. Non-cash depreciation and amortization are deducted in computing earnings before fixed charges. Such non-cash charges do not significantly affect the ability of United to fund operations, service debt, or provide funds to service the Company's preferred stock dividends. Depreciation and amortization of United were \$722 million in 1993, \$695 million in 1992, \$604 million in 1991 and \$178 million for the three month period ended March 31, 1994.

The Delaware General Corporation Law (the "DGCL") requires that the payments to holders of Old Shares in the Recapitalization be made from "surplus." For purposes of Delaware law, surplus equals the excess, if any, at any given time, of the net assets of the corporation over stated capital. Valuation of the Company's assets at their fair value (as supported by the American Appraisal Opinion referred to above) would create capital surplus that under the DGCL may be used for such payments. In addition, such payments would not be permitted if after giving effect to them the Company would not be able to pay its debts as they become due in the usual course of business. The Board believes that the Company will be able to pay such debts, based in part on the revenue and earnings scenarios set forth above under "--Certain Revenue and Earnings Scenarios" and on the American Appraisal Opinion referred to above. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions," and "UNAUDITED PRO FORMA FINANCIAL INFORMATION." Given the more leveraged financial structure of the Company following the Recapitalization, certain industry risks could have a greater adverse impact on the Company after the Recapitalization than might have been the case prior to the Recapitalization.

Governance Structure

Although the Company has attempted to achieve a balanced approach to its corporate governance structure after the Recapitalization, such structure is very unusual in the management of a large, complex public corporation, and it is not certain that the actual operation of the corporate governance process will not result in disputes or inability to achieve results that are in the best interests of the Company or holders of New Shares.

Following consummation of the Recapitalization and until the Sunset, the Board will be comprised of twelve members elected as follows: (i) five public directors ("Public Directors") elected by holders of the New Shares including (a) three members of the existing Board or other individuals who previously had no material contact with the Company other than as directors and (b) two substantially full-time employees of the Company intended to be the CEO and an additional senior executive of the Company, (ii) four independent directors elected by the initial independent directors intended to be a quasi self-perpetuating body, (iii) three directors representing various employee groups elected as follows: (a) one director elected by the ALPA-MEC, (b) one director elected by the IAM or its designee (the director elected by the ALPA-MEC and the director elected by the IAM or its designee are referred to collectively as the "Union Directors") and (c) one

director (the "Salaried and Management Director" and, with the Union Directors, the "Employee Directors") elected by holders of the Class SAM Preferred Stock (the Salaried and Management Director and an additional designated stockholder). Generally, approval of ordinary Board actions will require a majority vote of the votes present at a meeting at which a quorum is present and approval of certain extraordinary matters will require, subject to certain exceptions, approval of either three-quarters of the Board (including the concurrence of one Union Director) or three-quarters of the shares present and voting at a stockholders' meeting at which a quorum is present. In addition, certain extraordinary matters will require approval of the Public Directors, the Independent Directors or a majority of shares not held by the ESOPs. The following Committees will be constituted: the Audit Committee, the Competitive Action Plan ("CAP") Committee, the Compensation Committee, the Compensation Administration Committee, the Executive Committee, the Independent Director Nomination Committee, the Labor Committee, the Outside Public Director Nomination Committee and the Transaction Committee. Public directors and independent directors will be represented on all committees and the Employee Directors will be represented on the Executive Committee, the CAP Committee, the Independent Director Nomination Committee and the Compensation Committee. See, "THE PLAN OF RECAPITALIZATION-- Revised Governance Structure".

Under the terms of the Restated Certificate, the participants in the ESOPs (and in certain circumstances the ALPA-MEC, the IAM and the Salaried and Management Director) will continue to hold more than 50% of the voting power of the Company until the economic equity interest held by or credited to the ESOPs and other employee benefit plans sponsored by the Company is less than 20% of the common equity of the Company, all as more fully described in "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Sunset." The termination of the right to exercise more than 50% of the voting power of the Company is referred to herein as the "Sunset." See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Sunset." Under current actuarial assumptions, the Company estimates that this Sunset provision will not become operative until 2016 if additional purchases are not made by eligible employee benefit plans. However, such plans will have the right, and may be expected to, make additional purchases, thereby delaying the occurrence of the Sunset. In addition, the Restated Certificate contains a number of provisions which may prevent the Company prior to the Sunset from taking certain specified actions without the consent of one or both of the members of the Board elected by ALPA and the IAM or a 75% vote of holders of New Shares and Voting Preferred Stock. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure."

Fraudulent Conveyance

If a court in a lawsuit by an unpaid creditor or representative of creditors, such as a trustee in bankruptcy, were to find that, at the time the Company distributed to holders of Old Shares the cash and Debentures that such holders are to receive in the Recapitalization, the Company (i) was insolvent, (ii) was rendered insolvent by reason of such distributions, (iii) was engaged in a business or transaction for which the assets remaining with the Company constituted unreasonably small capital to carry on its business or (iv) intended to incur, or believed that it would incur, debts beyond its ability to pay as such debts matured, such court may void the distributions to stockholders and require that such holders return the same (or equivalent amounts) to the Company or to a fund for the benefit of its creditors. If a court were to make similar findings about United's issuance of the Debentures, such court could avoid United's obligations under the Debentures or order the Debentures to be subordinated to all existing and future indebtedness of United.

The measure of insolvency for purposes of the foregoing would vary depending upon the law of the jurisdiction that was being applied. Generally, however, the Company would be considered insolvent if at the time of the Recapitalization the fair value of the Company's assets is less than the amount of the Company's total debts and liabilities or if the Company has incurred debt beyond its ability to repay as such debt matures. As described in "SPECIAL FACTORS--Opinion of Valuation Firm," the American Appraisal Opinion was rendered orally to the Board at the March 14, 1994 meeting and in a written opinion to the Board and the Company dated as of March 14, 1994. In rendering the American Appraisal Opinion, American Appraisal

valued the assets of the Company (on a consolidated basis) and United (on a consolidated basis), as going concerns, both immediately before and after, and giving effect to, the Recapitalization. The valuation included the aggregate assets of the business enterprise of each of the Company (on a consolidated basis) and United (on a consolidated basis), or total invested capital as represented by the total net working capital, tangible plant, property and equipment and intangible assets of the respective business enterprises. American Appraisal stated that it believed this to be a reasonable basis on which to value the Company and United and that nothing has come to its attention that caused it to believe that each of the Company (on a consolidated basis) and United (on a consolidated basis), before and after the Recapitalization, will not be going concerns.

As stated in "SPECIAL FACTORS--Opinion of Valuation Firm," the American Appraisal Opinion stated that, based upon and subject to the conditions and assumptions contained therein, (a) the fair value of the aggregate assets of each of the Company (on a consolidated basis) and United (on a consolidated basis) will exceed their total respective liabilities (including, without limitation, subordinated, unmatured, unliquidated and contingent liabilities), (b) the present fair salable value of the aggregate assets of each of the Company (on a consolidated basis) and United (on a consolidated basis) will be greater than their respective probable liabilities on their debts as such debts become absolute and matured, (c) each of the Company (on a consolidated basis) and United (on a consolidated basis) will be able to pay their respective debts and other liabilities, including contingent liabilities and other commitments, as they mature, (d) the capital remaining in each of the Company (on a consolidated basis) and in United (on a consolidated basis) after consummation of the Recapitalization will not be unreasonably small for the businesses in which the Company and United are engaged, as management of the Company and United has indicated such businesses are conducted and as management has indicated the businesses are proposed to be conducted following the consummation of the Recapitalization, and after giving due consideration to the prevailing practices in the industry in which the Company and United will be engaged, (e) the excess of the fair value of the total assets of the Company over the total liabilities, including contingent liabilities, of the Company, is equal to or exceeds the value of the Recapitalization Consideration to stockholders plus the stated capital of the Company and (f) the excess of the fair value of the total assets of United over the total liabilities, including contingent liabilities, of United, is equal to or exceeds the value of the stated capital of United.

American Appraisal also indicated that it believed the excess of total assets over pro forma liabilities was approximately \$2.5 billion at December 31, 1993, compared to approximately \$1.203 billion in stockholders' equity as of such date, determined according to generally accepted accounting principles, so that, giving effect to the Recapitalization, the indicated excess assets of the Company for purposes of Delaware law exceeded \$1 billion.

Certain Anti-takeover Effects

Certain provisions of the governance structure will make it extremely difficult to acquire the Company in a transaction that was not approved by at least one of the Union Directors or 75% of the vote of the New Shares and the Voting Preferred Stock (as defined below, see "DESCRIPTION OF THE SECURITIES--The Voting Preferred Stock--General."), even if such transaction might be beneficial to the Company's stockholders. In particular, the provision described below in "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Nondilution" will prevent the occurrence of an acquisition of the Company for an extended period following the Effective Time if the holders of over 90% of the Voting Preferred Stock disapprove such acquisition.

Pricing of Public Preferred Stock and Debentures

Pricing of Public Preferred Stock and Debentures. As described in "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing of the Securities," the final interest rates on the Debentures and the final dividend rate on the Public Preferred Stock will be established shortly before the Meeting. Although the procedure for establishing such final rates is designed to determine the rates that such securities should bear for the Debentures and the Depositary Preferred Shares representing interests in the

Public Preferred Stock to trade at par assuming such securities were fully distributed, the Plan of Recapitalization provides that such rates may not exceed certain caps. If the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Preferred Stock may be adjusted (including in excess of their respective caps) to permit the Debentures and the Depositary Shares to be sold at or closer to par, but if that is done, the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares representing the Public Preferred Stock, as the case may be, will be reduced so that the aggregate amount of interest payable annually by United on the Series A Debentures or the aggregate amount of dividends payable annually by the Company on the Public Preferred Stock will not exceed certain maximum amounts calculated with reference to such caps. The underwriting agreements for the Offerings are expected to provide that if the Offerings are not consummated, the interest rates borne by the Debentures and the dividend rate borne by the Public Preferred Stock will be subject to the caps. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities." If the prevailing market interest and dividend rates for securities comparable to the Debentures and the Public Preferred Stock are higher than the rate caps applicable to the Debentures or the Public Preferred Stock, as the case may be, the Debentures or the Depositary Preferred Shares representing interests in the Public Preferred Stock, as the case may be, may trade at a discount to par. Accordingly, if the rate caps are imposed for either or both series of the Debentures or the Depositary Preferred Shares, (a) the proceeds from the Offerings, if the Offerings are consummated, would be less than the face amount thereof, or (b) if the Offerings are not consummated, the securities constituting a part of the Mixed Recapitalization Consideration would have a trading value of less than the face amount thereof. Based on the current general market conditions, the Company believes that the rates for either or both series of the Debentures or the Depositary Preferred Shares may approach or exceed the maximum rates.

Investment Values; Future Investments

Cost savings envisioned by the agreements with ALPA and the IAM and the anticipated productivity increases discussed herein are estimates prepared by the Company for analytical purposes. Such cost savings and anticipated productivity increases could be difficult to achieve, and, even if all proposed plans for employee investments are implemented, the value of the reductions in wages and benefits and work-rule changes and anticipated productivity increases may not be as significant as currently calculated. Mandated job guarantees may make it difficult to achieve significant additional productivity improvements, and, if additional reductions in wages and benefits and work-rule changes become desirable in management's view, such reductions in wages and benefits and work-rule changes may be more difficult to achieve in light of the long-term nature of the revised collective bargaining agreement with ALPA and the IAM that constitute elements of the Recapitalization (the "Collective Bargaining Agreements").

Lack of Employee Consensus

Certain employee groups may not be in favor of the changes arising from the Recapitalization and may react in a manner that does not facilitate achievement of the desired results. For example, the AFA has declined to date to participate in the transaction, certain other employees who will be participating in the wage and benefit reductions and work-rule changes were not in favor of the transaction, and certain union organizing activity, based on opposition to certain aspects of the transaction, has occurred. This lack of consensus may reduce the value of the increased employee commitments the Company expects to achieve by virtue of the Recapitalization.

Management Change

The current Chairman and Chief Executive Officer of the Company, Mr. Stephen M. Wolf, President, Mr. John C. Pope, and Executive Vice President--Corporate Affairs and General Counsel, Mr. Lawrence M. Nagin, will retire at the Effective Time. The new chief executive officer selected by ALPA and the IAM, Mr. Gerald M. Greenwald, will be required to implement reductions in wages and benefits and work-rule changes that he did not directly negotiate in an industry in which he has not previously been engaged. In

addition, it is possible that the Company may face attrition by officers and other members of management and that the Company's new senior management may face difficulties in implementing strategies or attracting additional management employees.

Reduced Flexibility

The corporate governance structure and Collective Bargaining Agreements with ALPA and the IAM may inhibit management's ability to alter strategy in a volatile, competitive industry. Among the more significant constraints are (i) a prohibition on domestic code sharing in excess of 1% of domestic block hours, excluding several small existing agreements, without ALPA's consent, (ii) a no layoff promise for all currently employed participating union employees during the five- to six-year investment period and, for pilots, while U2 remains in operation (which constraint is ameliorated as normal attrition reduces the impact of the no-layoff promise), (iii) restrictions on international code sharing, unless the Company can demonstrate that international code sharing arrangements do not cause a reduction in international flying and as long as the Company does not expand code sharing once the Company reduces international flying below a certain level and (iv) an agreement not to sell the Company's Denver pilot training facility and certain maintenance facilities. In addition, the Restated Certificate contains restrictions on the ability of the Company and United to sell assets and issue equity securities absent certain specified Board or stockholder approvals. In most circumstances, the issuance of additional equity securities would not be counted in determining whether the Sunset has occurred.

Limitations on asset sales and equity issuances included in the Company's Restated Certificate might make it more difficult to raise cash, even if management desired to do so to take advantage of a perceived opportunity.

Implementation of U2

Although the Company expects to develop U2 as an important component of its competitive posture and has ascribed a significant portion of the value of the Recapitalization to the ability to implement U2, no assurance can be given that the Company will be able to do so effectively or to realize the financial benefits expected to be received by the Company from the implementation of U2. The success of U2 will be based not only upon the nature of the Company's business plan but also upon the strategies and plans implemented by existing low-cost competitors and by new entrants into the low-cost market. In addition, even if the business concept of U2 is successful, (i) U2 will comprise no more than 20% of United's system block hours up to two million block hours systemwide and no more than 25% of the system block hours in excess of two million, (ii) U2 can only operate in markets in the lower 48 states with stage lengths up to 750 nautical miles and cannot fly between United's hub or international gateway cities except for Los Angeles basin--San Francisco bay area service, which excludes U2 from such heavily traveled routes as the transcontinental routes and New York/Chicago, Chicago/Denver and Chicago/Washington Dulles, (iii) U2 cannot operate aircraft larger than a B737-300 and (iv) for the first six years, U2 can only operate up to 90% of monthly block hours in markets previously served (within 24 months) by United. If United's systemwide widebody flying (i.e., flying performed in B-757 or larger aircraft) falls below (i) 95% of the widebody block hours projected in the Company's October 1993 fleet plan for any twelve month period from the Effective Time through 1999 or (ii) a certain minimum level for any twelve month period between 2000 and 2006, the total flying performed in the U2 operation must be reduced by the shortfall in widebody flying. Even if implemented as planned, U2 will not have costs which are as low as those of certain low-cost competitors. U2 must rely upon factors other than lowest cost to secure market share and be successful.

Competitive Response

Even if the Company is able to achieve cost reductions and productivity enhancements, the Company's higher cost competitors may be able to achieve comparable agreements with their labor groups or otherwise reduce their operating costs and the Company's low-cost competitors may modify their operations in response

to the competitive threat posed by U2 and thus, in each case, may eliminate or reduce the competitive gain sought by the Company and lead to reductions in fares and earnings. In this regard, for example, Continental Airlines (which already has a low cost structure) has implemented a low cost, short haul service which would be competitive with U2, and Delta has announced its intent to lower its overall costs substantially. If the Company's higher cost competitors were to achieve more significant reductions in wages and benefits and work-rule changes than those achieved by the Company, the Company's ability to respond to competition would be hampered by the fixed long-term nature of the agreements that constitute elements of the Recapitalization.

Labor Protective Provisions

The Company will continue in effect, or amend to include, certain provisions of agreements with ALPA and the IAM that (i) provide certain rights in the event of a change in control of the Company and (ii) prohibit furloughs, within certain conditions, if the Company disposes of 25 percent or more of its assets or assets which produce 25 percent or more of its block hours. The revised Collective Bargaining Agreements obligate the Company to require any carrier purchasing route authority or aircraft that produce 25 percent or more of the Company's operating revenues or block hours to hire an appropriate number of United employees with seniority credit.

Tax Deductibility of Employee Stock Ownership Plan Contributions and Dividends

Although the Company has attempted to structure the ESOPs so that all amounts contributed thereto and dividends paid with respect to the stock held thereunder will be deductible to the Company for Federal income tax purposes, there are no regulations governing the deductibility of dividends paid on the ESOP Preferred Stock and there can be no assurance that one or more current or future limitations under the Internal Revenue Code will not adversely impact the deductibility of such amounts and dividends. The deductibility of such amounts depends, to some extent, on the conclusions set forth in an opinion rendered to the ESOP Trustee by Houlihan Lokey and there can be no assurance that the Internal Revenue Service (the "IRS") will agree with the methodology set forth in such opinion. With respect to tax deductions associated with the Class 1 ESOP Preferred Stock, the amount of such deductions is directly related to the purchase prices of the Class 1 ESOP Preferred Stock. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Purchase of ESOP Preferred Stock." With respect to tax deductions associated with the Class 2 ESOP Preferred Stock, the amount of such deductions is directly related to the value of such stock in the future when such deductions will be available to the Company. For additional information on the tax consequences relating to the ESOPs, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Federal Income Tax Matters."

Amendments to Collective Bargaining Agreements; Future Labor Agreements

There can be no assurance that the new management of the Company in the future will not agree to amend the Collective Bargaining Agreements with ALPA and the IAM in a manner that reduces or eliminates the cost savings that are the basis of the Recapitalization. However, any such amendment must be approved by the Labor Committee of the Board (which will not include any Union Director (as defined below)). See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Committees." In addition, at the end of the current employee investment period, there can be no assurance that the Company's labor agreements will be renegotiated in a manner that continues in subsequent periods the cost savings that are being sought through the Recapitalization or that does not reverse the effect of any cost savings that will have been obtained thereby.

Possible Effect of Organization of Additional Employees

In the event any portion of the management and salaried employees that are not currently represented by a union elects union representation pursuant to the Railway Labor Act, the Company would be obligated

to bargain with such union over the terms and conditions of employment applicable to such employees, including the terms, if any, of such employees' continuing participation in the ESOPs. This obligation to bargain requires the Company to "exert every reasonable effort" to reach an agreement but does not require it to agree to any change or particular term or condition sought by the union. During the period of negotiation, the Company would be entitled to maintain the then-existing terms of such employees' participation in the ESOPs.

The ESOPs provide that if any group of employees that are not currently represented by a union becomes covered by a new collective bargaining agreement, such group of employees will not be covered under the ESOPs unless the collective bargaining agreement so provides. Whether any new collective bargaining agreement would provide for continuing participation in the ESOPs by such group of employees is a matter that would be subject to mutual agreement between the Company and the applicable union. The ESOPs provide, however, that if the terms of any employee's employment no longer reflect all of the reductions in wages and benefits and work-rule changes set forth in the Plan of Recapitalization, then such employee shall cease to be covered by the ESOPs.

As a result, if any new collective bargaining agreement did not reflect the reductions in wages and benefits and work-rule changes required by the Plan of Recapitalization for particular employees, the Company could not agree, without amending the ESOPs, to allow such employees to participate in the ESOPs. If any currently unrepresented employees ceased to participate in the ESOPs under such circumstances, the ESOPs, however, provide that the unrepresented employees remaining in the ESOPs would receive the shares previously intended for that newly-represented group. The employment terms, except base pay, for the unrepresented employees remaining in the ESOPs will be subject to change, at the Company's discretion, so long as the net economic value of the unrepresented employees' employment terms is not altered.

Employee Ownership and Influence

No assurance can be given that the Company, which will be subject to significant influence by employee groups (including through the right to voting representation in excess of economic equity ownership, Board and Board committee representation, the requirement of approval of certain matters by a Union Director or a 75% vote of the holders of New Shares and Voting Preferred Stock, and participation by Union Directors in the nomination of the Independent Directors (as defined below, see "THE PLAN OF RECAPITALIZATION-- Revised Governance Structure")), might not take actions that are more favorable to such employee groups than might be taken by a company that was not subject to such influence. The corporate governance structure after the Recapitalization will not, however, relieve the members of the Board of their fiduciary obligations under the DGCL.

Effect of Adjustment on Trading

As described under "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs-- Additional Shares," the ESOP Preferred Stock which the Company is initially obligated to issue or credit to the ESOPs is convertible into approximately 55% of the New Shares but, based on the trading prices of the New Shares in the twelve months after the Effective Time (the "Measuring Period"), may be increased up to a maximum of approximately 63% of the New Shares. Such potential additional issuance may adversely limit the trading prices of the New Shares during the Measuring Period.

Additional Issuances of Recapitalization Consideration

United has registered under the Securities Act of 1933 \$449,802,200 aggregate principal amount of each series of Debentures and the Company has registered 35,984,175 Depositary Preferred Shares representing interests in \$899,604,375 aggregate liquidation preference of the Public Preferred Stock. If the Offerings are not consummated, United and the Company may be required to issue a larger number of Debentures and

Depository Preferred Shares representing interests in Public Preferred Stock in connection with the exercise of Options in the event holders thereof fail to use a cashless exercise feature or in connection with the conversion of certain Convertible Company Securities (as defined below). However, the failure of Options holders to utilize a cashless exercise feature would have the effect of increasing the Company's available cash by an amount equal to the aggregate exercise price. See "DESCRIPTION OF SECURITIES--The Debentures--General" and "--The Public Preferred Stock--General." If the Offerings are not consummated, the Company currently intends to register in the future additional securities issued or distributed following repurchase in the market, to satisfy the exercise or conversion of Options or Convertible Company Securities.

Financial Reporting; Market Assessment

The accounting rules governing employers accounting for employee stock ownership plans require that compensation expense be recorded for the ESOP Preferred Stock "committed to be released" during an accounting period based on the fair value of the ESOP Preferred Stock during such period. The difference between the fair value and the initial recorded cost of the ESOP Preferred Stock "committed to be released" is recorded as an adjustment to stockholders' equity. The ESOP Preferred Stock that has been "committed to be released" is considered to be outstanding in the if-converted earnings per share calculation for primary and fully diluted earnings per share if the effect is dilutive. The circular relationship between the employee stock ownership plan accounting charges and the Company's stock price, coupled with the size of the contemplated ESOPs, make future earnings difficult to forecast. In addition, reported book earnings will be depressed in early years due to the mismatch between the term of employee investments (which increase earnings) of from five years, nine months to twelve years and the shorter period of only six years over which employee stock ownership plans accounting charges will occur. While it is possible that the equity research community and investors may look through employee stock ownership plan accounting charges, it is also possible that the trading price of the New Shares may be negatively impacted by such accounting treatment.

Possible Cancellation of Facility

United is a party to a \$500 million commercial paper facility through agreements with United Airlines First Funding Corporation ("First Funding") and certain banks. As of the date of this Proxy Statement/Prospectus, approximately \$270 million of commercial paper is outstanding thereunder. As a result of provisions in the Second Amended and Restated Credit Agreement, dated as of September 20, 1993 (the "Credit Agreement"), among First Funding, Union Bank as agent and certain other banks, a "change in control" may be deemed to occur as a result of the Recapitalization, and First Funding may be restricted from issuing new commercial paper under the Credit Agreement. If the banks elect to restrict the issuance of new commercial paper, United will need to renegotiate the Credit Agreement, obtain a replacement facility or rely on its internal resources. Although United does not expect it to be the case, United may not be able to renegotiate the Credit Agreement or obtain a replacement facility; however, United believes its internal resources would be adequate.

Complexity

Given the complex nature of the various provisions affecting the operation of the Company after the Effective Time, it is possible that the equity research community and investors may find the Company difficult to evaluate, which may have the effect of reducing the trading price of the New Shares from levels that might otherwise prevail. In addition, equity issuances (other than Permitted Bankruptcy Equity (as defined below, see "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Extraordinary Matters")) generally will be disregarded when calculating the percentage of Common Equity (as defined below, see "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Sunset") for Sunset purposes, which may negatively impact the market value of the New Shares and other equity of the Company.

Redistribution

If the Offerings are not consummated, in the Recapitalization, holders of Old Shares (an equity security) will receive Debentures and Depositary Preferred Shares in addition to New Shares and cash. It is expected that there will exist a period, perhaps of a lengthy duration, during which certain recipients of such securities, concluding that the characteristics thereof are not consistent with their investment criteria, distribute such securities into the marketplace. During such distribution period, the supply of such securities in the market may exceed levels that might otherwise prevail, which would likely have the effect of depressing the price of such securities from levels that might otherwise prevail if such securities were held solely by persons or institutions for whom such securities satisfied their investment criteria. In addition, although the Company expects that it will apply for listing of the Debentures and the Depositary Preferred Shares on the New York Stock Exchange Inc. (the "NYSE"), there can be no assurance that at or following the Effective Time such securities will be listed on the NYSE or any other securities exchange or that any trading market for the securities will develop.

Taxation of Recapitalization to Stockholders

For United States Federal income tax purposes, the Recapitalization will be a taxable transaction to public stockholders that are citizens or residents of the United States. Such a stockholder whose Old Shares are exchanged for the Recapitalization Consideration in the Recapitalization will realize gain or loss in the Recapitalization measured by the difference, if any, between (i) the fair market value of the Recapitalization Consideration received by such stockholder in the Recapitalization, and (ii) such stockholder's tax basis in the Old Shares exchanged in the Recapitalization. If the Offerings are consummated, gain realized by a public stockholder in the Recapitalization will be recognized, but only to the extent such gain does not exceed the amount of cash received by such stockholder in the Recapitalization. If the Offerings are not consummated, gain realized by a public stockholder in the Recapitalization will be recognized, but only to the extent such gain does not exceed the sum of (i) the fair market value of the Debentures and (ii) the amount of cash received by such stockholder in the Recapitalization. If the Offerings are consummated, the maximum taxable gain associated with the transaction will not exceed \$88 per Old Share, or such lesser amount, if as a result of the Offerings the amount of cash exchanged in the Recapitalization is less than \$88 per Old Share. If the Offerings are not consummated, assuming that the Debentures have a fair market value of \$31.10 per Old Share, the maximum taxable gain associated with the transaction will not exceed \$56.90 per Old Share (i.e., the sum of the assumed fair market value of the Debentures and the amount of cash received). The character of any gain recognized by a public stockholder in the Recapitalization may be ordinary income or capital gain depending upon whether the receipt of cash (or Debentures and cash) by the stockholder has the effect of a dividend distribution as to such stockholder or is treated as a sale or exchange. Any loss realized by a public stockholder in the Recapitalization will not be recognized. The operation of the basis allocation rules would provide that any such loss would be effectively carried over into the basis of the New Shares (and Depositary Preferred Shares if the Offerings are not consummated) that are received in the Recapitalization. However, there can be no assurance that any such loss would ultimately be recognized by any particular stockholder. For a more detailed discussion of the Federal income tax consequences of the Recapitalization, see "CERTAIN FEDERAL INCOME TAX CONSEQUENCES."

Industry Risks

If the Recapitalization is accomplished, certain risks associated with the aviation industry will continue to face the Company. Given the more leveraged financial structure of the Company following the Recapitalization, certain of these industry risks could have a greater adverse impact on the Company after the Recapitalization than might have been the case prior to the Recapitalization.

Industry Conditions and Competition

The airline industry is highly competitive and susceptible to price discounting. United's competitors include major domestic carriers such as American, Delta, and Northwest, major international carriers such

as British Airways and Japan Air Lines, and domestic carriers such as Southwest, Continental and other carriers with lower cost structures. Airline profit levels are highly sensitive to, and during the last four years have been significantly impacted by, adverse changes in fuel costs, average yield (fare levels) and passenger demand. Passenger demand and yields have been adversely affected by, among other things, the general state of the economy, the Persian Gulf War and actions taken by carriers with respect to fares. As a result of this adverse operating environment, from 1990 to 1993 the domestic airline industry incurred unprecedented losses. During this period, Eastern Air Lines, Pan American World Airways and Midway Airlines were liquidated, and Continental Airlines, America West Airlines and Trans World Airlines filed for bankruptcy.

The emergence in recent years of several new carriers, typically with low cost structures, has further increased the competitive pressures on the major U.S. airlines. In some cases, the new entrants have initiated or triggered price discounting. Aircraft, skilled labor and gates at most airports continue to be readily available to start-up carriers. Although new entrant carriers generally commence service with only a few city pairs and have a high rate of failure, the commencement of service by new carriers on United's routes could negatively impact United's operating results. In addition, certain existing U.S. domestic carriers compete primarily by offering low-cost air service on route networks that do not employ hub and spoke systems. These discount air carriers have significantly affected the yields of major domestic carriers such as United and, in certain instances, have made certain markets uneconomical for carriers such as United.

In the spring of 1992, American introduced a new fare structure followed by a deeply discounted summer sale, steps that were generally matched by other U.S. airlines (including United), resulting in substantially depressed industry yields and significant 1992 losses at all major U.S. airlines (with one exception). American and the rest of the domestic airline industry have abandoned that pricing structure, and fare levels have increased in 1993 and early 1994 from 1992 levels. Nonetheless, discounts continue to exist and may be increased at any time. The introduction of broadly-available, deeply discounted fares by a major U.S. airline would likely result in lower yields for the entire industry and could have a material adverse effect on the Company's operating results.

Aircraft Fuel

Since fuel costs constitute a significant portion of the Company's operating costs (approximately 12% during 1993), significant changes in fuel costs would materially affect the Company's operating results. Fuel prices continue to be susceptible to, among other factors, political events, and the Company cannot predict near- or longer-term fuel prices. In the event of a fuel supply shortage resulting from a disruption of imports or otherwise, higher fuel prices or curtailment of scheduled service could result. A one cent change in the cost per gallon of fuel (based on 1993 consumption levels) impacts operating expense by approximately \$2.25 million per month.

In August 1993, the United States increased taxes on fuel, including aircraft fuel, by 4.3c per gallon. Airlines are exempt from this tax increase until October 1, 1995. When implemented, this new tax will increase the Company's annual operating expenses by approximately \$75 million based on United's 1993 domestic fuel consumption levels.

Regulatory Matters

In the last several years, the Federal Aviation Administration (the "FAA") has issued a number of maintenance directives and other regulations relating to, among other things, collision avoidance systems, airborne windshear avoidance systems, noise abatement and increased inspection requirements. The Company expects to continue incurring costs to comply with the FAA's regulations.

Additional laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by, for instance, imposing additional requirements or restrictions on operations. Laws and regulations have also been considered from time to time that would prohibit or restrict the

ownership and/or transfer of international airline routes or takeoff and landing slots. Also, the award of international routes to U.S. carriers (and their retention) is regulated by treaties and related agreements between the United States and foreign governments, which are amended from time to time. For example, there are significant aviation issues between the United States and such foreign governments as Germany, Japan and the United Kingdom that, depending on their resolution, may significantly impact the Company's existing operations or curtail potential expansion opportunities in important regions of the world. The Company cannot predict what laws and regulations will be adopted or what changes to international air transportation treaties will be effected, if any, or how they will affect United.

Holding Company Structure

The Company is a holding company that conducts operations solely through its subsidiaries, principally United. The Company will rely on dividends from its subsidiaries to meet its cash requirements, including cash requirements in connection with dividends on or redemptions of the Public Preferred Stock (and related Depositary Preferred Shares). As a result of the Recapitalization, United will have substantial debt in relation to its stockholder's equity, as determined on a pro forma basis pursuant to the application of generally accepted accounting principles.

CERTAIN EFFECTS OF THE RECAPITALIZATION

The Recapitalization will significantly increase the Company's long-term indebtedness, significantly reduce cash reserves and create a substantial negative balance in stockholders' equity. See "--Certain Risk Factors," "THE PLAN OF RECAPITALIZATION" and "UNAUDITED PRO FORMA FINANCIAL INFORMATION."

As a result of the Recapitalization, a new corporate governance structure will be implemented, a new board of directors will be elected and a new chief executive officer will be appointed. See "--Management Arrangements," "THE PLAN OF RECAPITALIZATION--Revised Governance Structure" and "ELECTION OF DIRECTORS."

The New Shares will be registered under the Exchange Act, which requires, among other things, that the Company furnish certain information to its stockholders and to the Commission and comply with the Commission's proxy rules in connection with meetings of the Company's stockholders. The Recapitalization will result in the Old Shares becoming eligible for deregistration under the Exchange Act.

Although the Company will not meet certain normal requirements for NYSE listing following the Recapitalization, such as the requirement of a minimum net worth, the NYSE has informed the Company that it will permit listing (subject to official notice of issuance) of the New Shares immediately following consummation of the Recapitalization.

Except for the Plan of Recapitalization, there are no present plans or proposals that would result in any material extraordinary corporate transaction, such as a merger, reorganization, liquidation, relocation of operations, or sale or transfer of a material amount of assets involving the Company or its subsidiaries, or any material change in the Company's corporate structure, business or composition of its management of which the current Board is aware.

The Recapitalization will be accounted for as a redemption of shares that is not subject to purchase accounting and, therefore, assets and liabilities will be carried at their historical cost and there will be no increase in goodwill amortization or other purchase accounting effects (such as increased depreciation charges) resulting from the Recapitalization that would reduce earnings.

MANAGEMENT ARRANGEMENTS

Under a Retention Agreement, dated as of January 1, 1994 (the "Retention Agreement"), ALPA and the IAM agreed to employ Mr. Gerald Greenwald as a consultant with respect to the transactions

contemplated by the Plan of Recapitalization. Mr. Greenwald, the former Vice Chairman of Chrysler Corporation, was previously associated with a transaction proposed in 1990 by an entity controlled by the Company's three principal unions, which transaction was terminated in October 1990.

Under the Retention Agreement, Mr. Greenwald is entitled to a consulting fee of \$80,000 per month from January 1994 to the Effective Time and if the Retention Agreement is terminated under certain circumstances (e.g., termination by the Unions without cause), an additional \$1 million payment at the Effective Time. The Retention Agreement contemplates that Mr. Greenwald and the Company will execute a five-year employment agreement (the "Greenwald Agreement"), which agreement will become effective at the Effective Time. Pursuant to the Greenwald Agreement, the Company will pay to Mr. Greenwald at the Effective Time a fee of \$1 million. Under the Greenwald Agreement, Mr. Greenwald will receive a salary of \$725,000 per year, reduced by 8.25% (equivalent to the salaried and management concession) and a non-guaranteed target bonus of \$725,000 per year, which target bonus will be payable if Mr. Greenwald's performance is "consistent with the applicable Board Committee's objectives and directions" and the Company's performance "does not compel" a lesser bonus. In addition, the applicable Board Committee will take into account (i) airline industry trends and (ii) the Company's financial performance (including cumulative profitability since the Effective Time) in determining the extent of Mr. Greenwald's bonus. Pursuant to the Greenwald Agreement, Mr. Greenwald will receive options to acquire 200,000 New Shares, with an exercise price equal to the fair market value of the New Shares on the day following the Effective Time. Fifty percent of such options will vest at the Effective Time and the remainder will vest over 5 years. All options and restricted stock vest on any termination of Mr. Greenwald's employment other than termination by the Company for cause or a voluntary resignation. The options, to the extent vested, will remain outstanding for 10 years, notwithstanding termination of Mr. Greenwald's employment for any reason, including "cause". Mr. Greenwald will also receive 50,000 New Shares of restricted stock, vesting 50% at the Effective Time and the remaining 50% over 5 years. Additional options and restricted stock will be issued to the extent the equity adjustment mechanism is triggered. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares."

The Greenwald Agreement also entitles Mr. Greenwald to an annual pension equal to the greater of the pension that would accrue under Company plans with credit for 30 years of service or \$500,000 per year. Such pension is payable at any time elected by Mr. Greenwald following retirement or termination of employment. Mr. Greenwald's retirement benefit will continue to be paid to his spouse at 67% of his benefit level under a joint survivor annuity. The Retention Agreement specifies that benefits under such pension must be funded in full at the Effective Time through a trust at an estimated amount of \$6.4 million.

If Mr. Greenwald's employment is terminated by the Company without "cause" or by him for "good reason", his salary and guaranteed \$725,000 bonus will continue for 3 years (or, if greater, the remainder of the 5 year contract term). Generally, the Company will not be entitled to a deduction for Federal income tax purposes with respect to the amounts described above to the extent that such amounts exceed \$1 million in any year.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

Skadden, Arps, Slate, Meagher & Flom has served as tax counsel to the Company in connection with the Recapitalization. The following expresses Skadden, Arps, Slate, Meagher & Flom's opinion to the Company as to the material Federal income tax consequences that, under currently applicable law, should arise from the Recapitalization. The following discussion is applicable only to public stockholders who are citizens or residents of the United States and are not foreign corporations. The discussion may not be applicable with respect to Old Shares acquired as compensation, including Old Shares acquired upon the exercise of options or Old Shares held under the Company's employee benefit plans, or to Old Shares held as other than capital assets. Moreover, the discussion is not applicable to public stockholders who hold, or who are related within the meaning of Section 318 of the Internal Revenue Code to stockholders who hold,

employee stock options of the Company. Furthermore, state and local tax consequences of the Recapitalization are not addressed in the discussion. Stockholders should note that the opinions of Skadden, Arps, Slate, Meagher & Flom are not binding on the IRS or any court, and the Company has not sought, and does not intend to seek, a ruling from the IRS as to the Federal income tax consequences of the Recapitalization.

STOCKHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH REGARD TO THE APPLICATION OF THE FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATION, AS WELL AS TO THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, OR FOREIGN TAX LAWS TO WHICH THEY MAY BE SUBJECT.

1. The Recapitalization taken as a whole will constitute a "recapitalization" of the Company within the meaning of Section 368(a)(1)(E) of the Internal Revenue Code. Accordingly, the Recapitalization will not be a taxable transaction to the Company, but will be a taxable transaction to the public stockholders with the consequences described below.

2. A public stockholder whose Old Shares are exchanged for the Recapitalization Consideration in the Recapitalization will realize gain or loss in the Recapitalization measured by the difference, if any, between (i) the fair market value of the Recapitalization Consideration received by such stockholder in the Recapitalization, and (ii) such stockholder's tax basis in the Old Shares exchanged in the Recapitalization. If the Offerings are consummated as contemplated, gain realized by a public stockholder in the Recapitalization will be recognized, but only to the extent such gain does not exceed the amount of cash received by such stockholder in the Recapitalization. If the Offerings are not consummated, gain realized by a public stockholder in the Recapitalization will be recognized, but only to the extent such gain does not exceed the sum of (i) the fair market value of the Debentures at the Effective Time and (ii) the amount of cash received by the stockholder in the Recapitalization. If the Offerings are consummated, any gain in excess of the cash received (or, if the Offerings are not consummated, the sum of (i) the fair market value of the Debentures at the Effective Time and (ii) the amount of cash received by a public stockholder in the Recapitalization), and any loss realized by a public stockholder in the Recapitalization will not be recognized. The operation of the basis allocation rules would provide that any such loss would be effectively carried over into the basis of the New Shares (and Public Preferred Stock (as represented by Depositary Preferred Shares) if the Offerings are not consummated) that are received in the Recapitalization. However, there can be no assurance that any such loss would ultimately be recognized by any particular stockholder. Stockholders that may realize a loss on the Recapitalization should consult their own tax advisors regarding the application of these rules and the recognition of any loss.

3. The character of any gain recognized by a public stockholder in the Recapitalization will depend upon whether the receipt of cash (or Debentures and cash) by the stockholder has the effect of a dividend distribution as to such stockholder or is treated as a sale or exchange. If the exchange of Old Shares for cash (or Debentures and cash) is treated as a sale or exchange, any gain recognized will be capital gain that, in general, will be long-term capital gain if the Old Shares have been held for more than one year at the Effective Time and short-term capital gain if the Old Shares have been held for one year or less at such time.

Section 302 of the Internal Revenue Code provides guidance as to whether a distribution has the effect of the distribution of a dividend. Under Section 302, a distribution will not have the effect of the distribution of a dividend, and any gain recognized will be capital gain rather than a dividend, if the distribution is not "essentially equivalent to a dividend" or one of several other tests is satisfied. Section 318 of the Internal Revenue Code applies to all of these tests. Under Section 318, a stockholder is deemed to own constructively Old Shares and New Shares (and possibly shares of Public Preferred Stock (as represented by Depositary Preferred Shares)) that are actually owned, and in some cases constructively owned, by certain related individuals and entities or that may be acquired by such stockholder or such related individuals or entities by option or conversion, including through employee stock options. Furthermore, the Section 302 tests are applied after taking into account any related transactions that are part of a single integrated plan. Thus, the issuance of the ESOP Preferred Stock and Voting Preferred Stock to the ESOP pursuant to the

Recapitalization will be treated as part of a single integrated recapitalization plan, and it is possible that dispositions or acquisitions by a public stockholder of Old Shares or New Shares (or possibly Public Preferred Stock (as represented by Depositary Preferred Shares)) contemporaneous with the Recapitalization may be considered to be part of the same integrated plan.

A public stockholder that does not acquire additional Old Shares or New Shares (or possibly Public Preferred Stock) in a transaction that may be integrated with the Recapitalization (a "Qualified Public Stockholder") will be entitled to capital gain treatment if, under all of the facts and circumstances, the exchange results in a "meaningful reduction" of the Qualified Public Stockholder's proportionate stock interest in the Company. In general, for a stockholder's proportionate interest in the Company to undergo a meaningful reduction, such stockholder must experience a reduction in interests in one or more of the following areas: (i) control of the Company through voting, (ii) earnings of the Company through dividends, and (iii) assets of the Company upon liquidation. Based upon a published ruling of the IRS, a Qualified Public Stockholder whose relative stock interest in the Company is "minimal" and who exercises no control over the affairs of the Company will be eligible for capital gain treatment assuming that his percentage ownership in the Company decreases as a result of the Recapitalization.

It is also possible that a public stockholder may satisfy other "safe harbor" tests that establish whether a distribution does not have the effect of a dividend and should be treated as a sale or exchange. Tax counsel to the Company has not opined as to the character of any gain that a particular stockholder may realize in the Recapitalization because of the inherently factual nature of the determination that each such stockholder must make. Public stockholders should consult their tax advisors as to whether any such "safe harbor" test may be satisfied.

If an exchange has the effect of a dividend distribution to a public stockholder, the gain to such stockholder will be treated as a dividend, which is not in excess of each such stockholder's ratable share of the undistributed earnings and profits of the Company. The remainder of any gain will be treated as gain from the exchange of property. A corporate stockholder will generally be entitled to the 70% dividends received deduction with respect to any such dividend. However, under the rules for "extraordinary dividends," a corporate stockholder may be required to reduce its basis in a New Share or share of Public Preferred Stock immediately before any sale or disposition of such stock under Section 1059 of the Internal Revenue Code. In general, such basis reduction must occur if a corporate stockholder has not held its Old Share for more than two years before the dividend announcement date and the amount of such dividend equals or exceeds certain threshold percentages of the stockholder's adjusted basis in the Old Share. Corporate stockholders should consult their tax advisors with regard to the application and operation of these rules.

4. A public stockholder's tax basis in the New Shares (and, if the Offerings are not consummated, in the Public Preferred Stock (as represented by Depositary Preferred Shares)) received in the Recapitalization will be equal to the stockholder's tax basis in the Old Shares exchanged therefor in the Recapitalization, increased by the amount of any gain recognized by the stockholder and decreased by the amount of cash received if the Offerings are consummated or, if the Offerings are not consummated, the sum of (i) the fair market value of the Debentures and (ii) the amount of cash received. If the Offerings are not consummated, the aggregate basis of the New Shares and Public Preferred Stock (as represented by Depositary Preferred Shares) will be allocated among the stock received in proportion to the relative fair market values of the New Shares and Public Preferred Stock (as represented by Depositary Preferred Shares) at the Effective Time. The holding period of such New Shares (and, if the Offerings are not consummated, of the Public Preferred Stock (as represented by Depositary Preferred Shares)) will include the holding period of the Old Shares exchanged in the Recapitalization. Gain, loss and tax basis (determined as described above) must be calculated separately for each block of Old Shares (i.e., Old Shares acquired at the same time in a single transaction) held by a public stockholder.

5. If the Offerings are not consummated, holders of Old Shares who receive Debentures in the Recapitalization will have a basis in such Debentures equal to their fair market value as of the Effective Time.

6. The excess of net long-term capital gains over net short-term capital losses may be taxed at a lower rate than ordinary income for certain non-corporate taxpayers. A capital gain is long-term if the asset is held for more than one year and is short-term if the asset is held for one year or less. The distinction between capital gain or loss and ordinary income or loss is also relevant for purposes of, among other things, the limitation on the deductibility of capital losses.

7. If the Offerings are not consummated, the Public Preferred Stock that is received in the Recapitalization should not be classified as "Section 306 stock" because the holders of Public Preferred Stock (as represented by Depositary Preferred Shares) should not avoid gain recognition by reason of Section 305(a) of the Internal Revenue Code, the receipt of the Public Preferred Stock (as represented by Depositary Preferred Shares) should not be substantially the same as the receipt of a stock dividend, and the holders of Public Preferred Stock (as represented by Depositary Preferred Shares) should not have a basis in such stock which is determined by reference to the basis of Section 306 stock. In addition, the requirements of Section 306(b)(4) of the Internal Revenue Code may be satisfied by holders of Public Preferred Stock (as represented by Depositary Preferred Shares). In general, Section 306(b)(4) is satisfied if it is established that the distribution and disposition of Public Preferred Stock (as represented by Depositary Preferred Shares) was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income tax. If the Public Preferred Stock (as represented by Depositary Preferred Shares) were to be classified as "Section 306 stock" and Section 306(b)(4) were not satisfied, this would, in general, result in the amount realized on a disposition of such stock (other than in a redemption) as being treated as ordinary income to the extent that the amount realized were not in excess of the amount that would have been a dividend if, instead of the stock, the Company had distributed cash in an amount equal to the fair market value of the stock. Therefore, such amount would be ordinary income up to the stockholder's share of the amount of earnings and profits of the Company available for distribution. If the amount realized were to exceed the amount that would have been a dividend, the remainder would be treated as gain from the sale of such stock to the extent that it exceeds the adjusted basis of the stock.

8. Stockholders who receive cash in lieu of fractional New Shares, Public Preferred Stock (as represented by Depositary Preferred Shares) and/or Debentures should be treated as having received the cash in redemption of the fractional security interest. If the cash payment for the fractional security interest exceeds the adjusted tax basis in the fractional security interest, a stockholder should realize gain to the extent of the excess cash. If the cash payment is less than the adjusted basis in the fractional security interest exchanged, a stockholder should realize a loss. Such gain or loss should be capital gain or loss, assuming that the Old Share is held as a capital asset by the stockholder. Stockholders should consult their tax advisors regarding the appropriate treatment of any cash that is received in exchange for fractional security interests.

9. Dividend and interest payments received by a United States Alien (as defined below) may be subject to United States Federal withholding tax. A United States Alien holder will not be subject to United States Federal income or withholding tax on any gain realized on the taxable sale or exchange of the New Shares, Public Preferred Stock (as represented by Depositary Preferred Shares) or the Debentures unless either (a) the gain is derived from sources within the United States and the United States Alien is an individual who was present in the United States for 183 days or more during the taxable year or (b) the stock sold or exchanged is a "United States Real Property Interest" as defined in Section 897(c)(1) of the Internal Revenue Code at any time during the five years prior to the sale or exchange of the stock or at any time during the time that the United States Alien held such stock, whichever time is shorter. The New Shares or the Public Preferred Stock (as represented by Depositary Preferred Shares) will be a United States Real Property Interest only if, at any time during the five years prior to the sale or exchange of such stock or at any time during the period that the United States Alien held such stock, whichever time is shorter, the Company is a "United States real property holding corporation" as defined in Section 897(c)(2) of the Internal Revenue Code and the United States Alien directly or constructively owned more than 5% of that class of stock of the Company being sold or exchanged. The Company is not a "United States real property holding corporation" for Federal income tax purposes.

A "United States Alien" is any person who, for United States Federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary or a foreign estate or trust, or a foreign partnership that includes as a member any of the foregoing persons.

10. Certain non-corporate holders of the New Shares, Public Preferred Stock (as represented by Depositary Preferred Shares) or Debentures may be subject to backup withholding at a rate of 31% on payment of dividends or interest on such securities, as the case may be. Backup withholding will apply only if (i) such a holder fails to furnish its Taxpayer Identification Number ("TIN") which, for an individual, would be his or her Social Security number, (ii) such a holder furnishes an incorrect TIN, (iii) the payor is notified by the IRS that such holder has failed to properly report payments of interest or dividends or (iv) under certain circumstances, such holder fails to certify under penalties of perjury that he or she has furnished a correct TIN and has not been notified by the IRS that he or she is subject to backup withholding for failure to report payments of interest or dividends. These backup withholding rules may also apply to payments of cash and Debentures by the Exchange Agent (as defined below) in the Recapitalization (including cash in lieu of a fractional securities interest). Stockholders should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such an exemption if applicable.

The amount of any backup withholding from a payment to a holder of the New Shares, Public Preferred Stock (as represented by Depositary Preferred Shares) or Debentures will be allowed as a credit against such security holder's Federal income tax liability and may entitle such security holder to a refund, provided that the required information is furnished to the IRS.

11. The Recapitalization will result in an "ownership change" within the meaning of Federal income tax law provisions dealing with net operating loss carryforwards, alternative minimum tax credits and other similar tax attributes. Thus, as a technical matter there will be limitations on the Company's ability to utilize such carryforwards and credits from periods predating the Recapitalization. However, as a practical matter, application of those limitations to the Company is not expected to impair the Company's ability to use its tax attributes.

THE FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE ARE FOR GENERAL INFORMATION ONLY. EACH STOCKHOLDER SHOULD CONSULT A TAX ADVISOR AS TO THE PARTICULAR CONSEQUENCES OF THE RECAPITALIZATION THAT MAY BE APPLICABLE TO SUCH STOCKHOLDER, INCLUDING THE APPLICATION OF STATE, LOCAL, AND FOREIGN TAX LAWS.

LITIGATION

Two actions are pending in the Court of Chancery of the State of Delaware in and for New Castle County with respect to the Recapitalization. Both actions are brought as class actions, purportedly on behalf of a class consisting of all stockholders of UAL Corporation.

The first action, Kaufman et al. v. Wolf et al., Civil Action No. 13312, was commenced by three stockholders of the Company on or about December 30, 1993. Named as defendants, in addition to the Company, ALPA and the IAM, were Stephen M. Wolf, John C. Pope, Neil A. Armstrong, Andrew F. Brimmer, Richard P. Cooley, E. Mandell de Windt, John F. McGillicuddy, Harry Mullikin, James J. O'Connor, Frank A. Olson and Ralph Strangis. The Kaufman complaint alleges, among other things, that defendants have violated their fiduciary duties to the Company stockholders in connection with the proposed transaction between the Company, ALPA and the IAM. The complaint seeks, among other things, an injunction against the consummation of the Agreement in Principle, an order rescinding the transaction if it has been consummated and an award of unspecified damages in favor of plaintiffs and the class.

The second action, Krasner v. UAL Corp. et al., Civil Action No. 13316, was commenced by a stockholder of the Company on or about January 6, 1994. Named as defendants in addition to the Company,

ALPA and the IAM, were Stephen M. Wolf, John C. Pope, Neil A. Armstrong, Andrew F. Brimmer, Richard P. Cooley, Carla A. Hills, Fujio Matsuda, John F. McGillicuddy, Harry Mullikin, James J. O'Connor, Frank A. Olson, Ralph Strangis and Paul E. Tierney, Jr. The Krasner complaint alleges, among other things, that defendants have violated their fiduciary duties in connection with the proposed transaction. It seeks a declaratory judgment that the individual defendants have breached their fiduciary duties to the class, an injunction against the consummation of the transaction and against "the enforcement of any anti-takeover device," an order requiring the individual defendants to "explor[e] third-party interest" in acquiring the Company and to "accept [] the highest offer obtainable for the public shareholders or permit [] the shareholders to make that decision free from any coercion" and an award of unspecified damages in favor of plaintiff and the class.

Both the Kaufman action and the Krasner action are at a preliminary stage. Defendants have not responded to the complaint in either action, no discovery has been taken and plaintiffs have not yet moved for class certification.

THE PLAN OF RECAPITALIZATION

The information contained in this Proxy Statement/Prospectus with respect to the Plan of Recapitalization is qualified in its entirety by reference to the complete text of the Plan of Recapitalization, a copy of which is included elsewhere in this Proxy Statement/Prospectus.

INVESTMENT FOR UNIONIZED EMPLOYEES

Wage and Benefit Adjustments

Employees represented by ALPA and the IAM will receive reductions of 15.7 percent and 9.7 percent, respectively, from basic wage rates in effect at the Effective Time. A 5 percent increase previously scheduled to take effect for IAM-represented employees on May 1, 1994 will be eliminated. ALPA employees participating in U2 will be subject to further wage reductions as described below. However, the normal increases for seniority steps and promotions will be maintained.

The reduced wage rates will remain in effect for five years, nine months following the Effective Time for ALPA, and six years for the IAM, except that during the fourth and fifth years following the Effective Time each employee group may receive a wage increase. If the parties are unable to negotiate the amount of such an increase, a neutral arbitrator will determine the amount, if any (and not to exceed 5 percent each year), based upon airline industry trends, profitability of the Company and wage rates for other specified major air carriers. In addition, the neutral arbitrator may determine the amount of increase in the ALPA per diem, if any (not to exceed \$.25), based upon the same factors.

Upon the Effective Time, the Company contribution to the self-directed retirement plan provided for each ALPA-represented pilot will be reduced from 9 percent of wages to 1 percent of wages. In addition, the vacation accrual schedule for pilots during their first ten years of employment will be reduced to the vacation accrual schedule for pilots employed by Southwest. For IAM-represented employees, the current half-hour paid lunch period will be eliminated and the standard work day increased to eight hours exclusive of the unpaid lunch period. In addition, the premium for a paid lunch on overtime also will be eliminated.

All wage and benefit reductions will remain in effect pursuant to the Railway Labor Act until the effective date of the revised collective bargaining agreements negotiated and/or arbitrated pursuant to procedures stated in the Plan of Recapitalization and described in this Proxy Statement/Prospectus.

AFA Participation

If AFA and the Company determine that AFA will participate in the Recapitalization, flight attendants will incur a combination of wage reductions, benefit changes and work-rule modifications negotiated between

management and AFA, and determined by management in its sole judgment to equal \$416 million net present value, including an appropriate agreed upon contribution associated with the competitive action plan contemplated with respect to U2 by the Plan of Recapitalization (the "Competitive Action Plan"). If AFA participates on this basis, the duration of wage and benefit reductions (other than the contribution in respect of the Competitive Action Plan) applicable to the other employee groups will be reduced by nine months.

Competitive Action Plan

In addition to wage and benefit reductions affecting all employees, ALPA and IAM have agreed to permit the Company to establish a Competitive Action Plan pursuant to which United would establish an "airline-within-an-airline" currently referred to as "U2," which is designed to compete with existing low-cost carriers in short-haul markets. The Unions will represent U2 employees in the same class and craft, and United and U2 will have the same seniority lists and will remain a single carrier for Federal Aviation Act and Railway Labor Act purposes. The Company, at its discretion, may establish a distinct U2 corporate division but does not currently plan to establish U2 as a separate subsidiary of either United or the Company.

The pilot wages and work-rules for the U2 operation are contained in amendments to the ALPA collective bargaining agreement. These work-rule changes are designed to facilitate a high-frequency, rapid turn-around, streamlined service operation. Pursuant to those changes in the ALPA collective bargaining agreement, ALPA-represented pilots in the U2 operation would receive wage rates approximately 7.1 percent less than the reduced mainline United rates for similar equipment in the United operation. Pilots assigned to the U2 operation will also be expected to fly more hours each month. As a result, pilot staffing requirements in the U2 operation are expected to be reduced and U2 pilots should have the opportunity to achieve monthly pay equivalent to comparable mainline United pilots by flying more hours each month. The U2 operation would be subject to modified work-rules designed for the U2 operation. The U2 supplement would have an initial term equivalent to the basic agreement; it would also provide, however, for two renewal periods following the initial term, for a total of 12 years following the Effective Time. With respect to the two renewal periods, certain unresolved economic issues would be submitted to interest arbitration. In such interest arbitrations, the arbitrator would be required to establish the renewal terms on the basis of wages and work-rules then in effect at Southwest or such other short-haul carrier as then operates the largest number of B737 or equivalent aircraft other than American, Delta Air Lines, Continental Airlines, Northwest Airlines and USAir. ALPA-represented employees would be barred from striking over the U2 employment terms determined through interest arbitration under this process.

U2 would be permitted to operate on any non-stop city pair of 750 nautical miles or less in the contiguous 48 states, using B737-300 or smaller aircraft, subject to the following restrictions: (a) U2 could not operate between United hub cities and/or international gateway cities except the Los Angeles basin and the San Francisco Bay area service, (b) U2 block hours could not exceed 20 percent of United's systemwide block hours up to 2 million block hours per year, and 25 percent of the systemwide block hours thereafter, provided that in the sixth through twelfth years following closing, U2 could begin operation between any city pairs not serviced by United during the prior 24 months, (c) if system widebody block hours (i.e., block hours flown by B757 or larger aircraft) fall below (i) 95% of the widebody block hours projected in the Company's October 1993 fleet plan for any twelve month period from the Effective Time through 1999 or (ii) a certain minimum level for any twelve month period between 2000 and 2006, U2 operations must be reduced by the amount of such shortfall and (d) 10 percent of U2 monthly block hours must be between city pairs not served by United within the prior 24 months.

To permit rapid implementation of U2, the Competitive Action Plan provides that United pilots can be involuntarily placed into the U2 operation, but such employees must be "red-circled" to maintain the monthly income they would have earned had they remained in their existing positions in the mainline United operation. United pilots who voluntarily bid into or remain in the U2 operations, and new hires, will not be red-circled.

IAM-represented employees assigned to the U2 operation will be governed by the same revised Collective Bargaining Agreements as all other IAM-represented employees. The IAM agreements, governing all IAM-represented employees, contain certain specific modifications that can not be amended for 12 years. These include (a) elimination of the paid half-hour lunch period and increasing hours of service to eight hours exclusive of the unpaid lunch and elimination of a paid meal period on overtime, (b) a provision that the Company will assign IAM ramp servicemen at any U.S. station that has a sustained flight level of 40 or more daily departures for a period of six months (and may discontinue such assignments if the flight activity falls below 30 daily departures on a sustained level) and may assign no more than 25 percent of such positions to part-time ramp servicemen and (c) a provision, subject to certain restrictions, that the Company may contract out up to 20 percent of its maintenance work, determined annually on a dollar value basis, subject to the condition that subcontracting will not cause a layoff.

Job Security Provisions

The ALPA collective bargaining agreement will be amended to add a new section that would supersede and supplement several existing job security provisions. The principal terms of this new section are as follows:

(i) All commercial flight operations conducted by United, the Company or any corporate affiliate must be performed by United pilots under the terms of the United-ALPA agreement, except for (a) feeder flying conducted by United Express or similar carriers operating small aircraft, (b) certain domestic code sharing currently in effect and additional domestic code sharing not to exceed 1 percent of the Company's total domestic block hours and (c) international code sharing arrangements with foreign carriers so long as the arrangements do not cause a reduction in international flying and the Company does not expand international code sharing once it reduces international flying below a specified minimum level;

(ii) United may not transfer aircraft or international routes to other carriers that will use the assets to provide feed to United pursuant to an agreement with United;

(iii) United may not enter into any successorship transaction unless the successor agrees to adopt the United-ALPA agreement, to employ United pilots pursuant to such agreement, to recognize ALPA and to provide United pilots with seniority credit if the successor is an air carrier;

(iv) The Company will continue in effect, or amend to include, certain provisions of a Letter of Agreement that (a) provide ALPA with enumerated rights in the event of a change of control of the Company, (b) prohibit furloughs, within certain conditions, if the Company disposes of 25 percent or more of its assets or assets which produce 25 percent or more of its block hours and (c) obligate the Company to require any carrier purchasing aircraft or route authority that produce 25 percent or more of the Company's operating revenues or block hours to hire an appropriate number of United pilots with seniority credit;

(v) With certain exceptions, the Company may not sell or otherwise dispose of its Denver training center or contract with any person or entity to conduct or supervise United pilot training;

(vi) The Company may not establish a pilot domicile outside of the United States without ALPA's consent, except for temporary domiciles permitted under the existing agreement; and

(vii) Subject to specified exceptions, no pilot employed as of the date of closing may be furloughed while the agreement remains in effect.

The IAM collective bargaining agreements will be amended to provide a number of job security provisions as well. The principal terms of these amendments are as follows:

(i) Subject to certain exceptions, no IAM represented employee employed as of the date of the Effective Time may be furloughed during the term of the agreement;

(ii) Subject to certain conditions, the Company may not contract out work if the subcontract would result in the layoff of any IAM-represented employee;

(iii) The Company may not contract out ramp service work at any station at which it currently employs IAM-represented ramp servicemen;

(iv) Subject to certain exceptions, the Company may not sell or otherwise dispose of its maintenance facilities in San Francisco, Oakland or Indianapolis, its Miami flight kitchen or its four employee cafeterias;

(v) The Company may not perform any regularly scheduled heavy maintenance outside the United States without IAM approval;

(vi) The Company will transfer dispatch work currently performed in London to Chicago-based, IAM-represented dispatchers;

(vii) The IAM agreements will contain change of control provisions, successorship and code sharing restrictions similar to those provided to ALPA; and

(viii) At least 80% of maintenance work must be performed by United and not be outsourced.

No Strike Clauses

The ALPA and IAM revised Collective Bargaining Agreements will contain no strike clauses, including a prohibition on sympathy strikes in support of other unions, to be effective until the amendable dates of such agreements.

Other Collective Bargaining Agreement Modifications

Both the ALPA and IAM revised Collective Bargaining Agreements will be subject to additional amendments, which do not have any material financial effect, of a type made in the ordinary course of collective bargaining negotiations.

IAM-represented employees who lose, or have lost, employment with United as a result of the sale of United flight kitchens to Dobbs and Caterair will receive labor protective provisions benefits modeled after the Allegheny-Mohawk Labor Protective Provisions previously utilized by the Civil Aeronautics Board.

INVESTMENT FOR SALARIED AND MANAGEMENT EMPLOYEES

United will establish employment terms for the employees of United who perform the functions currently performed by the management and salaried employees of United (including any functions that such group of employees begin performing in the future). The basic cost reduction package for United's U.S. based Salaried and Management Employees will be in effect for a period of five years, nine months following the Effective Time, except as noted below. The components of the basic cost reduction package include pay reductions (base pay reduced 8.25%, shift differentials redefined, overtime paid lunch eliminated, four fixed holidays converted to floating holidays for operational employees), changes in work-rules, sick leave policy and management relocation policy and a one-time reduction in force of 127 management employees.

The Company's United States Salaried and Management Employees may receive an appropriate wage rate increase of not more than 5% beginning in the fourth year (and, if applicable, the fifth year) following the Effective Time through a program determined by management whose criteria are consistent with certain specified standards that take into account (i) airline industry trends, (ii) United's financial performance (including cumulative profitability over the prior three years) and (iii) the wage rate levels for comparable employees of American, Delta, USAir and Northwest Airlines.

Salaried employees hired February 1, 1994 and later will be hired in accordance with a new hire pay and benefit compensation program. In addition, no wage increase or wage raises, other than increases for legitimate promotions from one job group to another job group, progression type increases and increases resulting from the wage adjustment process outlined above, may be given to Salaried and Management Employees during the basic investment period.

Salaried and management per capita base payroll may not increase by more than the percentage increase in the IAM per capita base payroll in any investment year (excluding increases resulting from the mid-term wage adjustment process for IAM-represented employees) or by 2% in any investment year (except 1.5% in the fourth and fifth investment years), whichever is less. For the purposes of the foregoing limitation, increases resulting from the wage adjustment process outlined above may not be included.

United will modify its United States personnel policies to provide that it is United's intention to conduct its business so that any salaried employee whose date of employment is before February 1, 1994 and who is affected when United declares a surplus in his or her organization will not be laid off involuntarily, and the Company will make every reasonable effort to offer surplus employees an opportunity of continued employment in his or her current work status (i.e., full- or part-time), although it may be in a different classification and/or location within the United States. Surplus employees who must relocate in order to continue employment will be eligible for relocation assistance. These provisions do not apply in the case of an employee who is discharged for cause or violation of Company rules, codes or articles of conduct or in the case of surpluses that result from an act of nature, a labor dispute, government action, revocation of operating certificate, war, unavailability of fuel or other circumstances beyond the control of the Company. These provisions also do not apply to discharges of employees who are in a probationary period and, unless amended, will not be in effect beyond the five year, nine month period (a five year period if the AFA participates) following the Effective Time.

See "SPECIAL FACTORS--Certain Risk Factors--Possible Effect of Organization of Additional Employees" with respect to the possible impact of organization of management and salaried employees.

REVISED GOVERNANCE STRUCTURE

The information contained in this Proxy Statement/Prospectus with respect to the revised governance structure of the Company is qualified in its entirety by reference to the complete text of the Restated Certificate, a copy of which has been filed as an exhibit to the Registration Statement of which this Proxy Statement/Prospectus is a part and which is incorporated herein by reference, and to the other agreements and documents referred to herein that are filed as exhibits to the Registration Statement of which this Proxy Statement/Prospectus is a part.

Composition of the Board

Following the consummation of the Recapitalization, subject to the rights of holders of Series A Preferred Stock and the Depository Preferred Shares representing interests in Public Preferred Stock to elect a total of two additional directors in the event of certain dividend arrearages (the "Preferred Stock Dividend Default Rights") and prior to the Sunset, the Board will consist of 12 directors, who will include (i) five Public Directors, (ii) four Independent Directors, (iii) two Union Directors and (iv) one Salaried and Management Director (the Union Directors and the Salaried and Management Director, collectively, are referred to as the "Employee Directors"). For information relating to the initial nominees for election as Public Directors and certain other persons chosen to serve as the other directors if the Recapitalization is consummated, see "ELECTION OF DIRECTORS." Following the Sunset, subject to the Preferred Stock Dividend Default Rights and the occurrence of either or both of the ALPA Termination Date and the IAM Termination Date (both as defined below, see "--Sunset"), the Board will consist of 12 directors of whom nine will be elected by the holders of the New Shares and three will be Employee Directors.

Public Directors

Until the Sunset, five directors, who are designated as Public Directors (the "Public Directors") will be elected by holders of the New Shares and will consist of (a) three individuals who are not and have never been an officer or employee of, or a provider of professional services to, the Company or any of its subsidiaries

(the "Outside Public Directors") and (b) two substantially full-time employees of the Company or any of its subsidiaries, one of whom, in addition, to the fullest extent such additional qualification is permitted by law, will be, at the time of election, the CEO, and the other of whom, in addition, to the fullest extent such additional qualification is permitted by law, will be a senior executive officer of the Company satisfactory to the CEO (the "Management Public Directors"). Until the Sunset, at the expiration of the term of each Outside Public Director and to fill vacancies, Outside Public Directors will be nominated or appointed, as appropriate, by an "Outside Public Director Nomination Committee" comprised of the Outside Public Directors. Any amendment or modification of the rights, powers, privileges or qualifications of the Outside Public Directors or the Outside Public Director Nomination Committee will, in addition to the approval required by law or as described below under the Restated Certificate, require the concurrence of all of the Outside Public Directors or the affirmative vote of at least a majority in voting power of the outstanding capital stock of the Company entitled to vote thereon excluding shares held by the ESOP Trustee. In addition, until the Sunset, Management Public Directors will be nominated or appointed, as appropriate, by a majority vote of the entire Board.

Mr. John F. McGillicuddy, Mr. James J. O'Connor and Mr. Paul E. Tierney, Jr., who are incumbent members of the Board, have been nominated to be the Outside Public Directors, and Mr. Gerald M. Greenwald has been nominated to be the Management Public Director. The second Management Public Director will be identified prior to or at the Effective Time and will be appointed to the Board at the Effective Time. For additional information on these individuals, see "ELECTION OF DIRECTORS--Nominees for Election as Public Directors."

Independent Directors

The four directors designated as Independent Directors (the "Independent Directors") will be elected by the holders of Class I Preferred Stock (as defined below, see "DESCRIPTION OF SECURITIES--The Director Preferred Stock--Class I Preferred Stock"), who will be the Independent Directors. Each Independent Director, upon becoming an Independent Director, acquires a share of Class I Preferred Stock and becomes a party to the Class I Preferred Stockholders' Agreement pursuant to which the stockholders will agree to vote their shares to elect the Independent Directors nominated in accordance with the procedures set forth below and to refrain from transferring their shares of Class I Preferred Stock other than to a person who has been elected to serve as an Independent Director and who agrees to be subject to the provisions of the Class I Preferred Stockholders' Agreement.

None of the Independent Directors may have, without the consent of both Union Directors and all of the Public Directors, a current or prior material affiliation or business relationship with the Company (other than an affiliation that results from being a member of the Board) or be an officer, director, trustee or official of any labor organization that serves as a collective bargaining "representative" under the Railway Labor Act or the National Labor Relations Act. In addition, generally, at least two of the four Independent Directors at the time of their initial nomination or appointment to the Board must (i) be a senior executive officer of a private or public company with revenues in excess of \$1 billion during such company's prior fiscal year and/or (ii) be a member of the board of directors of at least one other public company with a market capitalization in excess of \$1 billion as of the date of such company's most recent annual financial statements.

The Independent Directors will be nominated or appointed, as appropriate, by an "Independent Director Nomination Committee" consisting of the Independent Directors and the Employee Directors. Approval of such nomination or appointment requires a majority of the Independent Directors and the concurrence of at least one Union Director.

ALPA and the IAM have identified Mr. Duane D. Fitzgerald, Mr. Richard D. McCormick, Mr. John K. Van de Kamp and Mr. Paul A. Volcker as the initial Independent Directors and such identified persons have agreed to serve as the Independent Directors. For additional information on these individuals, see "ELECTION OF DIRECTORS--Independent Directors."

Employee Directors

The three Employee Directors will be elected as follows: (i) one director (the "ALPA Director") will be elected by the holder of the Class Pilot MEC Preferred Stock (as defined below, see "DESCRIPTION OF SECURITIES--The Director Preferred Stock"), which will be the ALPA-MEC, (ii) one director (the "IAM Director" and, together with the ALPA Director, the "Union Directors") will be elected by the holder of the Class IAM Preferred Stock (as defined below, see "DESCRIPTION OF SECURITIES--The Director Preferred Stock"), which will be the IAM or its designee, and (iii) one director (the "Salaried and Management Director") will be elected by the holders of the Class SAM Preferred Stock (as defined below, see "DESCRIPTION OF SECURITIES--The Director Preferred Stock"), who will be the Salaried and Management Director and an additional designated stockholder (the "SAM Designated Stockholder"), each selected as described below, voting separately as a class.

The replacement Salaried and Management Director will be nominated by the System Roundtable. The System Roundtable will establish a selection committee of four employees to select the nominee for Salaried and Management Employee Director from time to time. The SAM Designated Stockholder generally will be the senior executive of United who has primary responsibility for human resources. The Salaried and Management Director will acquire two shares of Class SAM Preferred Stock, and the SAM Designated Stockholder will acquire one share of Class SAM Preferred Stock upon becoming the Salaried and Management Director and the SAM Designated Stockholder, respectively, and each will become a party to the Class SAM Preferred Stockholders' Agreement pursuant to which the stockholders will agree to vote their shares to elect the Salaried and Management Director nominated by the System Roundtable and to refrain from transferring the shares of Class SAM Preferred Stock other than to a person who has been elected to serve as the Salaried and Management Director or to the senior executive of United who has primary responsibility for human resources and, in each case, who agrees to be subject to the provisions of the Class SAM Preferred Stockholders' Agreement. The "System Roundtable" is a body of Salaried and Management Employees empaneled to review and discuss issues relating to the Company and their effect on Salaried and Management Employees.

Vacancies of Employee Directors may be filled only by the holder or holders of the class of stock that elected such director.

Mr. John Peterpaul has been identified as the initial IAM Director, Captain Roger D. Hall has been identified as the initial ALPA Director, and Mr. Joseph V. Vittoria has been identified as the initial Salaried and Management Director. For additional information on Mr. Peterpaul, Captain Hall and Mr. Vittoria, see "ELECTION OF DIRECTORS--IAM Director", "--ALPA Director" and "--Salaried and Management Director."

Quorum

Until the Sunset, a quorum at a Board meeting will exist only if (a) directors with at least a majority of the votes entitled to be cast by the entire Board are present (i.e., seven votes) and (b) unless consented to by the two Union Directors, if less than all votes are present, the number of votes constituting a majority of the votes present is no greater than the sum of (i) two plus (ii) the number of Independent Director votes present at the meeting. For example, if three Independent Director votes are present, the total number of Director votes present may not be more than nine in order for a quorum to be present. The foregoing quorum provisions were requested by the Unions and agreed to by the Company in connection with negotiating the terms of the Recapitalization.

Required Board Action

Except as may be required by law or as set forth in the Restated Certificate (including the matters described below under "--Extraordinary Matters" or "--Special Voting Provisions with Respect to Purchase and Sale of Common Stock"), approval of all Board action will require a majority vote of the total number of

director votes present at a meeting at which a quorum is present. Until the Sunset, in the event of a vacancy of an Independent Directorship, the remaining Independent Directors will as a group continue to have four votes (divided equally among the remaining Independent Directors). Until the Sunset, in the event of a vacancy on the Board of an Employee Directorship or a Public Directorship, or in the event of a vacancy of an Independent Directorship that immediately prior to the occurrence of such vacancy was held by a member of a Board Committee of which only one Independent Director was a member, then, subject to the fiduciary duties of the remaining Directors or members of such Board Committee, as the case may be, then in office, neither the Board nor such Board Committee may take any action (other than to fill such vacancy) until after the earlier of (i) 20 days following the occurrence of such vacancy and (ii) the time that such vacancy is filled in accordance with the Restated Certificate.

Term of Office; Resignation; Removal

Each Director will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified, subject to such Director's earlier death, resignation or removal. In addition, the term of an Outside Public Director or an Independent Director will automatically terminate if such Director ceases to meet the qualifications of an Outside Public Director or Independent Director, as the case may be. Any Director may resign at any time upon written notice to the Company. Directors may not be removed from office except (i) without cause, by the class of stockholders that elected them, or (ii) "for cause" as determined under the DGCL.

Selection of Management

All decisions to hire or fire members of senior management will be taken by the Board or pursuant to the authority typically delegated by it to the CEO. Until the Sunset, hiring a new CEO will require the approval of a majority of the Board following a recommendation by the Executive Committee, which will act as the search committee. If, at the first meeting of stockholders following the hiring of a new CEO (other than the initial CEO following the Effective Time), such CEO is not elected to the Board as a Public Director by the stockholders entitled to vote on such election, such CEO will be removed from office and a successor CEO will be selected. Any successor CEO will be appointed to fill the Public Directorship vacated by the predecessor CEO. Incumbent officers at the Effective Time may not be terminated for a period of six months following the Effective Time unless such termination is approved by two Outside Public Directors and the CEO. As part of the Recapitalization, certain officers have agreed to retire at or prior to the Effective Time. See "SPECIAL FACTORS--Interests of Certain Persons in the Recapitalization."

Stockholder Approval Matters

Stockholder approval will not be a condition to any action of the Company except as required by DGCL or as described below under "--Extraordinary Matters" or "--Special Voting Provisions with Respect to Purchase and Sale of Common Stock". Until the Sunset, except as otherwise required by law or by the Restated Certificate, the presence in person or by proxy of the holders of outstanding shares representing at least a majority of the total voting power of all outstanding shares entitled to vote at a meeting of stockholders will constitute a quorum at a meeting of stockholders.

ESOP Voting

Allocated shares of Voting Preferred Stock (and, under any limited circumstances required by law in which matters are submitted to it for a vote, the ESOP Preferred Stock) held by the Qualified ESOP (as defined in "--Establishment of ESOPs--Sales of ESOP Preferred Stock--Leveraged ESOP") will be voted by participants, as named fiduciaries under ERISA, on a confidential pass through basis. ALPA and the Company agreed that ALPA may, by a request that must be made no later than April 22, 1994, require that the Company amend the Qualified ESOP to provide that only participants who are employees are entitled to instruct the ESOP Trustee as to how to vote allocated shares of Class P Voting Preferred Stock, including

any such shares allocated to former employees. ALPA has made such a request. However, the Company is not required to amend the Qualified ESOP in the requested manner if it is determined that such an amendment would not be legally permissible or would expose the Company to a risk of material liability. In that event, then the Company would be obligated to cooperate with ALPA to attempt to limit the ability to instruct the ESOP Trustee as to voting of Class P Voting Preferred Stock to employees by other means. Unallocated shares and allocated shares which were not voted by the participants in the Qualified ESOP will be voted as described below by those ESOP participants who are employees who choose so to direct State Street. State Street will (except as may be required by law) vote the unallocated and otherwise unvoted shares in the proportions directed by participants who give instructions to State Street with respect to such shares; each participant who is an employee has the right to give such directions to State Street in the proportion that the participant's allocated shares bears to the allocated shares of all participants giving such directions. Shares held by the Supplemental ESOP (as defined in "--Establishment of ESOP--Sales of ESOP Preferred Stock--Non-Qualified ESOP") will be voted as instructed by the administrative committee appointed under the Supplemental ESOP. The Supplemental ESOP provides that the administrative committee shall consider the sentiments of participants concerning the vote, but is not required to take any particular action in response thereto. The Supplemental ESOP provides that it shall be amended at the request of ALPA to provide for pass-through voting by participants. See "--Establishment of ESOPs". The foregoing provisions also govern instructions to be given to State Street in the event of a tender offer (including a Control Transaction, see "--Establishment of ESOPs--Control Transaction").

Extraordinary Matters

Except as provided below, certain matters described below ("Extraordinary Matters") generally will require, in addition to any voting requirements under the DGCL, approval of at least either three-quarters of the Board (including the concurrence of one Union Director) or three-quarters of the shares present and voting at a stockholder meeting at which a quorum is present. In addition, the vote of at least 66 2/3% of the outstanding voting stock that is not owned by an "interested stockholder" will be required to approve a "business combination" under Section 203 of the DGCL, where applicable. Extraordinary Matters include:

(a) Amendments to the Restated Certificate (other than certain technical amendments), substantive amendments to the Bylaws and mergers or consolidations of the Company or any of its subsidiaries or a sale, lease or exchange of all or substantially all of the assets of the Company or United involving a person that has been formed by or is an affiliate of one or more labor groups representing employees of the Company or any of its subsidiaries or a person determined by the Board to be a person in which a substantial group of employees of the Company or any of its subsidiaries, acting as an organized group, owns a majority ownership interest (a "Labor Affiliate") (the Extraordinary Matters described in this paragraph (a) require, in addition to the approvals described above, either (i) six affirmative votes cast by Directors who are not Employee Directors or (ii) the affirmative vote of a majority of the shares of capital stock not held by ESOPs);

(b) Mergers or consolidations of the Company or any of its subsidiaries or a sale, lease or exchange of all or substantially all of the assets of the Company or United involving a person who is not a Labor Affiliate;

(c) Dissolutions;

(d) Entry into any new line of business outside the "airline business" (defined generally as the business of operating a domestic air carrier, together with any business or activities reasonably related to or in support of all of such operations engaged in by the Company or any subsidiary at or immediately prior to the Effective Time), or the making of any investment (in excess of five percent of the total assets of the Company and its subsidiaries on a consolidated basis) outside the airline business;

(e) The making of any domestic airline acquisition or any material investment in another airline including ordinary course investments in excess of one half of one percent of the total assets of the Company and its subsidiaries on a consolidated basis;

(f) The adoption of any material amendment to the Rights Agreement (as defined below, see "--Rights Plan") or taking of any material actions, including the redemption of rights, under the Rights Agreement;

(g) The sale, lease, exchange, surrender to or at the direction of a lessor, or other disposition (a "Disposition") by the Company or any of its Subsidiaries of assets for "Gross Proceeds" (defined to exclude taxes and sales costs) that, when added to the Gross Proceeds from (i) the Disposition of other such assets during the preceding 365 day period resulting in Gross Proceeds in excess of \$5 million and (ii) the Disposition of other such assets during a recently completed preceding twelve calendar month period resulting in Gross Proceeds of \$5 million or less, collectively exceeds \$200 million; provided that (A) Gross Proceeds included in clauses (i) and (ii) will not include Gross Proceeds from any transactions consummated prior to the Effective Time and (B) the \$5 million set forth in clauses (i) and (ii) may be increased by action of the Board on an annual basis based on the affirmative vote of at least 75% of the votes entitled to be cast by the entire Board, which must include the concurrence of at least one Union Director; provided, further, that such approval will not be required for certain specified transactions (or count against the \$200 million Gross Proceeds calculation above) including: (1) secured aircraft financings, (2) sale-leaseback and leveraged lease transactions, or sales or similar transfers of receivables, for financing purposes, (3) Dispositions of assets if replacement assets (consisting of assets of the same class as the assets being disposed of) generally have been ordered or acquired within the six calendar month period prior to such Dispositions of assets or so ordered or acquired within 365 days following the Disposition of assets for which no replacement assets had been previously acquired, (4) Dispositions providing Gross Proceeds in an amount up to 10% of the book value (net of depreciation) of the Company's fixed assets at the time of the most recent quarterly financial statements of the Company if (A) Directors entitled to cast at least 75% of the votes entitled to be cast by the entire Board, including all of the Independent Directors, determine by resolution of the Board that such asset Disposition is necessary to (I) cure a default under material financing agreements binding upon the Company or any of its subsidiaries or any of their respective properties, or avoid a default thereunder that, absent such Disposition, would be reasonably likely to occur within 90 days or (II) remedy a material adverse development in the Company's business or condition, and (B) the Gross Proceeds of such asset Disposition are used to remedy the condition referred to in clause (A) (provided, that the exception afforded by this clause (4) will be available not more than once in any consecutive five-year period), (5) certain ordinary course Dispositions designed to allow the Company and its subsidiaries to continue many of their existing practices without significant restrictions that may involve Dispositions of assets, (6) Dispositions of assets (other than air frames, engines and related spare parts) if (A) made pursuant to a discrete asset management program that provides for the Disposition of not more than an aggregate of \$25 million of assets and (B) such discrete asset management program is approved annually by either the Board or the stockholders as an Extraordinary Matter in accordance with the voting thresholds outlined above and (7) Dispositions of assets that individually, or when aggregated with other assets in the same or related Dispositions, are not in excess of a de minimis amount, either with respect to periods prior to December 31, 1994 or pursuant to a distinct asset management program approved in accordance with the procedures set forth in clause (6) above; and

(h) The issuance of equity or equity equivalent securities (including convertible debt, but excluding non-voting, non-convertible preferred stock the issuance of which will be permitted without limit) (a "Non-Dilutive Issuance"); provided that such issuance shall not constitute an Extraordinary Matter if any of the following occur: (A) (I) three quarters of the votes entitled to be cast by the entire Board, including all the Independent Directors, determine that such issuance is in the best interests of the Company, (II) such issuance is subject to the First Refusal Agreement (as defined below, see "DESCRIPTION OF SECURITIES--The Common Stock, the Series A Preferred Stock and the Junior Participating Preferred Stock--Common Stock--Right of First Refusal") and (III) if such issuance occurs during the 365-day period commencing on the Effective Time, the Board by the affirmative vote of a majority of the votes entitled to be cast by the Directors present at a meeting of the Board at which a quorum is present, which vote must include the affirmative votes of both Union Directors, approves

an equitable adjustment to the conversion rate applicable to the conversion of the ESOP Preferred Stock into New Shares, (B) three-quarters of votes entitled to be cast by the entire Board, including all the Independent Directors, determines (I) that the Company is insolvent (or, absent a material positive change in the Company's results of operations over the immediately succeeding 90 days from the results contained in the Company's regularly prepared projections, that the Company will become insolvent within 90 days), which determination is confirmed by written opinions of two nationally recognized investment banking firms that further opine (giving effect to the facts and circumstances applicable to the Company, including discussions with prospective equity investors) that the sale of equity securities is necessary to avoid or remedy such insolvency (the "Bankruptcy Opinions") and (II) that, after giving effect to the proposed issuance of additional equity securities (the "Permitted Bankruptcy Equity"), the Company would no longer be or not become "insolvent" in the time frame referred to in the Bankruptcy Opinions (the "Solvency Determination") and such issuance of Permitted Bankruptcy Equity satisfies the following three conditions: (X) such issuance does not exceed the amount determined by the Board to be reasonably necessary to allow the Board to make the Solvency Determination, (Y) a binding commitment for the sale of such Permitted Bankruptcy Equity is entered into within 90 days of the delivery of the Bankruptcy Opinions and (Z) the terms of the First Refusal Agreement have been complied with in all material respects by the Company, or (C) such issuance is pursuant to (I) the exercise, conversion or exchange of equity securities outstanding immediately prior to the Effective Time, (II) the Company's 1981 Stock Program, 1988 Restricted Stock Plan or Incentive Plan, each as amended in accordance with the Plan of Recapitalization, (III) the UAL Corporation 1992 Stock Plan for Outside Directors or (IV) any other equity incentive compensation plan approved by the affirmative vote of three quarters of the votes entitled to be cast by the entire Board, including all the Independent Directors.

Special Voting Provisions with Respect to Purchase and Sale of Common Stock

Until the Sunset, any purchases of New Shares by the Company (other than to fulfill its obligations to issue or retain New Shares in connection with the exercise of employee options issued pursuant to employee benefit plans or to retain New Shares in connection with tax withholding obligations in connection with the exercise of employee options or restricted stock), or any sale by the Company of any New Shares to a Company sponsored pension, retirement or other employee benefit plan for the account of employees (other than pursuant to the First Refusal Agreement or in connection with the creation and operation of the ESOPs to which the ESOP Preferred Stock is issued), whether for cash or non-cash consideration, including, without limitation, employee concessions, must be approved by a majority of the Board, including at least 80% of the votes of the Public Directors.

Rights Plan

The Rights Agreement between the Company and First Chicago Trust Company of New York, dated as of December 11, 1986, as amended (the "Rights Agreement"), which currently contains a "flip-in" trigger for the acquisition of 15% or more of the Old Shares, will be amended to provide that the transactions contemplated by the Recapitalization Agreement will not result in the Rights (as defined in the Rights Agreement) being triggered. In addition, effective immediately prior to the Effective Time, the Rights Agreement will be amended to provide that the ESOP Preferred Stock will have the same number of attached Rights associated as would be attached to the same number of New Shares to which the ESOP Preferred Stock will be convertible. See "DESCRIPTION OF SECURITIES--The Common Stock, the Series A Preferred Stock and the Junior Participating Preferred Stock--Junior Participating Preferred Stock--Preferred Share Purchase Rights."

Nondilution

As described under "DESCRIPTION OF SECURITIES--The Voting Preferred Stock--Voting Rights," at the Effective Time, the holders of Voting Preferred Stock will vote as a single class with the New Shares and will represent approximately 55% of the votes to be cast on matters submitted to the vote of the

New Shares and Voting Preferred Stock (other than the election of Directors and such matters for which a vote by separate class is required under the DGCL). The number of votes represented by such Voting Preferred Stock is subject to increase at the first anniversary of the Effective Time based on the market price of the New Shares during the first year following the Effective Time as described in "--Establishment of ESOPs--Additional Shares." The Voting Preferred Stock will generally continue to represent approximately 55% of the aggregate voting power of the New Shares and the Voting Preferred Stock, as adjusted under certain circumstances, until the Sunset.

Sunset

The "Sunset" will occur when (i) the New Shares issuable upon conversion of the outstanding ESOP Preferred Stock, plus (ii) any Common Equity and Book-Entry Shares (as defined below, see "--Establishment of ESOPs--Initial Sale of ESOP Preferred Stock") held in the ESOPs, in any other employee benefit plans sponsored by the Company or any of its subsidiaries for the benefit of its employees, represent, in the aggregate, less than 20% of the Common Equity and Book-Entry Shares of the Company. "Common Equity" is defined as, in the aggregate, the New Shares outstanding at the time in question and the New Shares issuable upon conversion of the ESOP Preferred Stock outstanding at the time in question, together with the New Shares represented by the Permitted Bankruptcy Equity outstanding at the time in question, if any, but excluding any equity or equity equivalent securities (other than Permitted Bankruptcy Equity) issued in connection with a Non-Dilutive Issuance, including, without limitation, any equity or equity equivalent securities outstanding immediately prior to the Effective Time that were not included in the calculation of the Fully Diluted Old Shares as set forth and defined in "--Terms and Conditions--General."

If the Sunset occurs, the Company will file a restated certificate of incorporation providing for more customary corporate governance provisions, the number of Directors will remain at twelve (of which three will be Employee Directors), the Outside Public Director Nomination Committee will nominate the Board's nominees for election of directors (other than the Employee Directors) to be elected by the stockholders at a meeting which will be held promptly thereafter and upon the effectiveness of such election the term of the then incumbent Directors will terminate, and there will be no special director or voting rights, except that (a) the ALPA Director will be elected by the holder of the Class Pilot MEC Preferred Stock until there are no longer any persons represented by ALPA (or any successor organization) employed by the Company or any affiliate (the "ALPA Termination Date"), the IAM Director will be elected by the holder of the Class IAM Preferred Stock until there are no longer any persons represented by the IAM (or any successor organization) employed by the Company or any affiliate (the "IAM Termination Date") and the Salaried and Management Director will be elected by the holders of the Class SAM Preferred Stock until the earlier of the ALPA Termination Date and the IAM Termination Date, each voting separately in a class, and (b) the Union Directors would continue to serve on Committees as provided below.

Under current actuarial assumptions, the Company estimates that the Sunset will occur in the year 2016 if no additional purchases were made by eligible employee trusts and retirement plans. However, employees have the right to, and may be expected to, make additional purchases through such trusts and plans that will have the effect of delaying the Sunset. In certain circumstances described under "DESCRIPTION OF SECURITIES--The Director Preferred Stock--Uninstructed Trustee Action," the Sunset may not occur until 2010 even though the conditions for the Sunset have occurred.

Committees

The Restated Certificate provides that until the Sunset the following committees will constitute the Board Committees: the Audit Committee, the Competitive Action Plan ("CAP") Committee, the Compensation Committee, the Compensation Administration Committee, the Executive Committee, the Independent Director Nomination Committee, the Labor Committee, the Outside Public Director Nomination Committee and the Transaction Committee (collectively, the "Committees"). In addition, the Board may, by resolution passed by the affirmative vote of 80% of the votes of the entire Board, including

the affirmative vote of at least one Union Director, designate one or more other committees of the Board. Except as provided below, any act of a Committee will require the affirmative vote of a majority of the votes entitled to be cast by the Directors present at a meeting of such Committee and entitled to vote on the matter in question. The Restated Certificate contains certain provisions relating to the required quorum for committee action.

The Audit Committee will consist of the four Independent Directors and the three Outside Public Directors or such fewer number of such Directors (in as nearly as practicable that same proportion of Independent Directors and Outside Public Directors) as shall qualify for audit committee membership under applicable rules of the securities exchanges or other similar trading market on which the New Shares are traded. The Audit Committee will be primarily concerned with (i) reviewing the professional services and independence of the Company's independent auditors and the scope of the annual external audit as recommended by the independent auditors, (ii) ensuring that the scope of the annual external audit is sufficiently comprehensive, (iii) reviewing, in consultation with the independent auditors and the internal auditors, the plan and results of the annual external audit, the adequacy of the Company's internal control systems and the results of the Company's internal audits, and (iv) reviewing, with management and the independent auditors, the Company's annual financial statements, financial reporting practices and the results of each external audit. The Audit Committee will also have the authority to consider the qualifications of the Company's independent auditors, to make recommendations to the Board as to their selection and to review and resolve disputes between such independent auditors and management relating to the preparation of the annual financial statements.

The CAP Committee will consist of eight Directors, including four Public Directors, two Independent Directors and the two Union Directors. Of the four Public Directors, three will be Outside Public Directors and one shall be the CEO (if the CEO is a Public Director). The two Independent Director members shall be appointed by the Independent Director Nomination Committee which appointment will require the affirmative vote of all of the votes entitled to be cast by the Independent Directors. The function of the CAP Committee will be to oversee implementation of the Company's Competitive Action Plan. The CAP Committee will have the exclusive authority, acting for and on behalf of the Board and consistent with the protection of the interests of the holders of New Shares, to approve on behalf of the Company any and all modifications of or amendments to the Competitive Action Plan. However, to the extent such modifications or amendments relate to changes to any provision of the revised Collective Bargaining Agreements with the IAM and ALPA, the two Union Directors on the CAP Committee will neither be entitled to vote nor be counted in determining the presence of a quorum of such committee in connection therewith. Notwithstanding the foregoing, only the Labor Committee may approve on behalf of the Company any such changes to such Collective Bargaining Agreements. In addition, the CAP Committee will have the exclusive authority, acting for and on behalf of the Board, to approve on behalf of the Company any and all modifications of or amendments to the salaried and management employee investment described in "--Investment for Salaried and Management Employees". Such modifications or amendments must be approved by the affirmative vote of at least a majority of the votes of the entire CAP Committee, including at least two Union Directors and all of the Outside Public Directors.

The Compensation Committee will consist of seven Directors, including two Independent Directors, two Public Directors and the three Employee Directors. Of the two Public Directors, one will be an Outside Public Director appointed by the Outside Public Director Nomination Committee, and one will be the CEO (if the CEO is a Public Director). The two Independent Directors members will be appointed by the unanimous approval of the Independent Director Nomination Committee. The principal functions of the Compensation Committee will be to review and recommend to the Board the compensation and benefit arrangements to be established for the officers of the Company and to review general policy matters relating to compensation and benefit arrangements of non-union employees of the Company. The Compensation Committee will also administer the stock option plans and executive compensation programs of the Company, including bonus and incentive plans applicable to officers and key employees of the Company. Subject to the

final approval of the Compensation Committee (except as described in the following paragraph), the Compensation Committee may delegate to the Compensation Administration Committee specific responsibilities with respect to the compensation of the CEO.

The Compensation Administration Committee will consist of two Independent Directors and one Outside Public Director, each of whom will be (a) a "disinterested person" or "disinterested administrator" or any related successor concept under Rule 16b-3 (or any successor provision) promulgated pursuant to Section 16 of the Exchange Act and (b) an "outside director" or any related successor concept under Section 162(m) (or any successor provision) of the Code. The Outside Public Director will be appointed by the Outside Public Director Nomination Committee. The two Independent Directors will be appointed by the Independent Director Nomination Committee, which appointment shall require the affirmative vote of all the Independent Directors. The principal function of the Compensation Administration Committee will be to administer the stock option plans and executive compensation programs of the Company to the extent such functions cannot or are not appropriate to be performed by the Compensation Committee in light of any provision of the Internal Revenue Code, the securities laws, any other applicable law or any regulations promulgated under any of the foregoing. Any action of the Compensation Administration Committee must also be approved by the Compensation Committee, unless such approval would prevent a stock option plan that is intended to qualify under Rule 16b-3 (or any successor provision) from receiving the benefits of Rule 16b-3 or such approval would prevent an executive compensation program (on a component thereof), that is intended to qualify for an exception under Section 162(m) (or any successor provision) from qualifying for such exception.

The Executive Committee will be comprised of two Independent Directors, two Public Directors (the CEO, if the CEO is a Public Director, and one Outside Public Director) and two Union Directors. Subject to the DGCL, the Executive Committee will have all the powers of the Board to manage the affairs of the Company except that it would not have the authority to act with respect to any of the "Extraordinary Matters" discussed above, to take any action as to matters specifically vested in other Committees or take any action that may be taken by the Board only with a vote greater than or additional to a majority of the Board. In the event a new CEO is to be selected prior to the Sunset, the Executive Committee will function as a search committee to identify a successor CEO.

The Labor Committee will consist of three or more Directors, including one Outside Public Director, at least one Independent Director and at least one other Director, as designated by the Board, but will not include any Employee Directors. The Labor Committee will have the exclusive authority on behalf of the Board to approve on behalf of the Company the entering of, or any modification or amendment to, a collective bargaining agreement to which the Company or any of its subsidiaries is a party.

The Transaction Committee will consist of seven Directors, consisting of the four Independent Directors and the three Outside Public Directors. The function of the Transaction Committee will be to evaluate and advise the Board with respect to any proposed merger or consolidation of the Company or any of its Subsidiaries with or into, the sale, lease or exchange of all or substantially all of the Company's or any of its Subsidiaries' property or assets to, or a significant business transaction with any Labor Affiliate.

Amendment and Restatement of the Bylaws

Pursuant to the Plan of Recapitalization the Company's Bylaws will be amended and restated (the "Restated Bylaws"). The Restated Bylaws provide that until the Sunset many matters will be governed by the Restated Certificate including, among others: (i) quorum requirements at any meeting of the stockholders, the Board or any Board Committee; (ii) number, composition and term of office of directors; (iii) removal of Directors; (iv) filling of vacancies on the Board and on Board Committees; (v) designation of Board Committees; (vi) the composition, function and powers of the Executive Committee; (vii) the appointment, term of office, filling of vacancies and removal of officers of the Company; and (viii) any substantive

amendment to the Restated Bylaws. Furthermore, the Restated Bylaws provide that, subject to certain exceptions, following the Sunset many provisions of the existing Bylaws of the Company will be reinstated.

In addition, the Restated Bylaws provide, among other things, for other changes to the existing Bylaws including, but not limited to the following: (i) the ability, until the Sunset, of any two directors, the CEO or the secretary of the Company to call a special meeting of the Board; (ii) until the Sunset, subject to the fiduciary obligations of the directors, the CEO will be elected as one of the Management Public Directors; (iii) the term of the CEO (other than Mr. Greenwald as the initial CEO) will automatically terminate if he is not elected as Management Public Director by the stockholders at the first meeting of stockholders for the election of directors at which he is eligible for nomination as a Management Public Director; and (iv) until the Sunset, non-substantive amendments to the Restated Bylaws may be adopted either by a majority vote of the entire Board or by 75% in the voting power of the stock entitled to vote at a stockholder meeting in which a quorum is present. In addition, the Restated Bylaws contain other procedural sections, some of which operate only until the Sunset and some of which become operative only after the Sunset.

TERMS AND CONDITIONS

General

The Plan of Recapitalization provides for the reclassification of the Old Shares and other amendments to the Company's Certificate of Incorporation and Bylaws. Immediately prior to the Effective Time each outstanding Old Share, including each share of restricted stock issued pursuant to the 1988 Restricted Stock Plan (which will vest upon the Effective Time if not vested prior thereto), together with up to 1,000,000 Old Shares held by the Company as treasury stock or owned by any wholly-owned subsidiary of the Company immediately prior to the Effective Time, will, without any further action on the part of the holder thereof, be reclassified as, and converted into, (i) one half (0.5) of a New Share, and

(a) if the Offerings are consummated, one one-thousandth of a share of Series E Redeemable Preferred Stock, which one one-thousandth of a share will be redeemed immediately after issuance, for an amount of cash equal to the sum of (A) \$25.80, (B) the proceeds (without deducting the underwriting discount and other costs) from the sale by United of \$15.55 face amount of Series A Debentures and \$15.55 face amount of Series B Debentures and (C) the proceeds (without deducting the underwriting discount and other costs) from the sale by the Company of 1.244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock (under various circumstances the proceeds of the sale of the Debentures and the Depositary Preferred Shares could be less than their face amount) or

(b) if the Offerings are not consummated, one one-thousandth of a share of Series D Preferred Stock which one one-thousandth of a share will be redeemed immediately after issuance for (i) \$25.80 in cash, (ii) \$15.55 face amount of Series A Debentures, (iii) \$15.55 face amount of Series B Debentures and (iv) 1.244 Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock.

The New Shares and cash distributed in respect of Old Shares if the Offerings are consummated are referred to herein as the "Proceeds Recapitalization Consideration." The New Shares, cash, Debentures and Depositary Preferred Shares distributed in respect of Old Shares if the Offerings are not consummated and are referred to herein as the "Mixed Recapitalization Consideration." The Proceeds Recapitalization Consideration and the Mixed Recapitalization Consideration are each sometimes referred to herein as the "Recapitalization Consideration." The New Shares to be issued in the Recapitalization will represent an equity interest (based on the Fully Diluted Old Shares described below and taking into account the 0.5 common stock exchange ratio and taking into account the shares of ESOP Preferred Stock the Company is initially obligated to issue) immediately after the Recapitalization of 45% of one Old Share's current percentage equity interest. Such equity interest is subject to adjustment as described below under "--Establishment of ESOPs--Additional Shares."

"Fully Diluted Old Shares" were calculated as follows: the sum of (i) Old Shares outstanding (net of unvested restricted shares), (ii) unvested restricted shares, (iii) net options shares issued assuming the treasury stock method of accounting (pursuant to which the deemed proceeds to the Company from the deemed

exercise of in-the-money options are applied to repurchase shares for the treasury at an assumed market price per Old Share of \$173) and (iv) shares issuable upon conversion of the Series A Preferred Stock. Due to their high conversion premium, the Air Wis Services, Inc. 7 3/4% Convertible Subordinated Debentures Due 2010 and Air Wis Services, Inc. 8 1/2% Convertible Subordinated Notes Due 1995 were not assumed to be converted and were not included in the calculation of Fully Diluted Old Shares. The number of Fully Diluted Old Shares, as shown below, is fixed for purposes of the Plan of Recapitalization and the issuance of shares of ESOP Preferred Stock to the ESOPs although the actual number of Old Shares that are reclassified pursuant to the Recapitalization may change due to vesting of restricted stock and the exercise of options:

| | |
|---|------------|
| Old Shares (net)..... | 24,450,896 |
| Unvested restricted shares..... | 119,643 |
| Option shares (net)..... | 521,780 |
| Old Shares upon conversion of Series A Preferred Stock..... | 3,833,866 |
| | ----- |
| Fully Diluted Old Shares..... | 28,926,185 |
| | ----- |

Because the calculation of Fully Diluted Old Shares is based on the exercise of net option shares (using the treasury stock method) and the conversion of all the Series A Preferred Stock, neither of which is expected to occur at the Effective Time, the New Shares then outstanding are expected to represent less than 47% of the Common Equity of the Company (taking into account the New Shares and the ESOP Preferred Stock only) at the Effective Time.

As contemplated by the Plan of Recapitalization, the Company has elected to issue Depositary Preferred Shares, each representing an interest in one one-thousandth of a share of Public Preferred Stock, which is the equivalent of \$25 liquidation preference of Public Preferred Stock. Each share of Public Preferred Stock will have a liquidation preference of \$25,000. See "Description of Securities--The Depositary Preferred Stock."

Effective Time

The Recapitalization, the Stock Issuance, the amendments to the 1981 Stock Program, the 1988 Restricted Stock Plan and the Incentive Plan and the revised Collective Bargaining Agreements with ALPA and the IAM will become effective at such time as the Restated Certificate, which provides for the reclassification of the Old Shares, is duly filed with the Secretary of State of the State of Delaware or at such later time as may be mutually agreed upon by the Company and each of ALPA and the IAM and as is specified in the Restated Certificate (the "Effective Time"). The filing of the Restated Certificate is currently anticipated to be made as promptly as practicable after the Meeting. Such filing shall be made, however, only upon satisfaction or, where permissible, waiver of all conditions contained in the Plan of Recapitalization and provided that the Plan of Recapitalization has not been terminated. See "--Terms and Conditions" and "--Termination." If the Offerings are consummated, it is expected that they will be consummated at or prior to the Effective Time.

Payment for Shares

As soon as practicable after the Effective Time, the Company will send or cause First Chicago Trust Company of New York (the "Exchange Agent") to send and otherwise make available a letter of transmittal to each record holder of Old Shares as of the Effective Time to be used to transmit a certificate or certificates that immediately prior to the Effective Time represented Old Shares (an "Old Certificate" or "Old Certificates") to the Exchange Agent. Such letter of transmittal will advise the holder of the effectiveness of the Recapitalization and the procedures for surrendering to the Exchange Agent the Old Certificate or Certificates for exchange into Recapitalization Consideration and will specify that the delivery will be effected

and the risk of loss and title will pass, only upon proper delivery of the Old Certificate or Certificates to the Exchange Agent. Stockholders should surrender the Old Certificate or Certificates only together with a letter of transmittal. STOCKHOLDERS SHOULD NOT SEND ANY STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD.

Each holder of Old Shares that have been converted into the right to receive the Recapitalization Consideration, upon surrender to the Exchange Agent of the Old Certificate or Certificates together with a properly completed letter of transmittal, will be entitled to receive the Recapitalization Consideration for each Old Share formerly represented by such Old Certificate. Until so surrendered, each Old Certificate will, after the Effective Time, represent for all purposes only the right to receive such Recapitalization Consideration. If any payment of the Recapitalization Consideration is to be made to a person other than the registered holder of the Old Shares, the Old Certificates so surrendered must be properly endorsed or otherwise be in proper form for transfer, and any applicable transfer or other taxes must have been paid to the Exchange Agent by the person requesting such payment or such person must have established to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

In the event any Old Certificate is lost, stolen or destroyed, based on an affidavit to that fact by the person claiming such Old Certificate to be lost, stolen or destroyed, the Company will issue in exchange for such lost, stolen or destroyed Old Certificate the Recapitalization Consideration deliverable in respect thereof. When authorizing such issue of the Recapitalization Consideration in exchange therefor, the Company may, in its discretion and as a condition precedent to the issuance thereof, require the person claiming ownership of such lost, stolen or destroyed Old Certificates to give the Company a bond in such sum as it may direct, or otherwise indemnify the Company in a manner satisfactory to it, against any claim that may be made against the Company with respect to the Old Certificates alleged to have been lost, stolen or destroyed.

After the Effective Time, there will be no further registration of transfers of Old Shares. If, after the Effective Time, Old Certificates representing Old Shares are presented to the Company or its transfer agent, such Old Certificates will be cancelled and exchanged for the Recapitalization Consideration.

Fractional New Shares and, if the Offerings are not consummated, fractional Depositary Preferred Shares (based on \$25 of liquidation preference value per Whole Depositary Preferred Share) and fractional Debentures (based on \$100 principle amount per whole Debenture) will not be issued as part of the Recapitalization and such fractional interests will not entitle the beneficial or record owner thereof to any rights of a stockholder or creditor of the Company. In lieu of any fractional New Shares and, if applicable fractional Depositary Preferred Shares and fractional Debentures to which a former holder of Old Shares otherwise would be entitled, such holder will be entitled to receive from the Exchange Agent a cash payment based on pro-rata distribution of the proceeds received by the Exchange Agent from the sale of the aggregate fractional New Shares, fractional Depositary Preferred Shares and fractional Debentures. Such cash payments will be made to each such holder of Old Shares only upon proper surrender of such holder's Old Certificates formerly representing Old Shares, together with a properly completed and duly executed transmittal letter and any other required documents.

All Recapitalization Consideration, including cash in lieu of fractional interests, if not claimed at the first anniversary of the Effective Time, will be transferred by the Exchange Agent to the Company, after which time persons entitled thereto may look, subject to applicable escheat and other similar laws, only to the Company for payment thereof. No interest will be paid or accrued on any portion of the Recapitalization Consideration, including cash in lieu of fractional interests. No dividends or other distributions declared or made after the Effective Time with respect to New Shares with a record date after the Effective Time will be paid to the holder of any unsurrendered Old Certificate or Certificates with respect to the New Share that such holder is entitled to receive until the holder of such Old Certificate or Certificates has properly surrendered the same.

Stock Options

Upon consummation of the Recapitalization, each outstanding employee stock option of the Company granted under any employee stock option or compensation plan or arrangement of the Company will remain

outstanding, each such option then held by employees or former employees of the Company, whether or not then vested or exercisable immediately prior to the Effective Time (collectively, the "Options"), if provided by the terms thereof (or if accelerated in accordance with the relevant plan) will become fully vested and exercisable and after the Effective Time each option will thereafter represent the right to receive, in exchange for the aggregate exercise price for such option, the Recapitalization Consideration with respect to each Old Share that such holder would have been entitled to receive had such holder been vested in such option and exercised such option in full immediately prior to the Effective Time. If the Offerings are consummated, holders of Options who exercise their Options after the Effective Time will receive the Proceeds Recapitalization Consideration upon such exercise, and if the Offerings are not consummated, they will receive the Mixed Recapitalization Consideration upon such exercise.

Convertible Company Securities

Each share of Series A Preferred Stock and each of the Air Wis Services, Inc. 7 3/4% Convertible Subordinated Debentures Due 2010 and the Air Wis Services, Inc. 8 1/2% Convertible Subordinated Notes Due 1995 (collectively, the "Convertible Company Securities") outstanding immediately prior to the Effective Time will remain outstanding, and each holder of any such Convertible Company Security will have the right to receive the Recapitalization Consideration with respect to each Old Share that such holder would have been entitled to receive upon conversion had such holder converted such Convertible Company Security in full immediately prior to the Effective Time. If the Offerings are consummated, holders of Convertible Company Securities who convert their securities after the Effective Time will receive the Proceeds Recapitalization Consideration upon such conversion, and if the Offerings are not consummated, they will receive the Mixed Recapitalization Consideration upon such conversion.

Treasury Shares

Pursuant to the Plan of Recapitalization, each Old Share held by the Company as treasury stock or owned by any wholly-owned subsidiary of the Company immediately prior to the Effective Time (the "Treasury Shares"), up to a maximum of 1,000,000 Treasury Shares (the "Retained Treasury Shares"), will be reclassified and converted into the Recapitalization Consideration, with all Treasury Shares in excess of 1,000,000 being surrendered for cancellation immediately prior to the Effective Time and no payment shall be made with respect thereto. Immediately following the Effective Time, the Company and each of its wholly owned subsidiaries will surrender for cancellation the Redeemable Preferred Stock received upon reclassification of the Retained Treasury Shares and no payment will be made in respect thereof.

Pricing the Securities

Under the Plan of Recapitalization, the interest rate on the Series A Debentures has been fixed provisionally at 9.00%, the interest rate on the Series B Debentures has been fixed provisionally at 9.70% and the dividend rate on the Public Preferred Stock has been fixed provisionally at 10.25% (the "Initial Pricing"). On the Trading Day immediately preceding the Announcement Date (as defined below), CS First Boston (in consultation with Lazard) on behalf of the Company and Keilin & Bloom (or such other investment banking firm as may be reasonably selected by the Unions) on behalf of the Unions (the "Primary Banking Firms") will seek to mutually determine the interest or dividend rate that each of the Debentures and the Public Preferred Stock should bear in order for the Debentures and Depositary Preferred Shares to trade at par as of the close of business, New York time, on the last day on which the NYSE is open for business ("Trading Day") immediately preceding the Announcement Date, assuming that the Debentures or the Depositary Preferred Shares were fully distributed on such Trading Day. "Announcement Date" means a Trading Day that will be not fewer than five calendar days nor more than ten calendar days preceding the date of the Meeting, such date to be disclosed to the Unions not fewer than ten calendar days prior thereto. If the Primary Banking Firms are unable to agree on the applicable rate of the Public Preferred Stock and the Debentures (the "Applicable Rates") with respect to a specified security, then (i) a third financial advisor identified by the

Company and the Unions (the "Deadlock Firm"), will render its opinion, on the Trading Day immediately preceding the Announcement Date, as to the Applicable Rate with respect to such securities, and (ii) the Applicable Rate with respect to such security or securities will be the average of the two closest rates specified in the opinions of the Primary Banking Firms and the Deadlock Firm, rounded to the nearest one-hundredth of a percent, provided, however, that, while there is no limitation on a downward adjustment, in no event shall the Applicable Rate with respect to the Debentures or the Public Preferred Stock exceed 10.125% in the case of the Series A Debentures, 10.825% in the case of the Series B Debenture and 11.375% in the case of the Public Preferred Stock. See "SPECIAL FACTORS--Certain Risk Factors--Investment Values; Future Investments."

The underwriting agreements relating to the Offerings will provide that if the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Preferred Stock may be adjusted to permit the Debentures and the Depositary Preferred Shares to be sold at or closer to par, but if that is done, the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares representing interests in the Public Preferred Stock, as the case may be, will be reduced so that the aggregate amount of interest payable annually by United on the Debentures or the aggregate amount of dividends payable annually by the Company on the Public Preferred Stock will not exceed certain maximum amounts calculated in reference to such caps. If the Offerings are not consummated, the interest rates borne by the Debentures and the dividend rate borne by the Public Preferred Stock will be subject to the caps. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

On the Announcement Date, the Company will issue a press release setting forth the adjusted rate for the Debentures and the Public Preferred Stock and, on the first business day following the Announcement Date, will publish such rates in an advertisement in The Wall Street Journal. A toll-free number (800-223-2064) has been established from which all holders of Old Shares can obtain general information concerning the Announcement Date. As of the Announcement Date, holders of the Old Shares can call the toll-free number to obtain definitive pricing information. See also "SPECIAL FACTORS--Certain Risk Factors--Pricing the Public Preferred and the Debentures."

The information concerning the pricing will include a statement of whether the Company expects the Offerings to be consummated and, if so, the amount of the cash proceeds expected to be received from the sale of the Debentures and Depositary Preferred Shares that are issuable in respect of each Old Share. A statement that the Company expects the Offerings to be consummated will not be an assurance that the Offerings will be consummated.

The provisional rates of interest that the Debentures will bear and the maximum rates of interest that they may bear upon adjustment are based upon the assumption that the Debentures will not be callable prior to their respective stated maturities. The Plan of Recapitalization provides that the Unions may request, a reasonable period of time prior to the Announcement Date, that either or both of the series of Debentures may be callable pursuant to redemption provisions to be established for each of the Debentures. If so requested, the Primary Banking Firms will establish the incremental increase in pricing resulting from the addition of the call feature on either or both of the series of Debentures, as the case may be, above the Applicable Rate, with any disagreement to be resolved with the assistance of the Deadlock Firm. The Coalition may withdraw the request for a call feature at any time up to the issuance of the press release on the Announcement Date.

Record and Payment Dates

If the Offerings are not consummated, the quarterly record dates (and corresponding dividend payment dates) for the payment of dividends on the Public Preferred Stock (through the Depositary Preferred Shares) will be the same as the quarterly record dates (and corresponding dividend payment dates) for the payment of dividends on the Series A Preferred Stock and the semi-annual record dates (and corresponding interest payment dates) for the payment of interest on the Debentures will be the same as two of the quarterly record

dates (and corresponding dividend payment dates) for the payment of dividends on the Series A Preferred Stock.

Purchase of ESOP Preferred Stock

The Preferred Stock Purchase Agreement, originally dated as of March 25, 1994 and amended as of May , 1994, between the Company and the ESOP Trustee (the "ESOP Stock Purchase Agreement"), provides for the initial purchase by the Qualified ESOP (as defined below, see "Establishment of ESOPs--Sales of ESOP Preferred Stock") of the Class 1 ESOP Preferred Stock for a price equal to 1.38 times the average closing price of the New Shares as of the Effective Time, which average closing price will be determined as the greater of the value of a New Share at the Effective Time or 98% of two times the average price of an Old Share in the five trading days prior to the Effective Time, less the value of the Recapitalization Consideration (other than New Shares) issued with respect to an Old Share at the Effective Time. See "--Establishment of ESOPs--Sales of ESOP Preferred Stock." The ESOP Stock Purchase Agreement also provides that additional sales of Class 1 ESOP Convertible Preferred Stock will be made to the ESOP Trustee on the first day of the thirteenth month after the Effective Time (or, if earlier, September 1, 1995), on each of the next four anniversaries of such date, and on January 1, 2000. The price for the subsequent sales will be as agreed upon between the Company and the ESOP Trustee. The Company may make the subsequent sales at earlier times, provided that earlier sales shall not alter the timing of the allocation of shares to participants' accounts. If agreements cannot be reached with the ESOP Trustee to make the subsequent sales, the Company will consolidate the shares which would have been sold. For additional information concerning the purchase of the Class 1 ESOP Preferred Stock and for information on the Class 2 ESOP Preferred Stock, see "--Establishment of ESOPs--Sales of ESOP Preferred Stock." In addition, pursuant to the Plan of Recapitalization, the dividend rate on the Class 1 ESOP Preferred Stock may not be more than 7% of the initial purchase price, without the consent of ALPA the IAM.

Representations and Warranties

The Plan of Recapitalization contains various customary representations and warranties relating to, among other things, (a) on the part of the Company, as to, (i) organization and similar corporate matters, (ii) authorization, execution, delivery, performance and enforceability of the Plan of Recapitalization and related matters, (iii) capital structure, (iv) subsidiaries, (v) documents filed by the Company with the Commission and the accuracy of information contained therein, (vi) absence of material changes with respect to the business of the Company since December 31, 1993, (vii) generally, subject to certain exceptions, compliance with the "status quo" provisions of the Agreement in Principle which are substantially similar to the provisions of the first paragraph below under "--Certain Covenants" during the period from December 22, 1993 until March 25, 1994 and (viii) the opinion of financial advisors as to the fairness of the Recapitalization Consideration, and (b) on the part of each of the Unions, as to, (i) organization and similar matters and (ii) authorization, execution, delivery, performance and enforceability of the Plan of Recapitalization.

Certain Covenants

Pursuant to the Plan of Recapitalization, the Company agreed that during the period from the date of the Plan of Recapitalization until the Effective Time, the Company and its subsidiaries will be subject to certain restrictions on their conduct and will generally only take actions in the ordinary course of business consistent with past practice; in particular, the Company and its subsidiaries may not, among other things, without the prior written consent of the Unions, subject to certain agreed upon exceptions: (i) issue, sell, dispose of, pledge or otherwise encumber any equity securities of the Company or any subsidiary (or securities exercisable into or for such securities), (ii) reclassify, combine, split, subdivide, redeem, purchase or otherwise acquire any securities of the Company, (iii) declare or pay any dividend or distribution on the Old Shares, (iv) increase the compensation of any of its directors, officers or key employees, or increase its expenses relating to employee benefits, (v) incur any material amount of long-term indebtedness, make any material

loans, advances or capital contributions to any other person, mortgage or pledge any of its material assets or (vi) enter into any agreement or arrangement to do any of the foregoing. The Company also agreed, among other things, subject to certain exceptions until the Effective Time (i) not to take any actions that would violate or be inconsistent with the job protection provisions of the collective bargaining agreements with each of the Unions, (ii) not to take any action relating to certain matters requiring supermajority votes under the Restated Certificate (as discussed above under "--Revised Governance Structure--Extraordinary Matters") and (iii) not to alter or amend the Board's resolutions or any of its policies, practices, procedures or employee benefit plans in any manner that would adversely affect the right or ability of the employees of the Company or United to purchase equity securities of the Company. The Company has agreed to restore certain severance benefits to former employees of United who have been terminated as a result of the sale of United's flight kitchens to Dobbs or Caterair. These severance benefits had been in effect from December 22, 1993, upon execution of the Agreement in Principle, until March 15, 1994, when the "status quo" provision of the Agreement in Principle terminated.

In addition to the covenants described above, the Company agreed to take actions that will facilitate the implementation of the Plan of Recapitalization. In particular, the Company agreed, among other things, (i) subject to receipt of updated fairness opinions from CS First Boston and Lazard, to convene a meeting of stockholders to approve each of the Plan of Recapitalization, the Restated Certificate, the election of the initial Public Directors to the Board of Directors of the Company and the issuance of the ESOP Preferred Stock as part of the Recapitalization (the "Shareholder Vote Matters"), the approval of each such matter will be conditioned on approval of all such matters, and amendments to the Company's 1981 Incentive Stock Plan and 1988 Restricted Stock Plan and Incentive Compensation Plan (the "Company Plan Matters"), in connection with which the Company agreed to prepare, file with the Commission and mail to its stockholders this Proxy Statement, (ii) to provide each of ALPA and the IAM and their agents with reasonable access to offices, employees, properties, books and records of the Company and its Subsidiaries in connection with the Plan of Recapitalization and the transactions contemplated thereby, (iii) subject to certain exceptions, not to encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any other person concerning any merger, sale of assets, sale of, or tender or exchange offer for, shares of capital stock or similar transaction, involving a change of control of the Company or all or substantially all of the assets of the Company (an "Acquisition"), (iv) to provide each of ALPA and the IAM with notices of certain significant events, (v) to amend the directed account plans, 401(k) plans and stock purchase plan maintained by the Company and United to permit employees of the Company and United following the Effective Time to acquire, in addition to amounts held in the ESOPs, the following securities: (X) up to the lesser of (1) 30% of the outstanding New Shares held by persons other than the ESOPs and (2) 20% of the aggregate number of outstanding New Shares and New Shares issuable upon conversion of the ESOP Preferred Stock and (Y) except with respect to the Company's stock purchase plan, up to (1) 20% of the outstanding Depository Preferred Shares, (2) 20% of the outstanding principal amount of Series A Debentures and (3) 20% of the outstanding principal amount of Series B Debentures, subject to the following additional limits: (A) no employee group of the Company or its subsidiaries may individually acquire more than 10% of any class of securities referred to in clause (X) and (Y) above through such plans, (B) in the case of the directed account plans, no "Employee Group" (defined as each of ALPA, the IAM and the salaried and management employees) may individually acquire more than 2% of any such class of securities in any monthly subscription period through such plans, (C) no Employee Group may individually acquire more than 2% of the outstanding New Shares held by persons other than the ESOPs (in addition to New Shares received in the Recapitalization) through such plans during the six-month period beginning at the Effective Time and (D) no New Shares may be acquired through such plans during the six-month period ending on the last day of the Measuring Period, (vi) to cause United to execute and deliver new collective bargaining agreements or amendments to existing collective bargaining agreements with each of ALPA and the IAM and to establish and cause United to establish appropriate employment terms for the employees of the Company and United who perform the functions currently performed by the salaried and management employees of the Company and United, (vii) to retain an appraisal firm to provide an opinion in writing as to whether the Company would have sufficient surplus under the DGCL to permit the consummation of the

Recapitalization (the "Solvency Letter") and that if the appraisal firm concludes that sufficient surplus is so available, the Board will take all lawful and appropriate action to revalue the Company's assets and liabilities to permit consummation of the Recapitalization and (viii) to execute at the Effective Time the Greenwald Agreement and to perform all of its obligations under such agreement and to execute and deliver prior to the Effective Time all the documents and agreements required to be executed and delivered by the Company pursuant to the Plan of Recapitalization including documents and agreements relating to the Debentures and the Depositary Preferred Shares, the purchase of stock by the ESOPs (including the ESOP Stock Purchase Agreement), the establishment of the ESOP Trusts, the retention and conduct of the Exchange Agent, the subscription agreements relating to the various classes of stock to be issued as part of the Recapitalization, the amendment to the Rights Agreement, the Class I Stockholders' Agreement, the Class SAM Stockholders' Agreement and the First Refusal Agreement (collectively, the "Closing Agreements").

Pursuant to the Plan of Recapitalization, each of ALPA and the IAM agreed, among other things, (i) prior to the Effective Time and after any termination of the Plan of Recapitalization to hold confidential information received from the Company and its subsidiaries in confidence, (ii) to execute and deliver prior to the Effective Time the relevant Collective Bargaining Agreement between each Union and the Company, (iii) not to nominate or cause to be nominated any Outside Public Director and (iv) to use their best efforts to cause any Independent Director vacancy to be filled.

Pursuant to the Plan of Recapitalization, each of ALPA and the IAM and the Company mutually agreed, among other things, (i) to use their best efforts to consummate the Plan of Recapitalization and (ii) to cooperate in connection with preparation and filing of documents with any governmental agency or authority. In addition, if the AFA will agree to provide, in the sole judgment of the Company, an investment equal to \$416 million (present value in January 1994 dollars), then the parties, should an agreement be reached on all aspects of the AFA's participation (e.g., governance), will revise all applicable documents to reduce the investment period for ALPA, the IAM and the salaried and management employees by nine months and to distribute 12.62 percentage points of the ESOP Preferred Stock to the AFA on the following basis: 5.83 percentage points of the ALPA stock, 4.69 percentage points of the IAM stock, and 2.10 percentage points of the salaried and management employee stock.

Conditions

Pursuant to the Plan of Recapitalization, the obligation of the Company to file the Restated Certificate at the Effective Time and the obligations of each of the Unions to enter into the revised Collective Bargaining Agreements at the Effective Time are subject to the satisfaction of the following conditions, among others: (i) the Shareholder Vote Matters have been approved and adopted by the stockholders of the Company in accordance with the Certificate of Incorporation and Bylaws of the Company and in accordance with the DGCL, (ii) any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 relating to the Recapitalization has expired or terminated, (iii) the Registration Statement has become effective under the Securities Act and is not the subject of any stop order or governmental proceedings seeking a stop order, (iv) all material actions by or in respect of or filings with any governmental body, agency, official, or authority required to permit the consummation of the Recapitalization have been obtained, (v) the New Shares issuable as part of the Recapitalization (including New Shares issuable upon conversion of the ESOP Preferred Stock and upon conversion of the Convertible Company Securities) have been authorized for listing on the NYSE subject to official notice of issuance, (vi) there has been no change in the DGCL enacted or any applicable decision of a court of competent jurisdiction decided after the date of the Plan of Recapitalization and prior to the Effective Time that would cause the Restated Certificate or Restated Bylaws to fail to comply in any material respect with the applicable provisions of the DGCL, (vii) the ESOP Trustee has received the written opinion of Houlihan Lokey, to the effect that, as of the Effective Time, the acquisition of the ESOP Preferred Stock by the ESOPs is fair, from a financial point of view, to the ESOP participants, (viii) the Board has received an updated Solvency Letter and (ix) (A) there has not been instituted or pending any action, proceeding, application, claim, or counterclaim by any United States Federal, state or local government or governmental authority or agency, including the Department of Transportation, before any court or

governmental regulatory or administrative agency, authority or tribunal, that (x) restrains or prohibits or is reasonably likely to restrain or prohibit the making or consummation of, or is reasonably likely to recover material damages or other relief as a result of, the Recapitalization, or the receipt by holders of the Old Shares of the full amount of the Recapitalization Consideration, or restrains or prohibits or is reasonably likely to restrain or prohibit the performance of, or is reasonably likely to recover material damages or other relief as a result of, the Plan of Recapitalization or any of the transactions contemplated thereby or (y) prohibits or limits or seeks to prohibit or limit the ownership or operation by either Union, the ESOP Trustee, any of the ESOPs or any participant therein of all or any substantial portion of the capital stock, business or assets of the Company or any of its subsidiaries or compels or seeks to compel either Union, the ESOP Trustee, any of the ESOPs or any participant therein to dispose of or hold separate all or any substantial portion of the capital stock, business or assets of the Company or any of its subsidiaries or imposes or seeks to impose any material limitation on the ability of either Union, the ESOP Trustee, any of the ESOPs or any participant therein, to conduct such business or own such assets, (B) there has not been instituted or be pending any action, proceeding, application, claim or counterclaim by any other person, before any such body, that is reasonably likely to result in any of the consequences referred to in clauses (A)(x) or (A)(y) above, and (C) there has not been any United States Federal, state or local statute, rule, regulation, decree, order or injunction promulgated, enacted, entered, or enforced by any United States Federal, state or local government agency or authority or court, that has any of the effects referred to in clauses (A)(x) or (A)(y) above, (x) all conditions to the obligations of the parties to the Closing Agreements to consummate such transactions have been satisfied or are capable of being satisfied concurrently upon the occurrence of the Effective Time, (xi) Mr. Greenwald (or such other person as will be proposed by the Unions prior to the Effective Time and not found unacceptable by the Company) will be ready, willing and able to assume the office of CEO of the Company and United and such other person as will be proposed by the Unions prior to the Effective Time and not found unacceptable by the Company will be ready, willing and able to assume the office of COO of the Company and (xii) the Closing Agreements will be legal, valid and binding agreements of the Company and the other parties thereto from and after the Effective Time, enforceable against the Company and such other parties in accordance with their terms. The ESOP Stock Purchase Agreement applicable to the sale of Class 1 ESOP Convertible Preferred Stock which will occur at the Effective Time is a Closing Agreement. See "--Purchase of ESOP Preferred Stock," "--Certain Covenants" and "--Establishment of ESOPs--Sales of ESOP Preferred Stock."

Pursuant to the Plan of Recapitalization, the obligations of each of the Unions to enter into the relevant revised Collective Bargaining Agreements at the Effective Time are subject to the satisfaction of the following further conditions, among others: (i) the Company will perform, both individually and collectively, in all material respects all of its covenants, agreements or other obligations required to be performed by it under the Plan of Recapitalization at the times specified and (ii) the representations and warranties of the Company set forth in the Plan of Recapitalization will be true and correct, both individually and collectively, in all material respects at and as of the Effective Time as if made at and as of such time.

Pursuant to the Plan of Recapitalization, the obligation of the Company to file the Restated Certificate at the Effective Time is subject to the satisfaction of the following further conditions, among others: (i) each Union will perform, both individually and collectively, in all material respects, all of its covenants, agreements or other obligations required to be performed by it, under the Plan of Recapitalization, at or prior to the Effective Time, (ii) the representations and warranties of ALPA and the IAM set forth in the Plan of Recapitalization will be true and correct, both individually and collectively, in all material respects, at and as of the Effective Time as if made at and as of such time, (iii) the Board will receive the written opinions of each of CS First Boston and Lazard, each dated as of the Announcement Date, confirming their earlier opinions, to the effect that the consideration to be received by the holders of Old Shares in the Recapitalization taken as a whole is fair from a financial point of view to the holders of Old Shares, (iv) the revised Collective Bargaining Agreements have been executed and delivered by ALPA and the IAM and will be in full force and effect as of the Effective Time, (v) the Board will receive the written opinions of Skadden, Arps, Slate, Meagher & Flom relating to the issuance of stock and Debentures, the ability to revalue surplus

under the DGCL, the absence of violation of certain applicable laws resulting from the issuance of the ESOP Preferred Stock, the tax treatment to the Company resulting from the Recapitalization and the deductibility of contributions made to and dividends paid to the ESOP following the Effective Time and (vi) the Company will determine that it is reasonably likely to have sufficient earnings and profits such that, based on the opinion of counsel described in clause (v) above, the dividends paid on the Class 1 ESOP Preferred Stock that are used to repay the debt evidenced by a note to be delivered in connection with the purchase of the ESOP Preferred Stock are reasonably likely to be deductible under Section 404 of the Internal Revenue Code and (vii) the Company will determine that the Company will be reasonably likely to have sufficient surplus (whether revaluation surplus or earned surplus) or net profits under the DGCL to permit the legal payment of dividends on the ESOP Preferred Stock and the Public Preferred Stock when due.

Consummation of the Recapitalization is not, however, conditioned upon the consummation of either the UAL Preferred Offering or the United Debt Offering.

Termination

The Plan of Recapitalization will terminate and the Recapitalization will be abandoned (notwithstanding any approval of the Shareholder Vote Matters by the stockholders of the Company) if the Effective Time does not occur by 11:59 p.m. on August 31, 1994 (the "Outside Termination Time"). In addition, the Plan of Recapitalization may be terminated and the Recapitalization may be abandoned at any time prior to the Outside Termination Time and prior to the Effective Time (notwithstanding any approval of the Shareholder Vote Matters by the stockholders of the Company) (a) by mutual written consent of each of ALPA and the IAM and the Company, (b) by any of ALPA, the IAM or the Company if (i) the stockholders of the Company do not approve the Shareholder Vote Matters at the Meeting or (ii) any court of competent jurisdiction in the United States or other United States Federal, state or local governmental body issues an order, decree or ruling or take any other action restraining, enjoining or otherwise prohibiting the Recapitalization and such order, decree, ruling or other action has become final and nonappealable, (c) by either ALPA or the IAM if (i) the Board withdraws or modifies in a manner materially adverse to such Union its approval or recommendation of the Recapitalization or the Shareholder Vote Matters or recommends, or fails to recommend against, another Acquisition, (ii) the Board resolves to do any of the foregoing, (iii) the Company breaches, either individually or collectively, in any material respect any of its material representations, warranties, covenants or other agreements contained in the Plan of Recapitalization, (iv) any person acquires "beneficial ownership" (as defined in the Rights Agreement) or the right to acquire beneficial ownership of, or any "group" (as such term is defined in Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) is formed that beneficially owns, or has the right to acquire beneficial ownership of, more than 15% of the then outstanding Old Shares, or becomes an "Acquiring Person" under the Rights Agreement or (v) there occurs a "Share Acquisition Date" or "Distribution Date" as defined under the Rights Agreement or (d) by the Company if (i) either ALPA or the IAM breaches, either individually or collectively, in any material respect, any of their material representations, warranties, covenants or other agreements contained in the Plan of Recapitalization or (ii) the Board, acting in accordance with the provisions of the Plan of Recapitalization relating to Acquisitions other than the Recapitalization, withdraws or modifies in a manner adverse to either ALPA or the IAM its approval or recommendation of the Recapitalization or recommends another Acquisition, or resolves to do any of the foregoing.

Pursuant to the Plan of Recapitalization, if the Effective Time does not occur on or before August 12, 1994, the Company may, by written notice to each of the Unions, terminate its "status quo" obligations described above in the first paragraph of "--Certain Covenants," provided that the Company's right to so terminate its obligations will not be available in the event the Company's failure to fulfill any obligation under the Plan of Recapitalization has been the cause of or resulted in the failure of the Effective Time to occur on or before such date. In addition, in the event the Company elects to terminate its obligations in accordance with the preceding sentence, either of the Unions may terminate the Plan of Recapitalization.

If the Plan of Recapitalization is terminated and abandoned as described in the two preceding paragraphs, the Plan of Recapitalization, subject to certain exceptions, will become void and of no effect with no liability on the part of the Company or either of ALPA or the IAM. However, if the failure of the Effective Time to occur at or prior to the Outside Termination Time results from either (i) a material breach of a specific material representation or warranty contained in the Plan of Recapitalization by one of the parties thereto under circumstances where the breaching party had actual knowledge at the date of the Plan of Recapitalization that such representation or warranty was materially false or misleading or (ii) a material breach of a specific material covenant (a breach described in clause (i) or (ii) as modified by proviso (A) hereto, being called a "Willful Breach") and one of the other parties thereto has established, as determined by a court of competent jurisdiction, that such Willful Breach has occurred, the breaching party will be liable to the other parties thereto, for proximate and provable damages resulting from such Willful Breach (which shall include the reasonable fees and expenses of such non-breaching parties, including reasonable attorney's fees and expenses, incurred in connection with the transactions contemplated thereby other than in connection with any litigation or other dispute between or among parties thereto); provided (A) to the extent that the material breach of a specific material covenant is not determinable solely by an objective fact (e.g. any best efforts obligation or requirement of reasonableness) such breach will be actionable thereunder only if the breaching party knew (or demonstrated reckless disregard for whether) its action or failure to act was in violation of such covenant and (B) such calculation of damages will not include consequential or punitive damages and will be the sole and exclusive remedy of the non-breaching parties in the event of a Willful Breach. With respect to a Willful Breach, "knowledge" (or any corollary thereof) or "reckless disregard" will mean the knowledge or reckless disregard of the senior executives or officials of the Company and United or the Unions, as the case may be, each of whom will conclusively be deemed to have read the Plan of Recapitalization.

Survival

The representations and warranties and agreements contained in the Plan of Recapitalization and in any certificate or other writing delivered pursuant thereto will not survive the Effective Time unless expressly provided in such agreement. The following agreements will survive the Effective Time: agreements relating to Reclassification of Old Shares, redemption of the Redeemable Preferred Stock, surrender and exchange of the Old Shares, issuance of ESOP Preferred Stock, Director Preferred Stock and Additional Shares, treatment of Options, treatment of Convertible Company Securities, resignation of existing directors and officers of the Company, amendment to the Restated Certificate of Incorporation of United, restrictions on the ability of the employees of the Company or United to purchase equity securities of the Company, amendments to directed account plans, 401(k) plans and stock purchase plans of the Company or United, employment terms of the salaried and management employees, the employment of Greenwald and the Closing Agreements, employee and director benefit plans, agreements, policies and arrangements of the Company or United, prohibition against nominations of Public Directors by the Unions, best efforts by the Unions to fill Independent Director vacancies, certain matters relating to fees and expenses; and certain agreements relating to indemnification (all such surviving agreements being referred to herein as the "Express Agreements"). Except with respect to any Collective Bargaining Agreement with the IAM and ALPA and the Express Agreements, from and after the consummation of each of the transactions contemplated to take place at or about the Effective Time, each of the parties to the Plan of Recapitalization (in their capacities as such) will have fully released, discharged, waived and renounced (collectively, the "Releases") any and all claims, controversies, demands, rights, disputes and causes of action it may have had at or prior to the Effective Time against, and will have agreed not to initiate any suit, action or other proceeding involving, each of the other parties thereto, its officials, officers, directors, employees, accountants, counsel, consultants, advisors and agents and, if applicable, security holders relating to or arising out of the Plan of Recapitalization or the transactions contemplated thereby. However, the foregoing Releases do not apply to any claims, controversies, demands, rights, disputes and causes of action arising from and after the Effective Time (and based on facts and circumstances arising from and after the Effective Time) under any of the documents, instruments or transactions entered into, filed or effected in connection with the Recapitalization (other than the Plan of Recapitalization, to the extent provided in this paragraph).

Amendments; No Waivers

The Plan of Recapitalization provides that (a) any provision of the Plan of Recapitalization may be amended or waived prior to the Effective Time if such amendment or waiver is in writing and signed, in the case of an amendment, by the Company and each Union or, in the case of a waiver, by the party against whom the waiver is to be effective; provided that no amendment to or waiver of an Express Agreement will be effective against a person entitled to enforce such Express Agreement unless agreed to in writing by such person, and provided, further, that after the adoption of the Shareholder Vote Matters by the stockholders of the Company, no such amendment or waiver will, without the further approval of such stockholders if and to the extent such approval is required by the DGCL, alter or change (i) the amount or kind of consideration to be received in connection with the Recapitalization, (ii) any term of the Restated Certificate or (iii) any of the terms or conditions of the Plan of Recapitalization if such alteration or change would materially adversely affect the holders of any shares of capital stock of the Company, and (b) no failure or delay by any party in exercising any right, power or privilege under the Plan of Recapitalization will operate as a waiver thereof nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in the Plan of Recapitalization will be cumulative and, except as set forth in the Plan of Recapitalization, not exclusive of any rights or remedies provided by law.

Fees and Expenses; Indemnification

Pursuant to the Plan of Recapitalization, except as agreed by the Company and the Unions in writing or as set forth below, all fees, costs and expenses incurred in connection with the Plan of Recapitalization will be paid by the party incurring such fee, cost or expense. The Company and the Unions agreed that the fees, costs and expenses of the Deadlock Firm and American Appraisal will be paid by the Company. The Company and the Unions agreed that the fees of the Company's principal financial and legal advisors to be incurred by the Company in connection with the transactions contemplated by the Plan of Recapitalization (other than in connection with the Offering), will not exceed \$25 million. In addition, the Company has agreed to pay the following fees: (i) up to \$4.15 million in fees and expenses payable to counsel, investment banking firms, experts, consultants or others relating to the structuring and establishment of the ESOPs or otherwise benefitting the Company as part of the Recapitalization, (ii) out-of-pocket expenses and fees paid, payable or reimbursable to others by or pursuant to agreements with and among either or both of the Unions (the "Coalition Fees"), subject to the following: (A) prior to the Effective Time, the Company shall pay up to \$7 million to or at the direction of ALPA and up to \$3 million to or at the direction of the IAM in respect of Coalition Fees, which will represent payment for bona fide services directly related to the transactions contemplated by the Plan of Recapitalization since January 1, 1993 and will not exceed the aggregate time or other customary charges together with disbursement costs of such firms since such date for services of this type and (B) at the Effective Time the Company will pay the balance of the Coalition Fees, subject to an overall limit of \$45 million (including the amounts set forth in clause (A)), of which \$31.5 million is to be paid to or at the direction of ALPA and \$13.5 million is to be paid to or at the direction of the IAM and (iii) the fees of an executive search firm and related executive expenses, in the event the Company and the Unions determine to retain an executive search firm.

The Plan of Recapitalization provides that upon the occurrence of a Triggering Event (as defined below), the Company will promptly pay to or at the direction of the Unions any amounts the Company would otherwise have been required to pay pursuant to the last sentence of the previous paragraph had the Effective Time occurred at the time of the occurrence of such Triggering Event. Such amounts would be exclusive of any amounts paid or payable pursuant to indemnification or contribution arrangements. "Triggering Event" means the occurrence of any of the following: (i)(A) following the public announcement of a proposal for an Acquisition, either the stockholders of the Company do not approve the Shareholder Vote Matters at the Meeting or (B) the Board withdraws or modifies in a manner materially adverse to ALPA and the IAM its approval or recommendation of the Recapitalization or the Shareholder Vote Matters or recommends, or fails to recommend against, another Acquisition, (ii) subsequent to the stockholder or Board action referred

to in clause (i) above, the Plan of Recapitalization will be terminated (1) by the Company or either Union because the Stockholders of the Company fails to approve the Shareholder Vote Matters, (2) by the Company because the Board withdraws or modifies in a manner adverse to either Union its approval or recommendation of the Recapitalization or recommends another Acquisition or resolves to do any of the foregoing or (3) by either Union if the Board withdraws or modifies in a manner materially adverse to such Union its approval or recommendation of the Plan of Recapitalization or the Shareholder Vote Matters, or recommends, or fails to recommend against, another acquisition and (iii) within 12 months of the termination of the Plan of Recapitalization in accordance with clause (ii) above, an Acquisition is consummated.

Pursuant to the Plan of Recapitalization, the Company agreed, subject to certain exceptions, to indemnify the Unions, their controlling persons, and their respective directors, trustees, officers, partners, affiliates, agents, representatives, advisors and employees (a "Union Indemnified Person") against and hold each Union Indemnified Person harmless from any and all liabilities, losses, claims, damages, actions, proceedings, investigations or threats thereof, including expenses (which will include reasonable attorneys' fees, disbursements and other charges) incurred in connection with the defense thereof, based upon, relating to or arising out of the execution, delivery or performance of the Plan of Recapitalization or the transactions contemplated thereby. All rights to indemnification existing in favor of the present or former directors, officers, employees, fiduciaries and agents of the Company or any of its subsidiaries (collectively, the "Company Indemnified Persons") as provided in the Company's Restated Certificate of Incorporation or Bylaws or other agreements or arrangements, or articles of incorporation or by-laws (or similar documents) or other agreements or arrangements of any subsidiary as in effect as of the date of the Plan of Recapitalization with respect to matters occurring at or prior to the Effective Time will survive the Effective Time and will continue in full force and effect. In addition, the Company will provide for a period of not less than six years following the Effective Time, for directors' and officers' liability insurance for the benefit of directors and officers of the Company immediately prior to the Effective Time with respect to matters occurring at or prior to the Effective Time by electing, in its sole discretion, one of the two alternatives set forth below (which election will be reported to the Unions prior to the Effective Time): (i) maintain for a period of not less than six years following the Effective Time, the current policies of directors' and officers' liability insurance with respect to matters occurring at or prior to the Effective Time, provided that in satisfying its obligation under this clause (i), the Company will not be obligated to pay premiums in excess of 150% of the amount per annum the Company paid for the policy year ending during calendar year 1994, which amount has been disclosed to the Unions or (ii) purchase, prior to the Effective Time, run-off coverage for the benefit of directors and officers of the Company immediately prior to the Effective Time for matters occurring at or prior to the Effective Time, which coverage will provide for a separate insurance pool for such directors and officers of at least \$75 million in coverage, provided that in satisfying the obligations under this clause (ii), the Company will not pay in excess of an amount set forth in a letter previously delivered by the Company to counsel to the Unions. The Company will also maintain for a period of not less than six years following the Effective Time, the current fiduciaries' liability insurance with respect to matters occurring at or prior to the Effective Time.

In connection with execution of the Plan of Recapitalization, the Company entered into a letter agreement (the "Indemnity Letter Agreement") with ALPA and the IAM relating to a claim against the IAM by a former financial advisor (the "Former Advisor") against the IAM (the "Claims") for compensation in the event of the occurrence of the Effective Time. The Claims include to the following: (i) the Former Advisor's claim for compensation based on an engagement letter between a corporation on behalf of the Former Advisor, on the one hand, and the IAM and United Employee Acquisition Corp. ("UEAC"), on the other hand, dated as of January 1, 1990, as amended by letter dated June 21, 1990 (collectively, the "Engagement Letter"), (ii) claims relating to services performed by the Former Advisor pursuant to the Engagement Letter, and (iii) claims based on any theory of compensation liability relating to facts alleged to have existed at the time the Engagement Letter was entered into (or subsequent performance of services originating from or based on such alleged facts) and relating to services of the same nature and type as contemplated by the Engagement Letter. The Engagement Letter provided for the payment to the Former

Advisor of a fee in the amount of \$11 million, contingent upon the occurrence of specified circumstances related to the Agreement and Plan of Merger, between the Company and UEAC, dated as of April 9, 1990 ("1990 Merger Agreement"), which \$11 million fee was not paid as a result of a failure of the transactions set forth in the 1990 Merger Agreement to occur.

Pursuant to the Indemnity Letter Agreement, the Company has agreed to indemnify the IAM against the Claims in accordance with the indemnification provisions set forth in the Plan of Recapitalization described above, subject to the terms and conditions set forth in the Indemnity Letter Agreement. The Company's obligation to indemnify the IAM with respect to the Claims is limited to \$5.5 million prior to the Effective Time, subject to increase to a maximum of \$11 million (including the payment or reimbursement of IAM attorney's fees and disbursements) if the Effective Time occurs. The Company's obligations under the Indemnity Letter Agreement will be reduced by the amount recoverable under any insurance policy, fidelity or indemnity bond issued to or for the benefit of the IAM that may provide insurance or indemnity coverage against any threatened or asserted claim by the Former Advisor against the IAM.

Parties in Interest

The Plan of Recapitalization will be binding upon and, other than the provisions relating to fees, expenses and indemnification, inure solely to the benefit of the parties thereto, and, except for the Express Agreements, nothing in the Plan of Recapitalization, express or implied, is intended to confer upon any other person any rights, benefits or remedies. With respect to the Express Agreements, the agreements set forth below are for the benefit of, and may be enforced by, the following parties: (i) the right to receive the Recapitalization Consideration, the prohibition against nomination of Public Directors by ALPA and the IAM and their obligation to use their best efforts to fill Independent Directors vacancies: the holders of New Shares; (ii) treatment of Options: holders of Options; (iii) treatment of Convertible Company Securities: holders of Company Convertible Securities; (iv) resignation of existing officers and directors prior to the Effective Time and the Company's and United's obligations under their employee and director benefit plans, agreements, policies and arrangements: officers and directors of the Company prior to the Effective Time; (v) establishment by the Company of appropriate employment terms for the Salaried and Management Employees: the ESOP Trustee; (vi) the Greenwald Agreement: Mr. Greenwald; (vii) payment of fees and expenses and indemnification of the Union Indemnified Persons: the Union Indemnified Persons; and (viii) indemnification of Company Indemnified Persons: Company Indemnified Persons.

Specific Performance

Prior to the Effective Time or the termination of the Plan of Recapitalization, the Company and each of the Unions agreed that in the event a Willful Breach is established by a court of competent jurisdiction, the other parties thereto will be entitled to specific performance of the terms thereof that were the subject of such Willful Breach. However, in no event will such remedy of specific performance in any way extend or modify the Outside Termination Time. No other remedy will be available prior to the Effective Time or the termination of the Plan of Recapitalization except that the remedy of damages will be available if such remedy (including the amount of damages) would be available after termination as described above under "--Termination."

ESTABLISHMENT OF ESOPS

General

As described under "--Terms and Conditions," preferred stock representing approximately 55% of the voting and equity interests in the Company will be delivered to employees through the ESOPs. As explained below, the ESOPs will be comprised of three components, and the voting and equity interests to be delivered pursuant to the ESOPs will be represented by five separate classes of stock.

The three components which will comprise the ESOPs are (i) the "Leveraged ESOP," which is a component of a tax-qualified employee stock ownership plan, (ii) the "Non-Leveraged Qualified ESOP," which is also a component of a tax-qualified employee stock ownership plan, and (iii) the "Supplemental ESOP," which is not a tax-qualified plan. The three components are needed in order to deliver the agreed-upon shares to employees in a manner which utilizes the tax incentives available to tax-qualified employee stock ownership plans to the greatest degree reasonably possible, but without violating certain limitations imposed by the Internal Revenue Code. Accordingly, to the extent reasonably possible, shares are to be delivered to employees through the Leveraged ESOP. To the extent that shares cannot be delivered through the Leveraged ESOP, they will be delivered through the Non-Leveraged Qualified ESOP, and to the extent they cannot be delivered through the Non-Leveraged Qualified ESOP, they will be delivered through the Supplemental ESOP. Accordingly, the only employees participating in the Supplemental ESOP are those employees who are unable to receive, by virtue of the Internal Revenue Code limitations described above, their full entitlement to shares under the Leveraged ESOP. Although the final determination of which employees will participate in the Supplemental ESOP can be made only when various factors, such as individual compensation, become known, the Company expects that the only employees participating in the Supplemental ESOP will be those Salaried and Management Employees with compensation in excess of \$150,000, a relatively small number of IAM members and management and salaried employees who (as allowed by certain plans of the Company) elect a relatively large reduction in their compensation in exchange for child care and medical reimbursement payments, and a significant percentage of ALPA members.

The five classes of stock which will represent the voting and equity interests of employees are (1) the Class 1 ESOP Convertible Preferred Stock, which will be issued in seven separate sales (the "ESOP Tranches") to the ESOP Trustee under the Leveraged ESOP, (ii) the Class 2 ESOP Convertible Preferred Stock, some of which will be issued to the ESOP Trustee under the Non-Leveraged Qualified ESOP and some of which will be represented by "Book-Entry Shares" (as defined below) credited to employees under the Supplemental ESOP, and (iii) three classes of voting preferred stock (the Class P ESOP Voting Preferred Stock, the Class M ESOP Voting Preferred Stock, and the Class S ESOP Voting Preferred Stock. Collectively, the Class 1 and 2 ESOP Convertible Preferred Stock are referred to as the "ESOP Preferred Stock," and collectively, the three classes of voting preferred stock are referred to as the "Voting Preferred Stock."

The equity interests of employees will be primarily represented by the Class 1 and Class 2 ESOP Preferred Stock. Each share of these two classes is initially convertible into one New Share. The primary difference between the Class 1 and the Class 2 ESOP Convertible Preferred Stock is that only the Class 1 ESOP Convertible Preferred Stock carries a fixed dividend. The fixed dividend exists in order to allow the delivery through the Leveraged ESOP of the greatest number of shares reasonably possible, consistent with the limitations of the Internal Revenue Code. An advantage provided for dividends by the Internal Revenue Code exists only for the Leveraged ESOP, and for that reason the Class 1 ESOP Convertible Preferred Stock will be sold only to the Leveraged ESOP.

The voting interests of employees will be represented by the three classes of ESOP Voting Preferred Stock. Each such share is convertible into one tenthousandth of a New Share. The Class 1 and Class 2 ESOP Preferred Stock is non-voting.

The voting and equity interests of employees will be delivered through the five separate classes of shares described above in order to satisfy two purposes; (i) preservation of the agreed-upon distribution of voting power among the ALPA, IAM and salaried and management employees, and (ii) ensuring that the loan which will be used to purchase the Class 1 ESOP Convertible Preferred Stock will satisfy a limitation of the Internal Revenue Code which requires that shares purchased with a loan be consistently allocated among employees. Sales of the Class 1 ESOP Convertible Preferred Stock to the Leveraged ESOP will be made in seven ESOP Tranches. The first ESOP Tranche will be sold to the ESOP Trustee at the Effective Time. The next five tranches will be sold on the first day of the thirteenth month following the Effective Time (or, if earlier, September 1, 1995), and on the four following anniversaries of such date. The final ESOP Tranche will be sold on January 1, 2000. Each ESOP Tranche will be purchased by the ESOP Trustee using the proceeds of

a loan entered into specifically for the purchase of such ESOP Tranche. The shares to be purchased in each of the first six ESOP Tranches shall generally equal the sum of (i) the shares of Class 1 ESOP Convertible Preferred Stock scheduled to be allocated to the accounts of participants in the Leveraged ESOP for the year in which such ESOP Tranche is sold, plus (ii) the number of shares of Class 1 ESOP Convertible Preferred Stock equal in value to the aggregate dividends payable on the shares purchased with the ESOP Tranche after the end of the year the ESOP Tranche is purchased. The final ESOP Tranche will not include the shares described in (ii), above, however. The purpose of selling shares to the ESOP in tranches is to attempt to take advantage of increases in the price at which it is projected that the ESOP Convertible Preferred Stock can be sold to the ESOP Trustee in the years following the Effective Time. The projected price increases are based upon projected increases in the value of the New Shares in the years following the Effective Time. THERE CAN BE NO ASSURANCE THAT THE PROJECTED INCREASES IN THE PRICE OF THE NEW SHARES WILL OCCUR. Therefore, there can be no assurance that the projected increases in the price at which the Class 1 ESOP Convertible Preferred Stock can be sold to the ESOP Trustee will occur.

A trust established pursuant to the leveraged ESOP will, as of the Effective Time and over the following 69 months, through the seven ESOP Tranches, acquire shares of Class 1 ESOP Preferred Stock, and the Company will be obligated to issue (either through issuance to the Non-Leveraged Qualified ESOP or through the crediting of Book-Entry Shares) shares of Class 2 ESOP Preferred Stock, which are convertible, in the aggregate, into New Shares representing (initially) approximately 55% of the Company, on a fully-diluted basis. (The shares of Class 2 ESOP Preferred Stock represented by Book-Entry Shares will not actually be issued until termination of employment, however.) ALPA has the right to elect at any time on or before the Effective Time that the Supplemental ESOP be maintained by the actual issuance of Class 2 ESOP Preferred Stock to a non qualified trust established under the Supplemental ESOP. As of the Effective Time, there will also be issued to the ESOP Trustee shares of the three classes of Voting Preferred Stock (the "Voting Preferred Stock") the outstanding shares of which will represent (initially) approximately 55% of the voting power of all of the voting stock of the Company. The ESOP Preferred Stock and Voting Preferred Stock held by the ESOP will be allocated to the accounts of employees over the 69-month (72-month for IAM members) period following the Effective Time. Under certain circumstances described below under "--Additional Shares," the equity and voting interests represented by the ESOP Preferred Stock and the Voting Preferred Stock can be increased to up to a maximum of 63%.

Generally speaking, New Shares will be distributed to an employee pursuant to the ESOPs after termination of employment; the New Shares so distributed will be issued upon conversion of the ESOP Preferred Stock and Voting Preferred Stock allocated to accounts of such employee in the ESOPs. Prior to the Sunset, the percentage of the vote controlled by the shares of Voting Preferred Stock held by the ESOP is unaffected by distributions to employees. See "--Revised Governance Structure--Sunset" and "DESCRIPTION OF SECURITIES--The Voting Preferred Stock--Voting Rights." Because of certain limitations imposed by the Internal Revenue Code, there are several component plans included in the ESOP program.

State Street, with the consent of the participating unions, has been retained to act as the ESOP Trustee. The ESOP Trustee retained Houlihan Lokey as an independent financial adviser. The ESOP Trustee has entered into an agreement to purchase the ESOP Preferred Stock at the Effective Time on the terms described below under "--Sales of ESOP Preferred Stock." The obligations of the ESOP Trustee are subject to a number of conditions, including the receipt of an opinion from Houlihan Lokey that, as of the Effective Time (and, with respect to each ESOP Tranche after the Effective Time, at the time of each such purchase), the applicable transaction is fair from a financial point of view to the ESOP participants, the amount to be paid by the ESOP Trustee for the ESOP Preferred Stock does not exceed the fair market value thereof and the conversion of the ESOP Preferred Stock is reasonable. In addition, the obligations of the ESOP Trustee are subject to the determination by the ESOP Trustee that, as of the Effective Time (and, with respect to each ESOP Tranche after the Effective Time, at the time of each such purchase), the purchase of the ESOP Preferred Stock is prudent and in the best interests of ESOP participants.

Sales of ESOP Preferred Stock

At the Effective Time and over the subsequent 69 months, the Company will sell, in the seven ESOP Tranches, an aggregate of approximately 14,000,000 (subject to increase as described below, see "--Additional Shares") shares of Class 1 ESOP Convertible Preferred Stock to a trust established pursuant to the ESOPs.

Leveraged ESOP. 1,899,059 shares (subject to adjustment if agreed to by the Company and the Unions) of Class 1 ESOP Convertible Preferred Stock shall be sold as of the Effective Time in the first ESOP Tranche to a trust (the "Qualified Trust") established under a tax-qualified employee stock ownership plan (the "Qualified ESOP"), and additional shares of Class 1 ESOP Convertible Preferred Stock will be sold to the qualified Trust in subsequent ESOP Tranches. Such shares will be sold to the Leveraged ESOP which constitutes a component of the Qualified ESOP. The aggregate number of shares sold will be the highest number possible consistent with certain limitations of the Internal Revenue Code, and is expected to be approximately 14,000,000. The Qualified Trust will purchase the Class 1 ESOP Preferred Stock with a combination of cash and a promissory note issued at the time of sale of each ESOP Tranche. The cash will be equal to the aggregate par value of the Class 1 ESOP Convertible Preferred Stock (\$.01 per share) sold to the Qualified Trust. (The Company will contribute such cash as a tax-deductible contribution to the Leveraged ESOP at the time of the sale of each ESOP Tranche.) The balance of the purchase price for each ESOP Tranche will be paid by a promissory note issued to the Company by the ESOP Trustee in its capacity as trustee of the Qualified Trust.

Subject to certain terms and conditions set forth in the ESOP Stock Purchase Agreement, including a condition that the Trustee will have made a good faith determination that the purchase of Class 1 ESOP Preferred Stock is prudent and in the best interests of the ESOP participants, the ESOP Trustee is obligated to purchase the ESOP Preferred Stock for the first ESOP Tranche at a price per share equal to [1.38 times the average closing price as of the Effective Time, which average closing price shall be computed as the greater of the value of a New Share at the Effective Time or 98% of two times the difference of the average closing price of the Old Shares in the five trading days prior to the Effective Time, less the value of the Recapitalization Consideration (other than New Shares) issued with respect to an Old Share at the Effective Time. The price for the subsequent ESOP Tranches will be as agreed upon between the Company and the ESOP Trustee.

Federal law requires that the price paid by the ESOP Trustee for the Class 1 ESOP Preferred Stock cannot exceed its fair market value, and that the conversion premium (the amount by which the price paid for the Class 1 ESOP Convertible Preferred Stock exceeds the price of the New Shares as of the Effective Time) must be reasonable. There can be no assurance as to the method by which such an appropriate price may be developed for the subsequent ESOP Tranches, including, without limitation, the appropriate base value for the New Shares or the appropriate conversion premium. See "--Terms and Conditions-- Purchase of ESOP Preferred Stock."

The shares of Class 1 ESOP Preferred Stock purchased by the Qualified Trust under the Leveraged ESOP in each ESOP Tranche will initially be held in a suspense account and not allocated to the accounts of employees. The Company will retain a security interest in the shares held in the suspense account. The promissory notes will be repaid by the ESOP Trustee using cash received from dividends paid on the Class 1 ESOP Preferred Stock and contributions to the Qualified Trust to be made by the Company; the ESOP Trustee will be obligated to use the dividends and Company contributions to repay the promissory notes. It is expected that the entire amount of the Company contributions and the dividends used by the ESOP Trustee to repay the promissory notes will be deductible by the Company for Federal income tax purposes, regardless of the portion used to pay interest and the portion used to pay principal. The Company will recognize income equal to the interest paid on the promissory notes. Accordingly, the net result of the contributions, dividends and promissory note payments is that the Company expects to receive net tax deductions for Federal income tax purposes equal to the principal amount of the promissory notes.

It is anticipated that the principal of the note for the first ESOP Tranche will be paid in seven annual payments. The first annual payment will be for the period commencing on the Effective Time and ending December 31, 1994, the second through sixth payments will be for the twelve-month periods ending on each December 31 from 1995 through 1999, and the final payment will be for the period from January 1, 2000 until the end of the 69th month after the Effective Time. (The 69-month period corresponds to the period of system-wide wage reductions for ALPA members, and roughly corresponds to the 72-month period of base wage reductions for IAM Members.) The notes for subsequent ESOP Tranches will be of shorter duration, so that the final payment on each note will be due on approximately the 69th month after the Effective Time.

Each calendar year (corresponding to the principal payments), shares of Class 1 ESOP Preferred Stock will be released from the suspense account, and the Company's security interest in the shares so released will terminate. The shares released for any year will be a fraction of the shares originally purchased. It is anticipated that after taking separate ESOP Tranches into account, the total number of shares of Class 1 ESOP Preferred Stock will be released from the suspense account on a level annual fashion over 69 months, taking into account the partial periods in 1994 and 2000.

When the shares are released from the suspense account as a result of any principal payment, they remain in the Qualified Trust but are allocated to individual accounts of employees established under the Leveraged ESOP. The Class 1 ESOP Preferred Stock will be allocated to the accounts of employees such that the shares so allocated when added to the shares (and Book-Entry Shares) allocated under the Non-Leveraged Qualified ESOP and the Supplemental ESOP (see "--Non-Qualified ESOP" below), will equal 46.23% for the employees who are members of ALPA, 37.13% for employees who are members of the IAM, and 16.64% for Salaried and Management Employees (the "Agreed Percentages"). For the shares released from the suspense account in respect of 1994, allocations within each of these employee groups will be proportional to the compensation (subject to certain tax limits) of all of the participants within that group, except that for the participants who are members of the IAM, the shares will be allocated in proportion to the amount of each individual employee's wage investment. However, for subsequent years, shares equal in value to the dividends paid on shares previously allocated to the accounts of employees will first be allocated from the released shares to the accounts of such employees. The remaining shares released from the suspense account in respect of that year will be allocated to individual employees based upon their relative compensation (or, in the case of IAM members, their relative wage investment).

Non-Qualified ESOP. Because of certain limitations imposed by the Internal Revenue Code, the Qualified Trust will not purchase shares representing the entire equity interest (initially 55%) represented by the ESOP Preferred Stock. Accordingly, based on certain elections made by ALPA, the Company will allocate "phantom" shares of Class 2 ESOP Convertible Preferred Stock (the "Book-Entry Shares") under the Supplemental ESOP. Except as provided below, these Book-Entry Shares allocated to a participant will not in fact be issued by the Company. Instead, the participant will have the same rights as a general creditor of the Company with respect to amounts allocated to such participant under the Supplemental ESOP. The number of shares of Class 2 ESOP Convertible Preferred Stock will be equal to 17,675,345, less the number of shares of Class 1 ESOP Preferred Stock sold to the Qualified ESOP. It is anticipated that almost all ESOP Stock reserved for allocation to IAM members will be allocated under the Leveraged ESOP. ALPA has the right to elect at any time, before or after the Effective Time, that the Supplemental ESOP be maintained by the actual issuance of Class 2 ESOP Convertible Preferred Stock to a non-qualified trust (the "Non-Qualified Trust") established under the Supplemental ESOP.

Each year, as a portion of the shares of Class 1 ESOP Convertible Preferred Stock are released from the suspense account under the Leveraged ESOP, the same proportion of the Book-Entry Shares of Class 2 ESOP Convertible Preferred Stock will be allocated as described below. In other words, it is anticipated that the Class 2 ESOP Convertible Preferred Stock will be allocated over the same 69 months that the Class 1 ESOP Convertible Preferred is allocated. To the extent permissible under the Internal Revenue Code, the shares of Class 2 ESOP Convertible Preferred Stock will be issued by the Company and transferred to the Qualified Trust for allocation to employees' accounts under Non-Leveraged Qualified ESOP, which is a component of

the Qualified ESOP. The Book-Entry Shares that cannot be transferred to the Qualified Trust will be credited to the accounts of employees in the Supplemental ESOP (and if ALPA elects that the Non-Qualified Trust will hold Class 2 ESOP Convertible Preferred Stock, will be deposited therein). Unlike the Qualified ESOP, the Company will be liable for the benefits of employees under the Supplemental ESOP. Hypothetical dividends will be credited to such Book Entry Shares as if they were actual shares of Class 2 ESOP Convertible Preferred Stock.

In the aggregate, the shares allocated under the Leveraged ESOP, the Non-Leveraged Qualified ESOP, and the Supplemental ESOP will equal the Agreed Percentages.

Allocation of Voting Preferred Stock. The ESOP Preferred Stock is nonvoting (except as may be otherwise required by law). The Voting Preferred Stock was established in order to allocate voting power to the respective employee groups in proportion to the agreed upon allocation and in a manner which was consistent with applicable law. When shares of Class 1 ESOP Convertible Preferred Stock are released from the suspense account and allocated to accounts of employees, and when shares (or Book-Entry Shares) of Class 2 ESOP Convertible Preferred Stock are allocated under the Qualified ESOP or the Supplemental ESOP, the corresponding number of shares of the appropriate class of Voting Preferred Stock will be issued by the Company and contributed to the Non-Leveraged Qualified ESOP (or, to the extent limitations of the Internal Revenue Code require, to the Non-Qualified Trust established under the Supplemental ESOP). However, the additional issuance of shares of Voting Preferred Stock will not affect the percentage of voting power of the Company as a whole controlled in the aggregate by the Voting Preferred Stock. The ESOP Trustee is obligated to vote as instructed by the participants to whom the Voting Preferred Stock has been allocated, and the shares which are allocated command the entire voting power of each class of Voting Preferred Stock. Accordingly, the contribution of Voting Preferred Stock to the ESOPs and the allocation of such stock to participants subsequent to the Effective Time does not affect the aggregate vote commanded by the Voting Preferred Stock, but it does affect the allocation of voting power among the individual participants. ALPA has made an agreed-upon election to require that the ESOP Trustee follow only the directions of the active employees who are ALPA members in voting the Class P Voting Preferred Stock. The effect of this election, if implemented, is that the shares of Class P Voting Preferred Stock allocated to former employees who were ALPA members will be voted by the ESOP Trustee as directed by the active employees who are ALPA members. The Company is not required to implement ALPA's election if either (i) the Company is unable reasonably to conclude that implementation of such election would be legal, or (ii) the Company reasonably concludes that implementation of such election would expose the Company to a risk of any material liability. If the Company does not implement ALPA's election, the Company is required to cooperate with ALPA to determine if the objective of the election can be accomplished by other means. Such other means may, for example, include non-material changes to the ESOPs, but the Company is not required to implement such other means if the objectives of the Plan of Recapitalization would be thwarted, or if such other means would impose costs on the Company in excess of \$100,000.

Distributions. Employees will become entitled to distribution of shares upon termination of employment but can elect to defer distribution until age 70 1/2. Employees will become entitled to transfer shares from the Leveraged ESOP and the Non-Leveraged Qualified ESOP to other Company plans prior to termination of employment upon attainment of age 55 with at least 10 years of participation in the ESOP. (Because of this requirement of 10 years of participation, the first such distributions will not be made until at least 10 years after the Effective Time.) The ability to so transfer prior to termination of employment is required under the Internal Revenue Code for the purpose of allowing employees to diversify their investments. Up to 25% of an employee's account may be diversified at age 55, and an additional 25% may be diversified at age 60. The diversification distribution for an employee will be made by transferring the appropriate amount to the tax-qualified 401(k) plan sponsored by the Company in which the employee participates.

Prior to any distribution, the shares of ESOP Preferred Stock (and the corresponding shares of Voting Preferred Stock) allocated to the employee entitled to the distribution will be converted into New Shares.

The employee may choose to receive the distribution in the form of the New Shares issued upon conversion or cash, and except for the diversification distributions described above, the employee may elect to receive the distribution in a lump sum or annual installments over five years. Employees who remain employed after age 70 1/2 shall receive annually the minimum payments required by the Internal Revenue Code. If the employee elects to receive cash, the ESOP Trustee will sell the New Shares, and pay the net proceeds of the sale to the employee. Book-Entry Shares allocated to the Participant under the Supplemental ESOP will, at the employee's election, either be distributed in the form of New Shares issued by the Company or cash equal to the net proceeds from the sale of such New Shares.

Each share of the Voting Preferred Stock is convertible into one ten-thousandth of a New Share. Accordingly, when an ESOP participant becomes entitled to receive a distribution of the Voting Preferred Stock, such shares will be converted to New Shares and distributed (either as cash or New Shares). Notwithstanding the conversion of the Preferred Stock upon a distribution or diversification transfer, however, the remaining shares of the Voting Preferred Stock continue to command, in the aggregate, the same percentage vote. This continues as long as the employee plans of the Company contain, in the aggregate, shares representing the equivalent of at least 20% of the equity interests in the Company. See "DESCRIPTION OF SECURITIES--The Voting Preferred Stock--Voting Rights."

Additional Shares

If the Average Closing Price of the New Shares during the year following the Effective Time exceeds \$136 per share, additional shares of ESOP Preferred Stock (the "Additional Shares") will be issued to the Qualified ESOP or will be reserved for issuance or credited as Book-Entry Shares. The number of Additional Shares will be calculated based in part upon the fully diluted number of New Shares on the Measuring Date. On the Measuring Date, the fully diluted number of New Shares (the "Fully Diluted New Shares") will be determined as the sum of the Additional Shares and:

(i) the difference between (A) the number of New Shares outstanding on the Measuring Date and (B) the number of New Shares issued after the Effective Time other than upon the exercise, conversion or exchange of Options or the Company Convertible Securities,

(ii) the number of New Shares issuable upon the conversion of the Series A Preferred Stock outstanding immediately prior to the Measuring Date,

(iii) the number of New Shares issuable upon the exercise, conversion or exchange of other Convertible Securities outstanding immediately prior to the Measuring Date that have an exercise, conversion or exchange price that is equal to or less than the average market price of the Recapitalization Consideration issued in respect of one Old Share during the year ending on the Measuring Date (the "Old Share Equivalent Price") and

(iv) the number of net New Shares that would have been issued if the Company issued New Shares in respect of all the Options outstanding immediately prior to the Measuring Date that have an exercise price that is less than the Old Share Equivalent Price and used the aggregate exercise price received to purchase Recapitalization Consideration on a pro rata basis in the open market at the Old Share Equivalent Price.

The number of Additional Shares will be determined as the excess of (a) the product of the Fully Diluted New Shares and a fraction, the numerator of which is the "Adjusted Percentage" and the denominator of which (expressed as a percentage) is one (1) minus the "Adjusted Percentage" (the first two columns of the table set forth below utilize selected samples from the table attached to the Plan of Recapitalization from which the Adjusted Percentage will be derived) over 17,675,375. (The foregoing calculation will not cause a reduction of the number of shares of ESOP Preferred Stock then outstanding.) "Average Closing Price" means the average of the product of the last sale market price of the New Shares on each trading day during the year ending on the Measuring Date and the number of New Shares into which one share of ESOP Preferred Stock could be converted on such trading day. (Initially, each share of ESOP Preferred Stock will be convertible into one New Share, subject to adjustment for various reasons).

The following table illustrates the possible effect of increasing the Average Closing Price on the number of Additional Shares issuable upon conversion of the ESOP Preferred Stock and the Voting Preferred Stock. The illustration assumes that the number of Fully Diluted New Shares on the Measuring Date is 32,140,206 (before any issuance or reservation of Additional Shares), consisting of (x) an aggregate of 14,463,093 New Shares (1) issued in respect of Old Shares outstanding at the Effective Time, (2) issuable upon the exercise of the Options and (3) issuable upon the exercise of the Convertible Securities, (y) 17,675,345 New Shares issuable upon conversion of the 17,675,345 shares of ESOP Preferred Stock and (z) 1,768 New Shares issuable upon conversion of the 17,675,345 shares of Voting Preferred Stock.

| AVERAGE CLOSING PRICE | ADJUSTED PERCENTAGE | ADDITIONAL NEW SHARES ISSUABLE UPON CONVERSION OF ESOP PREFERRED STOCK (1) | TOTAL NEW SHARES ISSUABLE UPON CONVERSION OF ESOP PREFERRED STOCK AND VOTING PREFERRED STOCK | TOTAL NEW SHARES OUTSTANDING AND ISSUABLE UPON CONVERSION OF ESOP PREFERRED STOCK AND VOTING PREFERRED STOCK |
|-----------------------|---------------------|--|--|--|
| \$136.00..... | 55.00000000% | 0 | 17,677,113 | 32,140,206 |
| \$139.00..... | 57.27009984 | 1,707,504 | 19,384,617 | 33,847,710 |
| \$142.00..... | 59.23945044 | 3,342,860 | 21,019,973 | 35,483,065 |
| \$145.00..... | 60.96410492 | 4,910,546 | 22,587,659 | 37,050,751 |
| \$148.00..... | 62.48700173 | 6,414,677 | 24,091,790 | 38,554,883 |
| \$149.10..... | 63.00000000 | 6,949,234 | 24,626,347 | 39,089,439 |

(1) A small portion of the Additional Shares may be issuable upon conversion of the Voting Preferred Stock, but the number of New Shares issuable in respect of the ESOP Preferred Stock would be adjusted so that the aggregate number of Additional Shares would not change as a result.

The number of New Shares that will become outstanding may be higher or lower than the number of Fully Diluted New Shares determined on the Measuring Date, as described above, for a number of different reasons, including that a larger or smaller number of Options and Convertible Company Securities may be exercised and that the holders of the Options may not use the "cashless exercise" feature thereof. The terms of the Options will permit the holders to surrender to the Company a portion of the Options in lieu of paying the exercise price thereof in cash and/or in lieu of paying withholding tax in respect of such exercise in cash. The amount of the Options surrendered as a substitution for payment of cash will be determined based upon the market price of the Recapitalization Consideration on the date of exercise (i.e., the higher the market price, the fewer number of shares surrendered in substitution for cash). If such "cashless exercise" feature is used, the effect on the number of New Shares that would be outstanding would be similar to the deemed repurchase of New Shares (as part of the Recapitalization Consideration) by the Company referred to in clause (iv) in the description of Fully Diluted New Shares, above. Accordingly, the number of New Shares that become outstanding will vary depending on the number of Options exercised, the extent to which the "cashless exercise" feature is used and the market price on the date the "cashless exercise" feature is used. However, if the holders of Options do not use the "cashless exercise" feature, the cash received from the exercise of options would be available to the Company, which would not be the case if the "cashless exercise" feature were used. In addition, if the "cashless exercise" feature is used, the market price of the Recapitalization Consideration on the date of exercise will have an effect on the number of New Shares outstanding, since a higher market price will cause fewer Options to be withheld for payment and a lower market price will cause more Options to be withheld for payment. Accordingly, there can be no assurance that the number of New Shares outstanding after conversion of all the ESOP Preferred Stock (including the Book-Entry Shares), will be as reflected in the table above.

The aggregate voting power commanded by the Voting Preferred Stock will be increased automatically when the number of Additional Shares, if any, is determined.

Additional Contributions

If the Company pays a dividend on New Shares while any portion of a promissory note issued by the ESOP Trustee to purchase Class 1 ESOP Preferred Stock remains outstanding, the Company will make an additional contribution in cash to the ESOP. In general the additional contribution would equal the lesser of (1) the dividend paid on each New Share times the number of New Shares into which the shares of Class 1 ESOP Preferred Stock are convertible, or (2) the fixed dividend payable on the Class 1 ESOP Preferred Stock. This calculation will be made as if all Class 1 ESOP Preferred Stock had been issued at the Effective Time. The additional contribution would be allocated to the accounts of employees and not used to repay the promissory note.

The Supplemental ESOP contains provisions analogous to those in the preceding paragraph with regard to Book-Entry Shares which have not yet been credited as Class 2 ESOP Preferred Stock which has not yet been issued.

The fixed dividends on the Class 1 ESOP Preferred Stock will be used to repay the promissory note, but any dividends received in excess of the fixed dividend rate will be allocated to the accounts of employees and will not be used to repay the promissory note.

Control Transactions

In a Control Transaction (as defined below), participants are entitled, as named fiduciaries under ERISA, to instruct the ESOP Trustee as to whether to tender, sell, convert or otherwise dispose of shares allocated to their accounts under the Qualified ESOP. Furthermore, in a Control Transaction each employee (but not a former employee) who is a participant in the Qualified ESOP may direct the ESOP Trustee whether to tender, sell, convert or otherwise dispose of shares held in the suspense account under the Qualified Trust and shares for which no instructions are received; the ESOP Trustee will tender such shares in the proportion directed by such employees (except when ERISA (as defined below) requires the ESOP Trustee to disregard such directions). A "Control Transaction" is a tender or exchange offer, or other opportunity to dispose of or convert shares of the Company (other than conversions pursuant to distributions to be made under the ESOP), or any transaction or series of related transactions whereby any person or group acquires control of the Company or of all or substantially all or the assets of the Company and its subsidiaries.

All shares of Class 1 and Class 2 ESOP Preferred Stock intended to be transferred to the ESOPs in connection with future sales of the ESOP Tranches will be transferred to the ESOPs prior to the Control Transaction (unless ALPA specifies otherwise with respect to the Supplemental ESOP).

Shares held by the Supplemental ESOP will be tendered as directed by the administrative committee thereunder.

If a Control Transaction results in the sale or exchange of any shares held by the ESOPs, and the proceeds of the sale are (or are used to acquire) "appropriate securities," as defined below, then the ESOP and the promissory notes under the Leveraged ESOP shall continue as if the Control Transaction had not occurred. To the extent possible, the proceeds will be used to acquire "appropriate securities." If "appropriate securities" cannot be obtained, then the Company and the Unions will make appropriate arrangements reasonably satisfactory to the Unions to protect the interests of the employees. It is not the present intention of the Company and the Unions that such arrangements will include the forgiveness of any portion of the promissory note. "Appropriate securities" are shares of common stock (or preferred stock which converts into common stock) that may be held as security for a loan to an employee stock ownership plan under the applicable Internal Revenue Code requirements, and that are issued by a public company having a Moody's senior long-term debt rating at least as good as that of the Company and United.

Participation and Vesting

Members of the ALPA employee group become participants in the ESOPs immediately upon commencement of employment. IAM and Salaried and Management Employees who are employed at the Effective Time will immediately become participants in the ESOPs. All other members of the IAM employee group become participants upon completing a probationary period of six months. All other Salaried and

Management Employees become participants following a one-year waiting period. All shares allocated to the accounts of employees under the ESOP are fully vested.

Federal Income Tax Matters

The Qualified ESOP is intended to be qualified under Sections 401 and 501 of the Internal Revenue Code, and the Leveraged ESOP is intended to be qualified under Section 4975 of the Internal Revenue Code. The Company will apply to the IRS for a determination letter to that effect. As a result of such qualification, employer contributions to the Qualified ESOP (including contributions or transfers of shares of Class 2 ESOP Preferred Stock to the Non-Leveraged Qualified ESOP) are deductible for Federal income tax purposes, but ESOP participants are not subject to Federal income tax on such contributions or on income derived from such contributions until distributions are made from the Qualified ESOP. At the time of distribution, certain favorable income tax rules may apply to the determination of such participants' Federal income tax liability with respect to such distribution.

The Supplemental ESOP and Non-Qualified Trust do not constitute a tax-qualified plan. The Company will not be entitled to a tax deduction until benefits are paid to participants. Any income earned by the Non-Qualified Trust, excluding dividends paid on Company securities, will be taxed to the Company.

It is expected that the dividends payable on the Class 1 ESOP Preferred Stock will be deductible to the extent used to repay the promissory note issued by the ESOP Trustee.

Plan Administration

The Qualified ESOP will be administered by a committee consisting of three appointees of ALPA, two appointees of the IAM and one appointee of the Company; the Supplemental ESOP will be administered by a committee consisting of three members appointed by ALPA and one member appointed by the Company; provided that if any IAM member is allocated shares under the Supplemental ESOP, then two members appointed by the IAM shall, with respect to the IAM shares, join the committee that administers the Supplemental ESOP. Deadlocks in votes of the committee will be referred for decision to a neutral arbitrator. Except for certain decisions concerning the management of the plan's assets, the member appointed by the Company, the two members appointed by the IAM or a majority of the members appointed by ALPA can require that any committee decision be referred to a neutral arbitrator.

ELECTION OF DIRECTORS

NOMINEES FOR ELECTION AS PUBLIC DIRECTORS

If the Recapitalization is approved, the new structure of the Board will be established and four persons will be eligible for election as "Public Directors". The fifth person to be a Public Director will be identified at or prior to the Effective Time and will be appointed to the Board at the Effective Time.

Except where authority has been withheld by a stockholder, the enclosed proxy will be voted for the election of the nominees named below for a term of one year and until the successors are duly elected and qualified.

Each nominee for Public Director (other than Mr. Greenwald) was previously elected by the stockholders and has served continuously as a director for the period succeeding the date of his or her election. In the event any one or more of the named nominees shall become unable to serve before election, votes will be cast pursuant to authority granted by the enclosed proxy for such person or persons as may be designated in substitution for such nominees by the Board but not for a greater number of persons than the nominees named herein. No person, other than the directors of the Company acting solely in that capacity, is responsible for the naming of the nominees.

PUBLIC DIRECTORS

JOHN F. MCGILLICUDDY, 63. Retired Chairman and Chief Executive Officer, Chemical Banking Corporation (banking and finance). Director since 1984. Mr. McGillicuddy served as Chairman and Chief Executive Officer of Chemical Banking Corporation from 1992 until his retirement in December 1992, and of Manufacturers Hanover Corporation and Manufacturers Hanover Trust Company from 1979 until the merger of Manufacturers Hanover Corporation and Chemical Banking Corporation on January 1, 1992. Mr. McGillicuddy is also a director of Chemical Banking Corporation, The Continental Corporation and USX Corporation.

JAMES J. O'CONNOR, 57. Chairman and Chief Executive Officer, Commonwealth Edison Company (electric power utility). Director since 1984. Mr. O'Connor is also a director of American National Can Company, Corning Incorporated, First Chicago Corporation, the Chicago Stock Exchange, Scotsman Industries, Inc. and The Tribune Company.

PAUL E. TIERNEY, JR., 51. Managing Director, Gollust, Tierney and Oliver, Inc. (investment banking). Director since October 18, 1990. Mr. Tierney is also Chairman of the Board of Directors of Technoserve, Inc., a director of the Argentine Investment Fund, the Straits Corporation and the Overseas Development Council and a Governor of the United Nations Association.

GERALD GREENWALD, 58. Chairman, Tatra Truck Company, Czech Republic. Mr. Greenwald served as Vice Chairman of the Chrysler Corporation from 1989 to 1990. Prior thereto, Mr. Greenwald 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. (investment banking) in 1991 and as president of Olympia & York Developments Limited (a real estate development company that was in the process of a bankruptcy restructuring prior to Mr. Greenwald's agreeing to serve as president) from April 1992 until March 1993. Mr. Greenwald currently serves as director of Aetna Life and Casualty Company, Honeywell Inc., Reynolds Metals Company and is a trustee of Princeton University. Mr. Greenwald also serves as chairman of the Tatra Truck Company and has served in such capacity since March 1993. Mr. Greenwald previously served for a number of years as a director of GPA Group PLC (international aircraft financing and leasing). Mr. Greenwald has not previously served on the Board.

INDEPENDENT AND EMPLOYEE DIRECTORS

Following is information concerning the other persons who have been chosen to serve as directors of the Company if the Recapitalization is approved, including their names, ages, the class pursuant to which they will serve, principal occupations for the past five years and their directorships with other corporations:

Independent Directors

DUANE D. FITZGERALD, 54. Chairman, President and Chief Executive Officer, Bath Iron Works Corporation (Shipbuilding). Mr. Fitzgerald has not previously served on the Board. Mr. Fitzgerald served as Bath Iron Works' President and Chief Operating Officer from December 1988 until September 1991 when he was appointed to his current positions. Mr. Fitzgerald is also a director of the Shipbuilders Council of America and a trustee of the University of Maine System and of Boston University.

RICHARD D. MCCORMICK, 53. Chairman of the Board, President and Chief Executive Officer of US West, Inc. (telecommunications). Mr. McCormick has not previously served on the Board. Mr. McCormick has been Chairman of US West since May 1992 and President and Chief Executive Officer since 1991. He served as President and Chief Operating Officer from 1986 to 1991. Mr. McCormick is also a director of Norwest Corporation and Super Valu Stores, Inc.

JOHN K. VAN DE KAMP, 58. Partner, Dewey Ballantine (law firm). He has not previously served on the Board. Mr. Van de Kamp served as Attorney General of the State of California from 1983 until January 1991. He is also a member of the advisory board of Falcon Classic Cable Companies, Ltd. and a director of

Lawry's Restaurants, Inc. In addition, Mr. Van de Kamp serves on the board of directors of the following non-profit organizations: Day One, the Eisenhower World Affairs Institute, the Los Angeles Conservation Corps, the Planning and Conservation League and the Rockefeller Center for Social Sciences at Dartmouth College. He is also President of the Board of Governors of the City Club of Bunker Hill.

PAUL A. VOLCKER, 66. Chairman, James D. Wolfensohn Inc. (investment banking) and Frederick H. Schultz Professor of International Economic Policy, Princeton University. Mr. Volcker has not previously served on the Board. Mr. Volcker is also a director of Nestle S.A., Municipal Bond Assurance Corp. (MBIA), the American Stock Exchange and Prudential Insurance Co. of America. He is Chairman of the North American Committee of the Trilateral Commission, the Group of 30, the Advisory Boards of the Center for Strategic and International Studies and the Arthritis Foundation; he is co-chairman of the Bretton Woods Committee and the United States Hong Kong Economic Cooperation Committee. Mr. Volcker is also associated as trustee or member of the Board of Directors with the Council on Foreign Relations, the Aspen Institute, the Japan Society, the American Council on Germany and the American Assembly.

ALPA Director

ROGER D. HALL, 55. Chairman, United Airlines Pilots Master Executive Council, Air Line Pilots Association, International and Captain, B 737-200, United Air Lines, Inc. Captain Hall has not previously served on the Board. Captain Hall has been Chairman of the UAL-MEC since January, 1992. He served as ALPA First Vice President from 1987 to 1990. He has been a B 737-200 Captain since 1983. Captain Hall is also an Executive Board Member and Executive Council Member of ALPA.

IAM Director

JOHN PETERPAUL, 58. Vice President, International Association of Machinists and Aerospace Workers. Mr. Peterpaul has not previously served on the Board. Mr. Peterpaul will retire from the IAM in May 1994. He is a member of the Executive Board, General Council and Management Committee of the International Transport Workers' Federation (ITF), headquartered in London, England. He has served as Labor Chairman of the National Transportation Apprenticeship and Training Conference, Chairman of the Railway Labor Executives' Association and has served on numerous other labor and government committees including the National Commission to Ensure a Strong Competitive Airline Industry.

Salaried and Management Director

JOSEPH V. VITTORIA, 58. Chairman and Chief Executive Officer, Avis, Inc. since September 1987 (automobile renting and leasing). Mr. Vittoria has not previously served on the Board.

MARKET PRICES OF THE SHARES; DIVIDENDS

The Old Shares are traded principally on the NYSE, and are also listed on the Chicago Stock Exchange and the Pacific Stock Exchange. As of the Record Date, there were Old Shares outstanding, held of record by 19,072 holders. The following table sets forth for the periods indicated the high and low closing sale prices per Old Share on the NYSE Composite Tape.

| | HIGH | LOW |
|--|---------|---------|
| | ---- | ---- |
| 1992 | | |
| First Quarter..... | \$159 | 139 1/4 |
| Second Quarter..... | 143 3/4 | 111 |
| Third Quarter..... | 119 3/4 | 103 |
| Fourth Quarter..... | 128 1/8 | 106 1/4 |
| 1993 | | |
| First Quarter..... | 132 1/4 | 110 3/4 |
| Second Quarter..... | 149 3/4 | 118 |
| Third Quarter..... | 150 1/2 | 121 5/8 |
| Fourth Quarter..... | 155 1/2 | 135 7/8 |
| 1994 | | |
| First Quarter..... | 150 | 123 3/4 |
| Second Quarter (through May 25, 1994)..... | 130 1/2 | 116 3/4 |

On December 22, 1993, the last trading day prior to the public announcement of the Agreement in Principle, the closing sale price for the Old Shares as reported on the NYSE Composite Tape was \$148 1/2 per Old Share. On March 24, 1994, the last trading day prior to the public announcement of the Plan of Recapitalization, the closing sale price for the Old Shares as reported on the NYSE Composite Tape was \$123 3/4 per Old Share. On May , the last trading day prior to the date of this Proxy Statement/Prospectus, the closing sale price for Old Shares as reported on the NYSE Composite Tape was \$. HOLDERS OF OLD SHARES SHOULD OBTAIN CURRENT MARKET QUOTATIONS FOR THE OLD SHARES AS ONE OF THE FACTORS RELEVANT TO ASSESSING THE VALUE OF THE NEW SHARES BEFORE VOTING ON THE PLAN OF RECAPITALIZATION. The New Shares are expected to be listed on the NYSE.

The Company has not paid cash dividends on the Old Shares since 1987. Following consummation of the Recapitalization, it is expected that cash dividends will not be paid on the New Shares for the foreseeable future.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

UAL CORPORATION AND SUBSIDIARY COMPANIES

The following consolidated financial information has been derived from the Company's consolidated financial statements, for each of the fiscal years in the five year period ended December 31, 1993, which statements have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports included elsewhere herein. Reference is made to said reports for the years 1993 and 1992 which include an explanatory paragraph with respect to the changes in methods of accounting for income taxes and postretirement benefits other than pensions as discussed in the notes to the consolidated financial statements for such years. The consolidated financial information for the three months ended March 31, 1994 and 1993 is unaudited but in the opinion of management includes all adjustments necessary for a fair presentation. The table also sets forth certain information on a pro forma basis giving effect to the Recapitalization and the Offerings. The following should be read in conjunction with the unaudited pro forma financial statements and notes related thereto included elsewhere herein and the Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, as amended, included elsewhere herein.

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|----------------------------------|-----------------------|-----------|-----------|-----------|----------|
| | 1993 PRO FORMA (UNAUDITED) | 1993 | 1992 | 1991 | 1990 | 1989 |
| | | (DOLLARS IN MILLIONS) | | | | |
| STATEMENT OF CONSOLIDATED OPERATIONS DATA: | | | | | | |
| Operating revenues(a) .. | \$ 13,297 | \$ 13,325 | \$ 11,853 | \$ 10,706 | \$ 10,296 | \$ 9,288 |
| Earnings (loss) from operations..... | 354(e) | 263 | (538) | (494) | (36) | 465 |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes.... | (38) | (31) | (417) | (332) | 94 | 324 |
| Net earnings (loss).... | N.A. | (50) | (957) | (332) | 94 | 324 |
| STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA (at end of period): | | | | | | |
| Total assets..... | (b) | \$ 12,840 | \$ 12,257 | \$ 9,876 | \$ 7,983 | \$ 7,194 |
| Total long-term debt and capital lease obligations, including current portion..... | (b) | 3,735 | 3,783 | 2,531 | 1,327 | 1,405 |
| Shareholders' equity... | (b) | 1,203 | 706 | 1,597 | 1,671 | 1,564 |
| OTHER DATA: | | | | | | |
| Ratio of earnings to fixed charges..... | (c) | (c) | (c) | (c) | 1.16 | 1.95 |
| Ratio of earnings to fixed charges and preferred stock dividends..... | (c) | (c) | (c) | (c) | 1.16 | 1.95 |
| UNITED OPERATING DATA: | | | | | | |
| Revenue passengers (millions)..... | 70 | 70 | 67 | 62 | 58 | 55 |
| Average length of a passenger trip in miles..... | 1,450 | 1,450 | 1,390 | 1,327 | 1,322 | 1,269 |
| Revenue passenger miles (millions)..... | 101,258 | 101,258 | 92,690 | 82,290 | 76,137 | 69,639 |
| Available seat miles (millions)..... | 150,728 | 150,728 | 137,491 | 124,100 | 114,995 | 104,547 |
| Passenger load factor.. | 67.2% | 67.2% | 67.4% | 66.3% | 66.2% | 66.6% |
| Break even passenger load factor..... | 65.0% | 65.5% | 70.6% | 69.7% | 66.5% | 62.8% |
| Revenue per passenger mile..... | 11.6c | 11.6c | 11.3c | 11.5c | 11.8c | 11.6c |
| Cost per available seat mile..... | 8.5c | 8.5c | 8.9c | 9.0c | 9.0c | 8.4c |
| Average price per gallon of jet fuel.... | 63.6c | 63.6c | 66.4c | 71.6c | 80.4c | 63.6c |

(UNAUDITED) THREE MONTHS
ENDED MARCH 31,

1994
PRO FORMA 1994 1993

(DOLLARS IN MILLIONS)

STATEMENT OF CONSOLIDATED OPERATIONS DATA:

| | | | |
|---|----------|----------|----------|
| Operating revenues(a)..... | \$ 3,193 | \$ 3,195 | \$ 3,053 |
| Loss from operations..... | (8)(e) | (36) | (121) |
| Loss before extraordinary item and cumulative effect of accounting changes..... | (58) | (71) | (138) |
| Net Loss..... | N.A. | (97) | (157) |

STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA

(at end of period):

| | | | |
|--|----------|----------|----------|
| Total assets..... | \$12,091 | \$12,889 | \$13,288 |
| Total long-term debt and capital lease obligations, including current portion..... | 4,445 | 3,687 | 4,017 |
| Shareholders' equity..... | (448) | 1,097 | 1,137 |

OTHER DATA:

| | | | |
|---|-----|-----|-----|
| Ratio of earnings to fixed charges..... | (d) | (d) | (d) |
| Ratio of earnings to fixed charges and preferred stock dividends..... | (d) | (d) | (d) |

UNITED OPERATING DATA:

| | | | |
|---|--------|--------|--------|
| Revenue passengers (millions)..... | 16 | 16 | 16 |
| Average length of a passenger trip in miles.... | 1,471 | 1,471 | 1,433 |
| Revenue passenger miles (millions)..... | 23,289 | 23,289 | 22,443 |
| Available seat miles (millions)..... | 35,598 | 35,598 | 35,220 |
| Passenger load factor..... | 65.4% | 65.4% | 63.7% |
| Break even passenger load factor..... | 65.8% | 66.5% | 66.3% |
| Revenue per passenger mile..... | 11.9c | 11.9c | 12.0c |
| Cost per available seat mile..... | 9.0c | 9.0c | 8.8c |
| Average price per gallon of jet fuel..... | 58.6c | 58.6c | 65.9c |

-
- (a) In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commission expense, as adjustments to revenue. Operating revenues and certain operating statistics for periods prior to 1994 have been adjusted to conform with the current presentation.
- (b) The Pro Forma Statement of Consolidated Financial Position assumes the transaction occurred at March 31, 1994. Therefore, pro forma information at December 31, 1993 is not applicable.
- (c) Earnings were inadequate to cover both fixed charges and fixed charges and preferred stock dividends by \$98 million in 1993, by \$748 million in 1992 and by \$599 million in 1991. On a pro forma basis, earnings were inadequate to cover fixed charges by \$109 million in 1993.
- (d) Earnings were inadequate to cover both fixed charges and fixed charges and preferred stock dividends by \$118 million and \$224 million for the three month periods ended March 31, 1994 and 1993, respectively. On a pro forma basis earnings were inadequate to cover fixed charges by \$97 million for the three months ended March 31, 1994.
- (e) The loss from operations includes an ESOP accounting charge which is dependent on the fair market value of the ESOP Preferred Stock during the period. The pro forma amount is based on an assumed fair value of \$120 per share. See note 4 to the Pro Forma Condensed Statement of Consolidated Operations for both the year ended December 31, 1993 and the three months ended March 31, 1994 for the effects of different fair value assumptions on the ESOP accounting charge.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

The following consolidated financial information has been derived from United's consolidated financial statements, for each of the fiscal years in the five year period ended December 31, 1993, which statements have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports included elsewhere herein. Reference is made to said reports for the years 1993 and 1992 which include an explanatory paragraph with respect to the changes in methods of accounting for income taxes and postretirement benefits other than pensions as discussed in the notes to the consolidated financial statements for such years. The consolidated financial information for the three months ended March 31, 1994 and 1993 is unaudited but in the opinion of management includes all adjustments necessary for a fair presentation. The table also sets forth certain information on a pro forma basis giving effect to the Recapitalization and the Offerings. The following should be read in conjunction with the unaudited pro forma financial statements and notes related thereto included elsewhere herein and the Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in United's Annual Report on Form 10-K for the year ended December 31, 1993, and Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, included elsewhere herein.

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|----------------------------------|----------|----------|----------|----------|----------|
| | 1993 PRO FORMA (UNAUDITED) | 1993 | 1992 | 1991 | 1990 | 1989 |
| | (DOLLARS IN MILLIONS) | | | | | |
| STATEMENT OF CONSOLIDATED OPERATIONS DATA: | | | | | | |
| Operating revenues(a) .. | 13,140 | \$13,168 | \$11,688 | \$10,703 | \$10,282 | \$ 9,267 |
| Earnings (loss) from operations..... | 386(e) | 295 | (496) | (491) | (41) | 464 |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes.... | (8) | (17) | (386) | (335) | 96 | 358 |
| Net earnings (loss).... | N.A. | (36) | (933) | (335) | 96 | 358 |
| STATEMENT OF CONSOLIDATED FINANCIAL POSITION DATA (at end of period): | | | | | | |
| Total assets..... | (b) | \$12,153 | \$12,067 | \$ 9,907 | \$ 8,001 | \$ 7,217 |
| Total long-term debt and capital lease obligations, including current portion..... | (b) | 3,614 | 3,628 | 2,531 | 1,326 | 1,404 |
| Shareholders' equity... | (b) | 674 | 738 | 1,613 | 1,769 | 1,665 |
| OTHER DATA: | | | | | | |
| Ratio of earnings to fixed charges..... | (c) | (e) | (e) | (e) | 1.16 | 2.08 |
| UNITED OPERATING DATA: | | | | | | |
| Revenue passengers (millions)..... | 70 | 70 | 67 | 62 | 58 | 55 |
| Average length of a passenger trip in miles..... | 1,450 | 1,450 | 1,390 | 1,327 | 1,322 | 1,269 |
| Revenue passenger miles (millions)..... | 101,258 | 101,258 | 92,690 | 82,290 | 76,137 | 69,639 |
| Available seat miles (millions)..... | 150,728 | 150,728 | 137,491 | 124,100 | 114,995 | 104,547 |
| Passenger load factor.. | 67.2% | 67.2% | 67.4% | 66.3% | 66.2% | 66.6% |
| Break even passenger load factor..... | 65.0% | 65.5% | 70.6% | 69.7% | 66.5% | 62.8% |
| Revenue per passenger mile..... | 11.6c | 11.6c | 11.3c | 11.5c | 11.8c | 11.6c |
| Cost per available seat mile..... | 8.5c | 8.5c | 8.9c | 9.0c | 9.0c | 8.4c |
| Average price per gallon of jet fuel.... | 63.6c | 63.6c | 66.4c | 71.6c | 80.4c | 63.6c |

THREE MONTHS ENDED MARCH 31,
(UNAUDITED)

1994
PRO FORMA 1994 1993

(DOLLARS IN MILLIONS)

STATEMENT OF CONSOLIDATED OPERATIONS DATA:

| | | | |
|--|----------|----------|----------|
| Operating revenues(a)..... | \$ 3,171 | \$ 3,173 | \$ 3,001 |
| Loss from operations..... | (16)(e) | (44) | (107) |
| Loss before extraordinary item and cumulative effect of accounting changes... | (62) | (79) | (129) |
| Net Loss..... | N.A. | (105) | (148) |

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
DATA

(at end of period):

| | | | |
|--|----------|----------|----------|
| Total assets..... | \$12,101 | \$12,196 | \$12,515 |
| Total long-term debt and capital lease obligations, including current portion.... | 4,325 | 3,567 | 3,864 |
| Shareholders' equity..... | (272) | 570 | 592 |

OTHER DATA:

| | | | |
|---|-----|-----|-----|
| Ratio of earnings to fixed charges..... | (d) | (d) | (d) |
|---|-----|-----|-----|

UNITED OPERATING DATA:

| | | | |
|---|--------|--------|--------|
| Revenue passengers (millions)..... | 16 | 16 | 16 |
| Average length of a passenger trip in miles..... | 1,471 | 1,471 | 1,433 |
| Revenue passenger miles (millions)..... | 23,289 | 23,289 | 22,443 |
| Available seat miles (millions)..... | 35,598 | 35,598 | 35,220 |
| Passenger load factor..... | 65.4% | 65.4% | 63.7% |
| Break even passenger load factor..... | 65.8% | 66.5% | 66.3% |
| Revenue per passenger mile..... | 11.9c | 11.9c | 12.0c |
| Cost per available seat mile..... | 9.0c | 9.0c | 8.8c |
| Average price per gallon of jet fuel..... | 58.6c | 58.6c | 65.9c |

-
- (a) In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commission expense, as adjustments to revenue. Historical operating revenue amounts and certain operating statistics for periods prior to 1994 have been adjusted to conform with the current presentation.
- (b) The Pro Forma Statement of Consolidated Financial Position assumes the transaction occurred at March 31, 1994. Therefore, pro forma information at December 31, 1993 is not applicable.
- (c) Earnings were inadequate to cover fixed charges by \$77 million in 1993, by \$694 million in 1992 and by \$604 million in 1991. On a pro forma basis, earnings were inadequate to cover fixed charges by \$63 million in 1993.
- (d) Earnings were inadequate to cover fixed charges by \$130 million and \$211 million for the three month periods ended March 31, 1994 and 1993, respectively. On a pro forma basis, earnings were inadequate to cover fixed charges by \$102 million for the three months ended March 31, 1994.
- (e) The loss from operations includes an ESOP accounting charge which is dependent on the fair market value of the ESOP Preferred Stock during the period. The pro forma amount is based on an assumed fair value of \$120 per share. See note 4 to the Pro Forma Condensed Statement of Consolidated Operations for both the year ended December 31, 1993 and the three months ended March 31, 1994 for the effects of different fair value assumptions on the ESOP accounting charge.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following are the unaudited Pro Forma Financial Information for each of the Company and United. These statements are based on an assumed purchase price for the Class 1 ESOP Preferred Stock at the Effective Time of \$120 per share. The actual purchase price for the Class 1 ESOP Preferred Stock at the Effective Time will be based on a market price-based formula. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Sales of ESOP Preferred Stock." These sets of unaudited Pro Forma Financial Information do not purport to be indicative of the results of operations or financial position that may be obtained in the future or that would actually have been obtained had the Recapitalization occurred on the dates indicated. In addition, there can be no assurance as to the purchase price of the Class 1 ESOP Preferred Stock.

UAL CORPORATION AND SUBSIDIARY COMPANIES

The following unaudited Pro Forma Condensed Statements of Consolidated Operations for the year ended December 31, 1993 and the three months ended March 31, 1994, and the unaudited Pro Forma Condensed Statement of Consolidated Financial Position as of March 31, 1994 for the Company and its subsidiaries have been prepared to reflect the Recapitalization, including: (i) the reclassification of Old Shares into New Shares and Redeemable Preferred Stock, (ii) the Offerings of interests in the Public Preferred Stock (as represented by Depositary Preferred Shares) and Debentures, (iii) the exchange of Redeemable Preferred Stock for cash and proceeds from the Offerings, (iv) the issuance of the first tranche of Class 1 ESOP Preferred Stock to the ESOP Trustee in exchange for cash and a promissory note, (v) the recognition of unearned ESOP Preferred Stock and the related additional capital invested, (vi) the recognition of the employee stock ownership plan accounting charge, (vii) the reduction of salaries and related costs for the anticipated impact of the wage and benefit reduction and certain work rule changes and (viii) the recognition of the anticipated benefits from the agreement to sell the U.S. flight kitchens. The unaudited Pro Forma Condensed Statements of Consolidated Operations were prepared as if the Recapitalization had occurred on January 1, 1993. The unaudited Pro Forma Condensed Statement of Consolidated Financial Position was prepared as if the Recapitalization occurred on March 31, 1994.

The pro forma statements assume the Recapitalization is not accounted for as an acquisition or merger and, accordingly, UAL's assets and liabilities have not been revalued. The reclassification of Old Shares into New Shares results in the elimination of the par value of the Old Shares and recognition of the par value of the New Shares. The distribution of the cash to holders of Old Shares is charged to additional capital invested and retained earnings.

The ESOPs are being accounted for in accordance with the American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, the Company will issue Class 1 ESOP Preferred Stock through seven ESOP Tranches beginning at the Effective Time, thirteen months following the Effective Time, annually thereafter for four years with a final ESOP Tranche on January 1, 2000. As the shares are issued to the Leveraged ESOP, the Company will report the issuance of shares as a credit to additional capital invested based on the fair value of the stock when such issuance occurs and report a corresponding charge to unearned ESOP Preferred Stock. As consideration for the shares, the Company will receive from the ESOP Trustee a series of promissory notes and cash. The notes will not be recorded in the Company's Statement of Consolidated Financial Position and the related interest income will also not be recorded in the Company's Statement of Consolidated Operations. As shares of Class 1 ESOP Preferred Stock are earned or committed to be released, an employee stock ownership plan accounting charge will be recognized equal to the average fair value of the shares committed to be released with a corresponding credit to unearned ESOP Preferred Stock. Any differences between the fair value of the shares committed to be released and the cost of the shares to the ESOP will be charged or credited to additional capital invested. For the Non-Leveraged Qualified ESOP and the Supplemental ESOP, the shares of Class 2 ESOP Preferred Stock will be recorded as the shares are committed to be contributed to the ESOP, with the offsetting entry to compensation expense.

Compensation expense will be recorded based on the fair value of the shares committed to be contributed to the ESOP, in accordance with the SOP.

The ESOP Preferred Stock is considered to be a common stock equivalent since the shares cannot remain outstanding indefinitely and participants cannot withdraw their shares from the plan. Under the SOP, when computing primary and fully diluted earnings per share, only those shares committed to be released are considered outstanding as common stock equivalents. Prospectively, as dividends are paid by the Company to the ESOP, only dividends on allocated shares will be recorded as a charge to equity. Since the Company controls the use of the dividends on unallocated ESOP Preferred Stock, such dividends will be recorded as compensation expense.

The unaudited Pro Forma Condensed Statements of Consolidated Operations include the recurring charges and credits that are directly attributable to the Recapitalization, such as the interest expense arising from the Debentures, the effects of the wage and benefit reductions and certain work-rule changes resulting from the employee investment, and the employee stock ownership plan accounting charge. No adjustments have been made to the pro forma revenues and expenses to reflect the results of structural changes in operations, such as U2, that might have been made had the changes been consummated on the assumed effective dates for presenting pro forma results.

The pro forma adjustments are based upon available information and upon certain assumptions that the Company believes are reasonable. In addition, this information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, as amended, which are included elsewhere in this Proxy Statement/Prospectus and which include the Company's Consolidated Financial Statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

UAL CORPORATION AND SUBSIDIARY COMPANIES

PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED OPERATIONS

YEAR ENDED DECEMBER 31, 1993

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|---|----------------|-------------------------|----------------|
| | ----- | ----- | ----- |
| Operating revenues..... | \$ 13,325 (11) | \$ (28)(1) | \$ 13,297 |
| Operating expenses: | | | |
| Salaries and related costs..... | 4,760 | (428)(2)(3) (191)(1) | 4,141 |
| Employee stock ownership plan accounting charge..... | | 369 (4) | 369 |
| Other..... | 8,302 (11) | 131 (1) | 8,433 |
| | ----- | ----- | ----- |
| | 13,062 | (119) | 12,943 |
| | ----- | ----- | ----- |
| Earnings (loss) from operations.. | 263 | 91 | 354 |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest, net..... | (209) | (72)(5) (30)(6) | (311) |
| Other, net..... | (101) | | (101) |
| | ----- | ----- | ----- |
| | (310) | (102) | (412) |
| | ----- | ----- | ----- |
| Loss from continuing operations before income taxes..... | (47) | (11) | (58) |
| Provision (credit) for income taxes..... | (16) | (4)(7) | (20) |
| | ----- | ----- | ----- |
| Loss from continuing operations.. | \$ (31) | \$ (7)(8) | \$ (38) |
| | ===== | ===== | ===== |
| Loss per share from continuing operations..... | \$ (2.64)(9) | | \$ (11.95)(10) |
| | ===== | | ===== |
| Shares used in per share computations..... | 24.4 (9) | | 12.5 (10) |
| | ===== | | ===== |

See accompanying notes to Pro Forma Condensed Statement of Consolidated Operations.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA CONDENSED

STATEMENT OF CONSOLIDATED OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1993

- (1) The Company entered into an agreement to sell its U.S. flight kitchens over a period of months beginning in December 1993 through June 1994 and an agreement to acquire catering services for a seven year period. This adjustment eliminates \$28 million of sales revenues and \$191 million of compensation costs recorded in 1993 relating to the U.S. flight kitchens that were sold and adds estimated incremental catering costs of \$131 million.
- (2) To adjust compensation expense for the pro forma effect of the wage and benefit reductions and certain work-rule changes resulting from the employee investment that provide for wage and other compensation savings during the approximately six year period beginning at the Effective Time. The pro forma adjustment represents the estimated savings in the 12 months assuming that such savings had commenced at the beginning of the period. The pro forma adjustment does not include any savings related to U2.
- (3) The following reconciles the labor cost savings included in the Pro Forma Condensed Statement of Consolidated Operations to the value of the employee investments included in the Company Analysis of employee investments for 1994 (see "SPECIAL FACTORS--Certain Company Analyses"):

(MILLIONS)

| | |
|--|-------|
| Pro Forma adjustment based on 1993 salaries..... | \$428 |
| Estimated compensation savings based on 1994 salaries..... | 68 |
| Estimated benefits of U2 during the first year..... | 64 |
| Estimated additional severance for flight kitchen employees during the first year..... | (36) |
| | ---- |
| Estimated 1994 investments..... | \$524 |
| | ==== |
| Estimated six months of investments included in 1994 analysis..... | \$262 |
| | ==== |

- (4) To record non-cash compensation for shares of ESOP Preferred Stock committed to be released to employees during the period based on the average fair value of such ESOP Preferred Stock. The average fair value of the ESOP Preferred Stock is based on two components: (1) the average fair value of the New Shares into which the ESOP Preferred Stock is convertible plus (2) a premium attributable to the dividend paying feature of the ESOP Preferred Stock. For purposes of the pro forma adjustment, the average fair value of the ESOP Preferred Stock was assumed to be the initial purchase price of \$120. In future years, it is anticipated that the ESOP Preferred Stock price, for purposes of computing the employees stock ownership plan accounting charge, will be determined by an independent appraiser who will value both components. Additionally, in future years, the shares committed to be released that are used to satisfy the dividends payable on previously allocated shares will be charged to retained earnings rather than compensation expense.

The shares of the ESOP Preferred Stock committed to be released are a fraction of the original ESOP Preferred Stock shares. It is anticipated the shares will be released in a level fashion over the 69 months of the ESOP taking into account the partial periods in 1994 and 2000. This would result in approximately 3.07 million ESOP Preferred Stock shares committed to be released in each full calendar year. Shares released in a partial year would be pro rated.

Since future expense is dependent on the fair market value of the ESOP Preferred Stock, it is difficult to forecast and may vary significantly from the value in the pro forma adjustment. Changes in the price of a New Share directly affect the determination of the value of a share of ESOP Preferred Stock. In addition, if the average value of a New Share exceeds \$136 during the first 12 months after the Effective

Date, additional shares of ESOP Preferred Stock will be issued to the Qualified Trust or reserved for issuance to the Non-Qualified Plan to increase the ESOP's ownership from 55% up to a maximum of 63%. Future expense is also affected by the premium associated with the dividend paying feature which shrinks over time as the dividend paying period is reduced.

Following is a summary of the impact to the employee stock ownership plan accounting charge of a range of fair market values:

| AVERAGE ESOP PREFERRED STOCK FAIR VALUE ----- | ESOP ACCOUNTING CHARGE* (MILLIONS) ----- |
|--|---|
| \$110 | \$338 |
| 120 | 369 |
| 130 | 400 |
| 140 | 430 |

 * Assumes 3.07 million shares committed to be released in the pro forma period and no shares used to satisfy dividends payable since shares are not allocated to participants until December 31. In later years shares will be used to satisfy dividends on allocated shares, which will reduce the ESOP accounting charge.

The following illustrates the impact to the ESOP accounting charge if the average value of the New Shares in the first 12 months exceeds \$136 per share.

| AVERAGE NEW SHARE PRICE ----- | AVERAGE ESOP PREFERRED STOCK FAIR VALUE* ----- | ADDITIONAL SHARES TO BE ISSUED** ----- | SHARES TO BE RELEASED FOR FIRST YEAR*** ----- | INCREASE IN ESOP ACCOUNTING CHARGE**** (MILLIONS) ----- |
|--|---|---|---|---|
| \$136 | \$168 | 0 | 0 | \$ 0 |
| 140 | 172 | 2,260,410 | 393,115 | 68 |
| 150 | 182 | 6,949,234 | 1,208,562 | 220 |

 * Assumes a dividend premium of \$32 per share.

** To achieve the maximum increase in ownership, the price of a New Share must average at least \$149.10 during the first 12 months after the Effective Date. If the average price of a New Share is less than or equal to \$136, no additional shares of ESOP Preferred Stock will be issued.

*** The additional shares will be released in a level fashion over the 69 months of the ESOP.

**** Represents the first year increase; subsequent increases are dependent on changes in the fair value of the ESOP Preferred Stock.

(5) To record the interest expense on the Series A Debentures at an annual estimated interest rate of 9.0% and on the Series B Debentures at an annual estimated interest rate of 9.7%, and to record amortization of the underwriting discount. For purposes of the pro forma adjustment, the interest rates are based on the Initial Pricing. The actual rates will be reset prior to Closing and any upward reset is limited to an additional 112.5 basis points. If the reset results in the actual rate being at the maximum interest rate, interest expense would increase by an additional \$9 million for the year. Further, if the Unions request prior to the Announcement Date that the Debentures contain a call provision, the actual rates may increase above the cap.

The underwriting agreements for the Offerings are expected to provide that if the Offerings are consummated, the interest rates may be adjusted to permit the Debentures to be sold at or closer to par, but if this is done, the principal amount of the Debentures will be reduced so that the interest payable will not exceed the stated maximum which was calculated based upon the interest rate cap. If the Offerings are not consummated, the interest rates are subject to the cap.

(6) To record foregone interest income due to the reduction in the Company's average investment balance resulting from the Recapitalization. The pro forma adjustment is based on the Company's average earnings rate during 1993.

- (7) To adjust the provision (credit) for income taxes to reflect the tax effect of changes to pretax income at the statutory rate in effect during 1993. For purposes of the pro forma adjustments, the book and tax employee stock ownership plan compensation charge are assumed to be the same.
- (8) If the Recapitalization is consummated, the Company expects to recognize nonrecurring charges of approximately \$44 million relating to additional severance benefits for employees terminated as a result of the sale of the flight kitchens, up to \$49.15 million of transaction fees and expenses incurred by ALPA, the IAM and certain advisors in connection with the structuring and establishment of the ESOPs, \$30 million for the Company's transaction fees and expenses, \$17 million of compensation expense relating to vesting the unvested restricted stock as a result of the change in control, \$21 million of payments and benefits to Mr. Greenwald and officers who are retiring at the Effective Time, and \$13 million of compensation expense (based on an assumed Old Share price of approximately \$131 at the Effective Time) relating to the vesting of unvested Options and the implementation of a feature that provides for cashless exercise of Options in the event of the Recapitalization. (The existing Option holders are only entitled to utilize the cashless exercise feature if the Recapitalization occurs. The pro forma financial information assumes all in-the-money Options are exercised at the Effective Time and, since the cashless exercise results in variable plan accounting, there is an initial nonrecurring charge for the cashless exercise feature but no ongoing impact; however, if Option holders do not exercise their Options at the Effective Time, there will be an ongoing accounting impact for the changes in the fair market value of the Recapitalization Consideration that is issuable upon exercise of such Options.) The total after-tax effect of the nonrecurring charges is \$122 million. Due to the nonrecurring nature of these charges, they have been excluded from the Pro Forma Condensed Statement of Consolidated Operations.
- (9) Due to the nature of the Recapitalization, a comparison of historical and pro forma loss per share is not meaningful.
- (10) The pro forma loss per common share is based on an estimated 12,519,891 weighted average shares outstanding and is calculated after preferred stock dividend requirements of \$33.2 million on the Company's outstanding Series A Preferred Stock and \$78.4 million on the Public Preferred Stock issued as a result of the Recapitalization. The number of weighted average shares assumes the Series A Preferred Stock does not convert during the first year of the transaction. The number of average shares of ESOP Preferred Stock committed to be released during the year were not included in the calculation as a common stock equivalent because the effect is anti-dilutive. Since no shares of ESOP Preferred Stock are allocated until December 31, the pro forma calculations assume no dividends are paid on allocated shares of ESOP Preferred Stock during the year ended December 31, 1993, and accordingly, dividends on ESOP Preferred Stock are not included in the pro forma loss per share. In addition, the pro forma calculations are based on the initial dividend rate of 10.25% for the Public Preferred Stock; however, the actual rate will be reset prior to Closing and the dividend rate could increase to a maximum of 11.375%. If the reset rate results in the maximum rate being 11.375%, the loss per share would increase by \$0.69 per share.

The underwriting agreements for Offerings are expected to provide that if the Offerings are consummated, the dividend rate on the Public Preferred Stock may be adjusted to permit the Depositary Preferred Shares to be sold at or closer to par, but if this is done, the number of Depositary Preferred Shares representing the Public Preferred Stock will be reduced so that the annual dividends will not exceed the stated maximum which was calculated based upon the dividend rate cap. If the Offering is not consummated, the dividend rate is subject to the cap.

Following is a reconciliation of the historical and pro forma weighted average shares:

(IN MILLIONS)

| | |
|--|--------|
| Historical weighted average shares during the year..... | 24.4 |
| Adjustment for restricted stock issued during the year assumed to be issued and vested on January 1, 1993..... | 0.1 |
| Adjustment for the number of option shares assumed to be issued at the Effective Time (see "THE PLAN OF RECAPITALIZATION--Terms and Conditions--General")..... | 0.5 |
| | ----- |
| Adjusted weighted average shares..... | 25.0 |
| Adjustment to give effect to the two for one exchange of Old Shares for New Shares..... | (12.5) |
| | ----- |
| Pro forma weighted average shares..... | 12.5 |
| | ===== |

- (11) In the first quarter of 1994, the Company began recording certain air transportation price adjustments, which were previously recorded as commission expense, as adjustments to revenue. Historical operating revenue and expense amounts have been adjusted to conform with the current presentation.

UAL CORPORATION AND SUBSIDIARY COMPANIES

PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 1994

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|---|-------------|-------------|--------------|
| | ----- | ----- | ----- |
| Operating revenues..... | \$3,195 | \$ (2)(1) | \$3,193 |
| Operating expenses: | | | |
| Salaries and related costs..... | 1,202 | (111)(2)(3) | 1,064 |
| | | (27)(1) | |
| Employee stock ownership plan accounting charge..... | | 86 (4) | 86 |
| Other..... | 2,029 | 22 (1) | 2,051 |
| | ----- | ----- | ----- |
| | 3,231 | (30) | 3,201 |
| | ----- | ----- | ----- |
| Earnings (loss) from operations..... | (36) | 28 | (8) |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest, net..... | (56) | (18)(5) | |
| | | (8)(6) | (82) |
| Other, net..... | (16) | 19 (7) | 3 |
| | ----- | ----- | ----- |
| | (72) | (7) | (79) |
| | ----- | ----- | ----- |
| Loss from continuing operations before income taxes..... | (108) | 21 | (87) |
| Provision (credit) for income taxes... | (37) | 8 (8) | (29) |
| | ----- | ----- | ----- |
| Loss from continuing operations..... | \$ (71) | \$ 13 | \$ (58) |
| | ===== | ===== | ===== |
| Loss per share from continuing operations..... | \$(3.31)(9) | | \$(7.45)(10) |
| | ===== | | ===== |
| Shares used in per share computations. | 24.5 (9) | | 12.5 (10) |
| | ===== | | ===== |

See accompanying notes to Pro Forma Condensed Statement of Consolidated Operations.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA CONDENSED

STATEMENT OF CONSOLIDATED OPERATIONS

THREE MONTHS ENDED MARCH 31, 1994

- (1) The Company entered into an agreement to sell its U.S. flight kitchens over a period of months beginning in December 1993 through June 1994 and an agreement to acquire catering services for a seven year period. This adjustment eliminates \$2 million of sales revenues and \$27 million of compensation costs recorded in the first quarter of 1994 relating to the U.S. flight kitchens that were sold and adds estimated incremental catering costs of \$22 million.
- (2) To adjust compensation expense for the pro forma effect of the wage and benefit reductions and certain work-rule changes resulting from the employee investment that provide for wage and other compensation savings during the approximately six year period beginning at the Effective Time. The pro forma adjustment represents the estimated savings in the first quarter of 1994 assuming that such savings had commenced at the beginning of the prior year. The pro forma adjustment does not include any savings related to U2.
- (3) The following reconciles the labor cost savings included in the Pro Forma Condensed Statement of Consolidated Operations to the value of the employee investments included in the Company Analysis of employee investments for 1994 (see "SPECIAL FACTORS--Certain Company Analyses"):

(MILLIONS)

| | |
|---|-------|
| Pro Forma adjustment..... | \$111 |
| Estimated compensation savings based on foregone 1994 raises... | 13 |
| Estimated benefits of U2 for three months..... | 16 |
| Estimated additional severance for flight kitchen employees for three months..... | (9) |
| | ---- |
| Estimated three months of investments..... | \$131 |
| | ==== |
| Estimated six months of investments included in 1994 analysis..... | \$262 |
| | ==== |

- (4) To record non-cash compensation for shares of ESOP Preferred Stock committed to be released to employees during the period based on the average fair value of the ESOP Preferred Stock. For purposes of the pro forma adjustment, the average fair value of the ESOP Preferred Stock was assumed to be the initial purchase price of \$120. The pro forma calculations assume that shares committed to be released in 1993 were allocated to participant accounts at the end of 1993. Thus, the portion of shares committed to be released in 1994 that will be used to satisfy dividends payable on allocated shares is charged to retained earnings rather than non-cash compensation expense. It is anticipated that in the first quarter of 1994, approximately 768,000 shares of ESOP Preferred Stock will be committed to be released, and that approximately 54,000 of these shares will be used for dividends.

Since future expense is dependent on the fair market value of the ESOP Preferred Stock, it is difficult to forecast and may vary significantly from the value in the pro forma adjustment. Changes in the price of a New Share directly affect the determination of the value of an ESOP Preferred Stock share. In addition, if the average value of a New Share exceeds \$136 during the first 12 months after the Effective Date, additional shares of ESOP Preferred Stock will be issued to the Qualified Trust or reserved for issuance to the Non-Qualified Plan. Future expense is also affected by the premium associated with the dividend paying feature which shrinks over time as the dividend paying period is reduced.

Following is a summary of the impact to the employee stock ownership plan accounting charge of a range of fair market values:

| AVERAGE ESOP PREFERRED STOCK FAIR VALUE ----- | ESOP ACCOUNTING CHARGE* (MILLIONS) ----- |
|--|---|
| \$110 | \$ 79 |
| 120 | 86 |
| 130 | 93 |
| 140 | 100 |

* Assumes 768,000 shares committed to be released in the pro forma period and approximately 54,000 shares used for dividends which are charged to retained earnings. As additional shares are allocated in later years, the ESOP accounting charge will be reduced.

The following illustrates the impact to the ESOP accounting charge for the quarter if the average value of the New Shares in the first 12 months exceeds \$136 per share.

| AVERAGE NEW SHARE PRICE ----- | AVERAGE ESOP PREFERRED STOCK FAIR VALUE* ----- | ADDITIONAL SHARES TO BE ISSUED** ----- | SHARES TO BE RELEASED FOR THE QUARTER*** ----- | INCREASE ON ESOP ACCOUNTING CHARGE**** (MILLIONS) ----- |
|--|--|---|--|---|
| \$136 | \$168 | 0 | 0 | \$ 0 |
| 140 | 172 | 2,260,410 | 98,279 | 16 |
| 150 | 182 | 6,949,234 | 302,141 | 51 |

* Assumes a dividend premium of \$32.

** To achieve the maximum increase in additional Shares, the price of a New Share must average at least \$149.10 during the first 12 months after the Effective Date. If the average price of a New Share is less than or equal to \$136, no additional shares of ESOP Preferred Stock will be issued.

*** The additional shares will be released in a level fashion over the 69 months of the ESOP.

**** Represents the increase for the quarter; subsequent increases are dependent on changes in the fair value of the ESOP Preferred Stock.

- (5) To record the interest expense on the Series A Debentures at an annual estimated interest rate of 9.0% and on the Series B Debentures at an annual estimated interest rate of 9.7%, and to record amortization of the underwriting discount. For purposes of the pro forma adjustment, the interest rates are based on the Initial Pricing. The actual rates will be reset prior to Closing and any upward reset is limited to an additional 112.5 basis points. If the reset results in the actual rate being at the maximum interest rate, interest expense would increase by an additional \$2 million for the quarter. Further, if the Unions request prior to the Announcement Date that the Debentures contain a call provision, the actual rates may increase above the maximum.
- (6) To record foregone interest income due to the reduction in the Company's average investment balance resulting from the Recapitalization. The pro forma adjustment is based on the Company's average earnings rate during the first quarter of 1994.
- (7) To reverse \$19 million of nonrecurring fees and expenses relating to the Recapitalization which were recorded in the first quarter of 1994.
- (8) To adjust the provision (credit) for income taxes to reflect the tax effect of changes to pretax income at the statutory rate in effect during the first quarter of 1994. For purposes of the pro forma adjustment the book and tax employee stock ownership plan compensation charge are assumed to be the same.
- (9) Due to the nature of the Recapitalization, a comparison of historical and pro forma loss per share is not meaningful.
- (10) The pro forma loss per common share is based on an estimated 12,547,163

weighted average shares outstanding and is calculated after preferred stock dividend requirements of \$9.4 million on the

Company's outstanding Series A Preferred Stock, \$19.6 million on the Public Preferred Stock issued as a result of the Recapitalization and \$6.5 million on the ESOP Preferred Stock issued as a result of the Recapitalization. The dividends on the ESOP Preferred Stock relate to the estimated 3,073,974 shares allocated at the end of 1993 (of the total 17,675,345 shares that will be allocated) and a dividend rate of 7%. The number of weighted average shares assumes the Series A Preferred Stock does not convert during the first year of the transaction. The number of average shares of ESOP Preferred Stock committed to be released during the period were not included in the calculation as a common stock equivalent because the effect is anti-dilutive. In addition, the pro forma calculations are based on the initial dividend rate of 10.25% on the Public Preferred Stock; however, the actual rate will be reset prior to closing and the dividend rate could increase to a maximum of 11.375%. If the reset rate results in the maximum rate being 11.375%, the loss per share for the quarter would increase by \$0.17 per share.

Following is a reconciliation of the historical and pro forma weighted average shares:

| | (IN MILLIONS) |
|--|---------------|
| Historical weighted average shares for the quarter..... | 24.5 |
| Adjustment for restricted stock issued subsequent to January 1, 1993 assumed to be issued and vested on January 1, 1993. | 0.1 |
| Adjustment for the number of option shares assumed to be issued at the Effective Time (see "THE PLAN OF RECAPITALIZATION--Terms and Conditions--General")..... | 0.5 |
| | ----- |
| Adjusted weighted average shares..... | 25.1 |
| Adjustment to give effect to the two for one exchange of Old Shares for New Shares..... | (12.6) |
| | ----- |
| Pro forma weighted average shares..... | 12.5 |
| | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES
PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

MARCH 31, 1994

(IN MILLIONS, EXCEPT SHARE DATA)

| ASSETS | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|--|------------|---|---------------|
| ----- | ----- | ----- | ----- |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 1,046 | \$1,498 (1a) (2,208) (1b) (140) (2) 8 (11) | \$ 204 |
| Short-term investments..... | 1,020 | | 1,020 |
| Other..... | 1,837 | 44 (3) | 1,881 |
| | ----- | ----- | ----- |
| | 3,903 | (798) | 3,105 |
| | ----- | ----- | ----- |
| Operating property and equipment..... | 12,226 | | 12,226 |
| Less: Accumulated depreciation and amortization..... | (5,177) | | (5,177) |
| | ----- | ----- | ----- |
| | 7,049 | | 7,049 |
| | ----- | ----- | ----- |
| Other assets: | | | |
| Other..... | 1,937 | | 1,937 |
| | ----- | ----- | ----- |
| | \$12,889 | \$ (798) | \$12,091 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| ----- | | | |
| Current liabilities: | | | |
| Short-term borrowings, long-term debt maturing within one year and current obligations under capital leases..... | \$ 486 | \$ | \$ 486 |
| Other..... | 4,502 | (11) (11) | 4,491 |
| | ----- | ----- | ----- |
| | 4,988 | (11) | 4,977 |
| | ----- | ----- | ----- |
| Long-term debt..... | 2,693 | 758 (1c) | 3,451 |
| | ----- | ----- | ----- |
| Long-term obligations under capital leases.. | 777 | | 777 |
| | ----- | ----- | ----- |
| Other liabilities, deferred credits and minority interest..... | 3,334 | | 3,334 |
| | ----- | ----- | ----- |
| Shareholders' equity: | | | |
| Series A Preferred Stock, \$.01 stated value, 6,000,000 shares issued, \$100 liquidation value..... | -- | -- | -- |
| Series B Preferred Stock, \$.01 stated value, 30,566 shares issued, \$25,000 liquidation value..... | | -- (1d) | -- |
| Class 1 ESOP Preferred Stock, \$.01 par, 1,899,059 shares issued, \$120 liquidation value..... | | -- (4) | -- |
| Class 2 ESOP Preferred Stock, \$.01 par, none issued | | -- (4) | -- |
| Voting Preferred Stock, \$.01 par, 3 shares issued, \$.01 liquidation value..... | | -- (5) | -- |
| Common stock, \$5 par value, 25,500,662 shares issued and outstanding--historical..... | 128 | (128) (1e) | -- |
| Common stock, \$.01 par value, 13,006,564 shares issued and outstanding--pro forma(12)..... | | -- (1e) | -- |
| Additional capital invested..... | 963 | (963) (1e) 740 (1d) 228 (4) 13 (6) | 981 |
| | ----- | ----- | ----- |
| Retained earnings (deficit)..... | 142 | (1,117) (1e) (108) (7) | (1,083) |
| Pension liability adjustment..... | (53) | | (53) |
| Unearned compensation..... | (14) | 14 (8) | -- |
| Unearned ESOP Preferred Stock..... | | (228) (4) | (228) |
| Unrealized loss on investments..... | (2) | | (2) |
| Common stock held in treasury, 929,631 shares--historical, 439,816 shares--pro | | | |

| | | | |
|-------------|----------|-------------|----------|
| forma | (67) | 4 (9) | (63) |
| | ----- | ----- | ----- |
| | 1,097 | (1,545)(10) | (448) |
| | ----- | ----- | ----- |
| | \$12,889 | \$ (798) | \$12,091 |
| | ===== | ===== | ===== |

See the accompanying notes to Pro Forma Condensed Statement of Consolidated
Financial Position.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

MARCH 31, 1994

- (1) To record the Recapitalization (as described in "THE PLAN OF RECAPITALIZATION--Terms and Conditions"). The entries assume that (i) the Offerings of Debentures and Depositary Preferred Shares representing interests in Public Preferred Stock are consummated, (ii) all in-the-money employee stock options are vested and exercised at the Effective Time using a cashless exercise mechanism, (iii) treasury stock held by the Company immediately prior to the Effective Time will convert into New Shares that remain outstanding after the Recapitalization and (iv) Convertible Company Securities that are outstanding immediately prior to the Effective Time will not convert into the Recapitalization Consideration at the Effective Time. The cashless exercise feature permits holders of Options to exercise them by surrendering to the Company a portion of the proceeds of the Option in lieu of paying the exercise price in cash. When the cashless exercise feature is used, each element of the Recapitalization Consideration that is issuable upon the exercise of such Options, is reduced proportionately, and the net Recapitalization Consideration (including the New Shares) that is issued is equal in value to the spread value of the Options exercised. See footnote number 8 to the Pro Forma Condensed Statement of Consolidated Operations for the year ended December 31, 1993.
- (a) To record the proceeds from the Offerings of approximately \$765 million of Debentures and approximately \$765 million of Depositary Preferred Shares representing interests in Public Preferred Stock, net of underwriting discount of \$7 million for the Debentures and \$25 million for the Public Preferred Stock. (If the Offerings are not consummated, the Debentures and the Depositary Preferred Shares included in entry 1(c) and 1(d) will be issued to the holders of Old Shares upon redemption of the Redeemable Preferred Stock.)
- (b) To record the cash payment to holders of Old Shares upon the redemption of the Redeemable Preferred Stock. The cash payment includes \$25.80 per share plus proceeds from the sales of \$31.10 face amount of Debentures and Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock (before deducting underwriting discounts), and assumes that the proceeds of the sales equals the face amount of the securities. The pro forma adjustment also includes the cash payment of \$88 per share upon exercise of Options. (If the amount to be sold in the Offerings are reduced as discussed in entry 1(c) and 1(d), the amount paid to holders of Old Shares will be reduced.)
- (c) To record the issuance of \$382.5 million of principal amount of Series A Debentures and \$382.5 million of principal amount of Series B Debentures. The Debentures are being recorded at their face amount on the assumption that they will be priced to trade at par, less the underwriting discount of \$7 million. The actual rate on the Debentures will be reset prior to the Effective Time and the Debentures are subject to a maximum interest rate of 112.5 basis points above the Initial Pricing. The underwriting agreements for the Offerings are expected to provide that if the Offerings are consummated, the interest rate may be adjusted in order for the Debentures to be sold at or closer to par, in which case the principal amount of the Debentures will be reduced so that the annual interest expense will not exceed the stated maximum which was calculated based upon the rate cap. If the Offerings are not consummated and the interest rate exceeds the cap, the Debentures will be recorded at a discount.
- (d) To record the issuance of Depositary Preferred Shares representing interests in \$765 million liquidation preference of Public Preferred Stock, net of underwriting discount of \$25 million. The Public Preferred Stock is recorded at its stated value of \$.01 per share, with the excess of liquidation value over stated value and net of underwriting discount recorded as additional capital invested. The dividend rate on the Public Preferred Stock will be reset prior to Closing and is subject to a maximum of 11.375%. The underwriting agreements for the Offerings are expected to provide that if the Offering is consummated, the dividend rate may be adjusted in which case the

number of Depositary Preferred Shares will be reduced so that the annual dividends will not exceed the stated maximum which was calculated based upon the rate cap.

- (e) To record the reclassification of Old Shares into New Shares and Redeemable Preferred Stock. The Redeemable Preferred Stock is assumed to immediately convert to cash, including proceeds from the sale of Debentures and Depositary Preferred Shares representing interests in the Public Preferred Stock. (The pro forma adjustments do not reflect the Redeemable Preferred Stock issued to the Company upon reclassification of the treasury stock because such shares are surrendered for cancellation immediately after issuance.)

The New Shares are recorded at their par value of \$.01 per share. Following is a summary of the entries to additional capital invested and retained earnings (in millions):

| | ADDITIONAL CAPITAL INVESTED | RETAINED EARNINGS |
|---------------------------------|-----------------------------------|----------------------|
| | ----- | ----- |
| Cancellation of Old Shares..... | \$ 128 | \$ -- |
| Distribution of cash..... | (1,091) | (1,117) |
| | ----- | ----- |
| Pro forma adjustment..... | \$ (963) | \$(1,117) |
| | ===== | ===== |

- (2) To record the cash impact of the estimated fees and transaction expenses, including expenses for the Company, ALPA and the IAM, severance payments to terminated officers and flight kitchen employees and payments relating to the employment agreement with Mr. Greenwald.
- (3) To record the tax effects relating to nonrecurring charges recognized as a result of the Recapitalization.
- (4) To record the initial issuance of Class 1 ESOP Preferred Stock to the Leveraged ESOP for an aggregate purchase price of \$228 million. The \$228 million was determined based on (i) 1,899,059 shares of Class 1 ESOP Preferred Stock expected to be issued in the first ESOP Tranche as of the Effective Time and (ii) an assumed purchase price of \$120 per share. UAL and the Unions may, prior to the Effective Time, agree to increase or decrease the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time. The agreement with the ESOP Trustee provides that the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time shall be no more than 2,088,965 and no fewer than 1,709,153. The actual price per share for the first ESOP Tranche will be 1.38 times the average price of a New Share at the Effective Time. Thus, the ultimate amount recorded at the Effective Time will differ from the pro forma adjustment in order to reflect the actual number of shares issued and the average closing price of the New Shares.

Six additional ESOP Tranches will be issued to the Leveraged ESOP during the 69 months subsequent to the Effective Time, with the total shares of Class 1 ESOP Preferred Stock issued in the seven ESOP Tranches aggregating approximately 14,000,000 shares (subject to increase, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares"). The price for the subsequent ESOP Tranches will be as agreed between the Company and the ESOP Trustee at the time of each sale. As the subsequent ESOP Tranches are issued, the shares will be reported as a credit to additional capital invested based on the fair value of the stock when such issuances occur with a corresponding charge to "Unearned ESOP Preferred Stock."

The Unearned ESOP Preferred Stock recorded in the pro forma adjustment together with the Unearned ESOP Preferred Stock recorded from subsequent ESOP Tranches will be recognized as compensation expense over the approximately six year investment period as the shares are committed to be released. The difference between the compensation expense recorded, which is based on the fair value of the stock during an accounting period, and the recorded cost of the unearned ESOP Preferred Stock will be recorded to additional capital invested.

The shares of Class 2 ESOP Preferred Stock will be recorded over the approximately six year investment period as the shares are committed to be contributed to the Non-Leveraged Qualified ESOP and credited to employees pursuant to the Supplemental ESOP with the offsetting entry being to compensation expense. The number of shares of Class 2 ESOP Preferred Stock that will be issued will be equal to 17,675,345 less the number of Shares of Class 1 ESOP Preferred Stock that will be sold to the Qualified Trust.

The ESOP Preferred Stock is convertible into New Shares at any time at the election of the ESOP Trustee at a rate of one New Share for each share of ESOP Preferred Stock (subject to adjustment). Primarily because of limitations imposed by the Internal Revenue Code, the ESOP consists of three major portions: (i) the Leveraged ESOP, the Non-Leveraged Qualified ESOP, and the Supplemental ESOP. Shares of ESOP Preferred Stock issued under the Leveraged ESOP and the Non-Leveraged Qualified ESOP will be held by the ESOP Trustee under the Qualified Trust. Under the Supplemental ESOP, shares will be credited as Book-Entry Shares when earned by employees, and will be issued to employees as New Shares, generally upon termination of employment. ALPA has the right to elect, at any time, before or after the Effective Time, that the Supplemental ESOP be maintained by the actual issuance of Class 2 ESOP Preferred Stock to a non-qualified trust established under the Supplemental Plan. In general, the Plan of Recapitalization is designed to maximize the number of shares of ESOP Preferred Stock that may be sold to the Qualified Trust. However, because of certain limitations imposed by the Internal Revenue Code, a portion of the equity interest to be obtained by the ESOP Trustee may not be sold to the Qualified Trust. The Class 1 ESOP Preferred Stock contains a fixed dividend feature which is intended to maximize the number of shares of Class 1 ESOP Preferred Stock that may be sold to the Qualified Trust consistent with the applicable provisions of the Internal Revenue Code. To the extent the Qualified Trust is unable to purchase the Class 1 ESOP Preferred Stock, Class 2 ESOP Preferred Stock will be issued, to the extent permitted by the limitations of the Internal Revenue Code, to the ESOP Trustee pursuant to the Non-Leveraged Qualified ESOP. Class 2 ESOP Preferred Stock will not contain a fixed dividend. To the extent that Class 2 ESOP Preferred Stock cannot be issued to the ESOP Trustee because of the limitations of the Internal Revenue Code, the Company will credit Book-Entry Shares to accounts established for the employees.

- (5) To record the issuance at par of one share of Class P Voting Preferred Stock, one share of Class M Voting Preferred Stock, and one share of Class S Voting Preferred Stock to the ESOP Trusts. The remaining Voting Preferred Stock will be issued when it is contributed to the Supplemental ESOP Trust. The Class P Voting Preferred Stock, the Class M Voting Preferred Stock and the Class S Voting Preferred Stock, which are referred to collectively as the Voting Preferred Stock, represent and permit, in connection with the establishment of the ESOPs, the exercise of voting power representing 55% (which under certain circumstances may be increased to up to 63%) of the voting power of the Company. See "DESCRIPTION OF SECURITIES--The Voting Preferred Stock." The ESOPs provide that upon the conversion of all the ESOP Preferred Stock into New Shares, each share of Voting Preferred Stock will be converted into one ten-thousandth of a New Share.
- (6) To account for the cashless exercise of options in the event of the Recapitalization. (Amount of the entry is based on an assumed Old Share price at the Effective Time of approximately \$131 per share.)
- (7) Represents the offset to entries (2), (3), (6), (8), (9) and (11).
- (8) To record the vesting of the unvested restricted stock as a result of the Recapitalization.
- (9) To record 25,000 restricted shares to Mr. Greenwald that will vest at the Effective Time.
- (10) Does not reflect the issuance of four shares of Class I Preferred Stock, one share of Class Pilot MEC Preferred Stock, one share of Class IAM Preferred Stock, and three shares of Class SAM Preferred Stock. These stocks have a \$.01 par value and nominal economic value. The Class I Preferred Stock

will be issued to the Independent Directors and will have the power to elect such directors to the Board. The Class Pilot MEC Preferred Stock will be issued to the ALPA-MEC and will have the power to elect the ALPA Director. The Class IAM Preferred Stock will be issued to the IAM or its nominee and will have the power to elect the IAM Director. The Class SAM Preferred Stock will be issued to the Salaried and Management Director and to the senior executive at United who has primary responsibility for human resources and will have the power to elect the Salaried and Management Director. Such classes of stock are referred to collectively as the Director Preferred Stock. See "DESCRIPTION OF SECURITIES--The Director Preferred Stock." Upon the occurrence of an Uninstructed Trustee Action (as defined below), the Class Pilot MEC Preferred Stock will succeed to the voting power previously held by the Class P Preferred Stock, the Class IAM Preferred Stock will succeed to the voting power previously held by the Class M Preferred Stock and the Class SAM Preferred Stock will succeed to the voting power previously held by the Class S Preferred Stock. See "DESCRIPTION OF SECURITIES--The Director Preferred Stock--Uninstructed Trustee Actions."

- (11) To reverse \$19 million of transaction fees and expenses recorded during the first quarter of 1994 because these expenses are included in entry (2).
- (12) The number of New Shares issued on a pro forma basis is based on Fully Diluted Old Shares assuming the Convertible Company Securities do not convert. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--General."

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

The following unaudited Pro Forma Condensed Statements of Consolidated Operations for the year ended December 31, 1993 and the three months ended March 31, 1994, and the unaudited Pro Forma Condensed Statement of Consolidated Financial Position as of March 31, 1994 for United and its subsidiaries have been prepared to reflect the impact of the Recapitalization on United, including: (i) the recognition of unearned ESOP Preferred Stock and related ESOP capital as a result of the issuance of the first tranche of UAL Class 1 ESOP Preferred Stock, (ii) the offering of Debentures and distribution of proceeds to UAL, (iii) the recognition of the employee stock ownership plan accounting charge, (iv) the reduction in salaries and related cost for the anticipated impact of the wage and benefit reductions and certain work rule changes and (v) the recognition of the anticipated benefits of the agreement to sell the U.S. flight kitchens. The unaudited Pro Forma Condensed Statements of Consolidated Operations were prepared as if the Recapitalization had occurred on January 1, 1993. The unaudited Pro Forma Condensed Statement of Consolidated Financial Position was prepared as if the Recapitalization occurred on March 31, 1994.

The pro forma statements assume the Recapitalization is not accounted for as an acquisition or merger and, accordingly, United's assets and liabilities have not been revalued. The distribution to UAL of proceeds from the Offering of Debentures is charged to additional capital invested.

The ESOPs are being accounted for in accordance with the American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, the Company will issue Class 1 ESOP Preferred Stock through seven ESOP Tranches beginning at the Effective Time, thirteen months following the Effective Time, annually thereafter for four years with a final ESOP Tranche on January 1, 2000. As the Shares are issued to the Leverage ESOP, United will report the issuance of shares as a credit to ESOP capital based on the fair value of the Class 1 stock when such issuance occurs and report a corresponding charge to unearned ESOP Preferred Stock. As shares of ESOP Preferred are earned or committed to be released, compensation expense will be recognized equal to the average fair value of the shares committed to be released with a corresponding credit to unearned ESOP Preferred Stock. Any differences between the fair value of the shares committed to be released and the cost of the shares to the ESOP will be charged or credited to ESOP capital. For the Non-Leveraged Qualified ESOP and the Supplemental ESOP, the shares of Class 2 ESOP Preferred Stock will be recorded as the shares are committed to be contributed to the ESOP, with the offsetting entry to compensation expense. Compensation expense will be recorded based on the fair value of the shares committed to be contributed to the ESOP, in accordance with the SOP. The unearned ESOP Preferred Stock, ESOP capital and employee stock ownership accounting charge will be recorded on United's books since participants in the ESOP are employees of United.

The unaudited Pro Forma Condensed Statements of Consolidated Operations include the recurring charges and credits which are directly attributable to the Recapitalization, such as the interest expense arising from the Debentures, the effects of the wage and benefit reductions and certain work-rule changes resulting from the employee investment, and the employee stock ownership plan accounting charge. No adjustments have been made to the pro forma revenues and expenses to reflect the results of structural changes in operations, such as U2, that might have been made had the changes been consummated on the assumed effective dates for presenting pro forma results.

The pro forma adjustments are based upon available information and upon certain assumptions that United believes are reasonable. In addition, this information should be read in conjunction with United's Annual Report on Form 10-K for the year ended December 31, 1993, and United's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, which are included elsewhere in this Proxy Statement/ Prospectus and which include United's Consolidated Financial Statements, the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED OPERATIONS

YEAR ENDED DECEMBER 31, 1993

(IN MILLIONS)

| | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|--|-------------|-------------------------|-----------|
| | ----- | ----- | ----- |
| Operating revenues..... | \$13,168(8) | \$(28)(1) | \$13,140 |
| Operating expenses: | | | |
| Salaries and related costs..... | 4,695 | (428)(2)(3) (191)(1) | 4,076 |
| Employee stock ownership plan accounting charge..... | | 369 (4) | 369 |
| Other..... | 8,178(8) | 131 (1) | 8,309 |
| | ----- | ----- | ----- |
| | 12,873 | (119) | 12,754 |
| | ----- | ----- | ----- |
| Earnings (loss) from operations..... | 295 | 91 | 386 |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest, net..... | (221) | (77)(5) | (298) |
| Other, net..... | (100) | | (100) |
| | ----- | ----- | ----- |
| | (321) | (77) | (398) |
| | ----- | ----- | ----- |
| Loss from continuing operations | | | |
| before income taxes..... | (26) | 14 | (12) |
| Provision (credit) for income taxes..... | (9) | 5 (6) | (4) |
| | ----- | ----- | ----- |
| Loss from continuing operations..... | \$ (17) | \$ 9 (7) | \$ (8) |
| | ===== | ===== | ===== |

See accompanying notes to Pro Forma Condensed Statement of Consolidated Operations.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA CONDENSED

STATEMENT OF CONSOLIDATED OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1993

- (1) United entered into an agreement to sell its U.S. flight kitchens over a period of months beginning in December 1993 through June 1994, and an agreement to acquire catering services for a seven year period. This adjustment eliminates \$28 million of sales revenues and \$191 million of compensation costs recorded in 1993 relating to the U.S. flight kitchens that were sold, and adds estimated incremental catering costs of \$131 million.
- (2) To adjust compensation expense for the pro forma effect of wage and benefit reductions and certain work-rule changes resulting from the employee investment that provide for wage and other compensation savings during the approximately six year period beginning at the Effective Time. The pro forma adjustment represents the estimated savings in the 12 months assuming that such savings had commenced at the beginning of the period. The pro forma adjustment does not include any savings related to U2.
- (3) The following reconciles the labor cost savings included in the Pro Forma Condensed Statement of Consolidated Operations to the value of the employee investments included in the Company Analysis of employee investments for 1994 (see "SPECIAL FACTORS--Certain Company Analyses"):

(MILLIONS)

| | |
|---|-------|
| Pro Forma adjustment based on 1993 salaries..... | \$428 |
| Estimated compensation savings based on 1994 salaries..... | 68 |
| Estimated benefits of U2 during the first year..... | 64 |
| Estimated additional severance for flight kitchen employees during the first year..... | (36) |
| | ---- |
| Estimated 1994 investments..... | \$524 |
| | ==== |
| Estimated six months of investments included in 1994 analy- sis..... | \$262 |
| | ==== |

- (4) To record non-cash compensation for shares of ESOP Preferred Stock committed to be released to employees during the period based on the average fair value of such ESOP Preferred Stock. The average fair value of the ESOP Preferred Stock is based on two components: (1) the average fair value of the New Shares into which the ESOP Preferred Stock is convertible plus (2) a premium attributable to the dividend paying feature of the ESOP Preferred Stock. For purposes of the pro forma adjustment, the average fair value of the ESOP Preferred Stock was assumed to be the initial purchase price of \$120. In future years, it is anticipated that the ESOP Preferred Stock price, for purposes of computing the employee stock ownership plan accounting charge, will be determined by an independent appraiser who will value both components. Additionally, in future years, the shares committed to be released that are used to satisfy the dividends payable on previously allocated shares will be charged to retained earnings rather than compensation expense.

The shares of the ESOP Preferred Stock committed to be released are a fraction of the original ESOP Preferred Stock shares. It is anticipated the shares will be released in a level fashion over the 69 months of the ESOP taking into account the partial period in 1994 and 2000. This would result in approximately 3.07 million ESOP Preferred Stock shares committed to be released in each full calendar year. Shares released in a partial year would be pro rated.

Since future expense is dependent on the fair market value of the ESOP Preferred Stock it is difficult to forecast and may vary significantly from the value in the pro forma adjustment. Changes in the price of a New Share directly affect the determination of the value of an ESOP Preferred Stock share. In addition, if the average value of a New Share exceeds \$136 during the first 12 month after the Effective Date, additional

shares of ESOP Preferred Stock will be issued to the Qualified Trust or reserved for issuance to the Non-Qualified Plan to increase the ESOP's ownership from 55% to 63%. Future expense is also affected by the premium associated with the dividend paying feature which shrinks over time as the dividend paying period is reduced.

Following is a summary of the impact to the employee stock ownership plan accounting charge of a range of fair market values;

| AVERAGE ESOP PREFERRED STOCK FAIR VALUE ----- | ESOP ACCOUNTING CHARGE* (MILLIONS) ----- |
|--|---|
| \$110 | \$338 |
| 120 | 369 |
| 130 | 400 |
| 140 | 430 |

*Assumes 3.07 million shares committed to be released in the pro forma period and no shares used to satisfy dividends payable since shares are not allocated to participants until December 31. In later years shares will be used to satisfy dividends on allocated shares, which will reduce the ESOP accounting charge.

The following illustrates the impact to the ESOP accounting charge if the average value of the New Shares in the first 12 months exceeds \$136 per share.

| AVERAGE NEW SHARE PRICE ----- | AVERAGE ESOP PREFERRED STOCK FAIR VALUE* ----- | ADDITIONAL SHARES TO BE ISSUED** ----- | SHARES TO BE RELEASED FOR FIRST YEAR*** ----- | INCREASE IN ESOP ACCOUNTING CHARGE**** (MILLIONS) ----- |
|--|---|---|--|---|
| \$136 | \$168 | 0 | 0 | \$ 0 |
| 140 | 172 | 2,260,410 | 393,115 | 68 |
| 150 | 182 | 6,949,234 | 1,208,562 | 220 |

*Assumes a dividend premium of \$32 per share.

**To achieve the maximum increase in ownership, the price of a New Share must average at least \$149.10 during the first 12 months after the Effective Date. If the average price of a New Share is less than or equal to \$136, no additional shares of ESOP Preferred Stock will be issued.

***The additional shares will be released in a level fashion over the 69 months of the ESOP.

****Represents the first year increase; subsequent increases are dependent on changes in the fair value of ESOP Preferred Stock.

- (5) To record interest expense of \$72 million on the Series A Debentures at an annual estimated interest rate of 9.0% and on the Series B Debentures at an annual estimated interest rate of 9.7%, and to record amortization of the underwriting discount. The pro forma adjustment also includes foregone interest income due to the reduction in United's average investment balance resulting from the transaction. For purposes of the pro forma adjustment, the interest rates on the Debentures are based on the Initial Pricing. The actual rates will be reset prior to Closing and the reset is limited to an additional 112.5 basis points. If the reset results in the actual rate being at the maximum interest rate, interest expense would increase by an additional \$9 million for the year. Further, if the Unions request prior to the Announcement Date that the Debentures contain a call provision, the actual rates could increase above the cap.

The underwriting agreements for the Offerings are expected to provide that if the Offerings are consummated, the interest rates may be set above the cap to permit the Debentures to be sold at or

closer to par, but if this is done, the principal amount of the Debentures will be reduced so that the interest payable will not exceed the stated maximum which was calculated based upon the interest rate cap. If the Offerings are not consummated, the interest rates are subject to the cap.

- (6) To adjust the provision (credit) for income taxes to reflect the tax effect of changes to pretax income at the statutory rate in effect during 1993. For purposes of the pro forma adjustment, the book and tax employee stock ownership plan compensation charge are assumed to be the same.
- (7) If the Recapitalization is consummated, United expects to recognize nonrecurring charges of approximately \$44 million relating to additional severance benefits for employees terminated as a result of the sale of the flight kitchens, up to \$49.15 million of transaction fees and expenses incurred by ALPA, the IAM and certain advisors in connection with the structuring and establishment of the ESOPs, \$30 million for United's transaction fees and expenses, \$17 million of compensation expense relating to vesting the unvested restricted stock as a result of the change in control, \$21 million of payments and benefits to Mr. Greenwald and officers who are retiring at the Effective Time, and \$13 million of compensation expense (based on an assumed Old Share price of approximately \$131 at the Effective Time) relating to the vesting of unvested Options at the implementation of a feature that provides for cashless exercise of Options in the event of the Recapitalization. (The existing Option holders are only entitled to utilize the cashless exercise feature if the Recapitalization occurs. The pro forma financial information assumes all in-the-money Options are exercised at the Effective Time and, since the cashless exercise results in variable plan accounting, there is an initial nonrecurring charge for the cashless exercise feature but no ongoing impact; however, if Option holders do not exercise their Options at the Effective Time, there will be an ongoing accounting impact for the changes in the fair market value of the Recapitalization Consideration that is issuable upon exercise of such Options.) The total after-tax effect of the nonrecurring charges is \$122 million. Due to the nonrecurring nature of these charges, they have been excluded from the Pro Forma Condensed Statement of Consolidated Operations.
- (8) In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commission expense, as adjustments to revenue. Historical operating revenue and expense amounts have been adjusted to conform with the current presentation.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED OPERATIONS
FOR THE THREE MONTHS MARCH 31, 1994
(IN MILLIONS)

| | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|--|------------|------------------------|-----------|
| | ----- | ----- | ----- |
| Operating revenues..... | \$3,173 | \$ (2)(1) | \$3,171 |
| Operating expenses: | | | |
| Salaries and related costs..... | 1,202 | (111)(2)(3) (27)(1) | 1,064 |
| Employee stock ownership plan accounting charge..... | | 86 (4) | 86 |
| Other..... | 2,015 | 22 (1) | 2,037 |
| | ----- | ----- | ----- |
| | 3,217 | (30) | 3,187 |
| | ----- | ----- | ----- |
| Earnings (loss) from operations..... | (44) | 28 | (16) |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest, net..... | (60) | (19)(5) | (79) |
| Other, net..... | (16) | 19 (6) | 3 |
| | ----- | ----- | ----- |
| | (76) | -- | (76) |
| | ----- | ----- | ----- |
| Loss from continuing operations before income taxes..... | (120) | 28 | (92) |
| Provision (credit) for income taxes..... | (41) | 11 (7) | (30) |
| | ----- | ----- | ----- |
| Loss from continuing operations..... | \$ (79) | \$ 17 | \$ (62) |
| | ===== | ===== | ===== |

See accompanying notes to Pro Forma Condensed Statement of Consolidated Operations.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

NOTES TO PRO FORMA CONDENSED

STATEMENT OF CONSOLIDATED OPERATIONS

THREE MONTHS ENDED MARCH 31, 1994

- (1) United entered into an agreement to sell its U.S. flight kitchens over a period of months beginning in December 1993 through June 1994, and an agreement to acquire catering services for a seven year period. This adjustment eliminates \$2 million of sales revenues and \$27 million of compensation costs recorded in the first quarter of 1994 relating to the U.S. flight kitchens that were sold, and adds estimated incremental catering costs of \$22 million.
- (2) To adjust compensation expense for the pro forma effect of wage and benefit reductions and certain work-rule changes resulting from the employee investment that provide for wage and other compensation savings during the approximately six year period beginning at the Effective Time. The pro forma adjustment represents the estimated savings in the first quarter of 1994 assuming that such savings had commenced at the beginning of the prior year. The pro forma adjustment does not include any savings related to U2.
- (3) The following reconciles the labor cost savings included in the Pro Forma Condensed Statement of Consolidated Operations to the value of the employee investments included in the Company Analysis of employee investments for 1994 (see "SPECIAL FACTORS--Certain Company Analyses"):

(MILLIONS)

| | |
|---|-------|
| Pro Forma adjustment..... | \$111 |
| Estimated compensation savings based on foregone 1994 raises... | 13 |
| Estimated benefits of U2 for three months..... | 16 |
| Estimated additional severance for flight kitchen employees for three months..... | (9) |
| | ---- |
| Estimated three months of investments..... | \$131 |
| | ==== |
| Estimated six months of investments included in 1994 analysis..... | \$262 |
| | ==== |

- (4) To record non-cash compensation for shares of ESOP Preferred Stock committed to be released to employees during the period based on the average fair value of the ESOP Preferred Stock. For purposes of the pro forma adjustment, the average fair value of the ESOP Preferred Stock was assumed to be the initial purchase price of \$120. The pro forma calculations assume that shares committed to be released in 1993 were allocated to participant accounts at the end of 1993. Thus, the portion of shares committed to be released in 1994 that will be used to satisfy dividend payable on allocated shares is charged to retained earnings rather than non-cash compensation expense. It is anticipated that in the first quarter of 1994, approximately 768,000 shares of ESOP Preferred Stock will be committed to be released, and that approximately 54,000 of these shares will be used for dividends.

Since future expense is dependent on the fair market value of the ESOP Preferred Stock, it is difficult to forecast and may vary significantly from the value in the pro forma adjustment. Changes in the price of a New Share directly affect the determination of the value of an ESOP Preferred Stock share. In addition, if the average value of a New Share exceeds \$136 during the first 12 month after the Effective Date, additional shares of ESOP Preferred Stock will be issued to the Qualified Trust or reserved for issuance to the Non-Qualified Plan. Future expense is also affected by the premium associated with the dividend paying feature which shrinks over time as the dividend paying period is reduced.

Following is a summary of the impact to the employee stock ownership plan accounting charge of a range of fair market values:

| Average ESOP Preferred Stock Fair Value ----- | ESOP Accounting Charge* (millions) ----- |
|--|---|
| \$110 | \$ 79 |
| 120 | 86 |
| 130 | 93 |
| 140 | 100 |

* Assumes 768,000 shares committed to be released in the pro forma period and approximately 54,000 shares used for dividends which are charged to retained earnings. As additional shares are allocated in later years, the ESOP accounting charge will be reduced.

The following illustrates the impact to the ESOP accounting charge for the quarter if the average value of the New Shares in the first 12 months exceeds \$136 per share.

| Average New Share Price ----- | Average ESOP Preferred Stock Fair Value* ----- | Additional Shares to be Issued** ----- | Shares to be Released for the Quarter*** ----- | Increase in ESOP Accounting Charge**** (millions) ----- |
|--|--|---|--|---|
| \$136 | \$168 | 0 | 0 | \$ 0 |
| 140 | 172 | 2,260,410 | 98,279 | 16 |
| 150 | 182 | 6,949,239 | 302,141 | 51 |

*Assumes a dividend premium of \$32.

**To achieve the maximum increase in additional shares, the price of a New Share must average at least \$149.10 during the first 12 months after the Effective Date. If the average price of a New Share is less than or equal to \$136, no additional shares of ESOP Preferred Stock will be issued.

***The additional shares will be released in a level fashion over the 69 months of the ESOP.

****Represents the increase for the quarter; subsequent increases are dependent on changes in the fair value of the ESOP Preferred Stock.

(5) To record interest expense of \$18 million on the Series A Debentures at an annual estimated interest rate of 9.0% and on the Series B Debentures at an annual estimated interest rate of 9.7%, and to record amortization of the underwriting discount. The pro forma adjustment also includes foregone interest income due to the reduction in United's average investment balance resulting from the transaction. For purposes of the pro forma adjustment, the interest rates on the Debentures are based on the Initial Pricing. The actual rates will be reset prior to Closing and any upward reset is limited to an additional 112.5 basis points. If the reset results in the actual rate being at the maximum interest rate, interest expense would increase by an additional \$2 million for the quarter. Further, if the Unions request prior to the Announcement Date that the Debentures contain a call provision, the actual rates may increase above the maximum.

(6) To reverse \$19 million of nonrecurring fees and expenses relating to the Recapitalization which were recorded in the first quarter of 1994.

(7) To adjust the provision (credit) for income taxes to reflect the tax effect of changes to pretax income at the statutory rate in effect during the first quarter of 1994. For purposes of the pro forma adjustment the book and tax employee stock ownership plan compensation charge are assumed to be the same.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
PRO FORMA CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

MARCH 31, 1994
(IN MILLIONS, EXCEPT SHARE DATA)

| ASSETS | HISTORICAL | ADJUSTMENTS | PRO FORMA |
|--|------------|-------------|-----------|
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 666 | \$(140)(1) | \$ |
| | | 758 (3) | |
| | | (765)(3) | |
| | | 8 (9) | 527 |
| Short-term investments..... | 542 | | 542 |
| Other..... | 2,241 | 44 (2) | 2,285 |
| | ----- | ----- | ----- |
| | 3,449 | (95) | 3,354 |
| | ----- | ----- | ----- |
| Operating property and equipment..... | 12,211 | | 12,211 |
| Less: Accumulated depreciation and amortization..... | (5,164) | | (5,164) |
| | ----- | ----- | ----- |
| | 7,047 | | 7,047 |
| | ----- | ----- | ----- |
| Other assets: | | | |
| Other..... | 1,700 | | 1,700 |
| | ----- | ----- | ----- |
| | \$12,196 | \$ (95) | \$12,101 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | |
| | | | |
| Current liabilities: | | | |
| Short-term borrowings, long-term debt maturing within one year and current obligations under capital leases..... | \$ 466 | \$ | \$ 466 |
| Other..... | 4,473 | (11)(9) | 4,462 |
| | ----- | ----- | ----- |
| | 4,939 | (11) | 4,928 |
| | ----- | ----- | ----- |
| Long-term debt..... | 2,596 | 758 (3) | 3,354 |
| | ----- | ----- | ----- |
| Long-term obligations under capital leases... | 774 | | 774 |
| | ----- | ----- | ----- |
| Other liabilities, deferred credits and minority interest..... | 3,317 | | 3,317 |
| | ----- | ----- | ----- |
| Shareholder's equity: | | | |
| Common stock, \$5 par value; 1,000 shares authorized; 200 shares outstanding..... | -- | | -- |
| Additional capital invested..... | 839 | (765)(3) | |
| | | 13 (5) | |
| | | 4 (6) | 91 |
| Retained earnings (deficit)..... | (200) | (108)(7) | (308) |
| ESOP capital..... | | 228 (4) | 228 |
| Unearned ESOP Preferred Stock..... | | (228)(4) | (228) |
| Unearned compensation..... | (14) | 14 (8) | -- |
| Pension liability adjustment | (53) | | (53) |
| Unrealized loss of investments..... | (2) | | (2) |
| | ----- | ----- | ----- |
| | 570 | (842) | (272) |
| | ----- | ----- | ----- |
| | \$12,196 | \$ (95) | \$12,101 |
| | ===== | ===== | ===== |

See the accompanying notes to Pro Forma Condensed Statement of Consolidated
Financial Position.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
NOTES TO PRO FORMA CONDENSED
STATEMENT OF CONSOLIDATED FINANCIAL POSITION

MARCH 31, 1994

- (1) To record the cash impact of the estimated fees and transaction expenses, including expenses for United, ALPA and the IAM, severance payments to terminated officers and flight kitchen employees, and payments relating to the employment agreement with Mr. Greenwald.
- (2) To record the tax effects relating to nonrecurring charges recognized as a result of the transaction.
- (3) To record the offering of \$382.5 million of Series A Debentures and \$382.5 million of Series B Debentures and to record the distribution of proceeds to UAL. The Debentures are being recorded at their face amount based on the assumption that they will be priced to trade at par, less the underwriting discount of \$7 million. The actual rate on the Debentures will be reset prior to the Effective Time and the Debentures are subject to a maximum interest rate of 112.5 basis points above the Initial Pricing. The underwriting agreements are expected to provide that if the offering is consummated, the interest rate may be set above the cap in order for the Debentures to be sold at or close to par, in which case the principal amount of the Debentures will be reduced so that the annual interest expense will not exceed the stated maximum which was calculated based upon the rate cap. If the offering is not consummated and the interest rate exceeds the cap, the Debentures will be recorded at a discount.
- (4) To record the ESOP capital as a result of the initial issuance of shares of UAL's Class 1 ESOP Preferred Stock to the Qualified Trust for an aggregate purchase price of \$228 million and to record the related charge to unearned ESOP Preferred Stock. The \$228 million was determined based on (i) 1,899,059 shares of Class 1 ESOP Preferred Stock expected to be issued in the first ESOP Tranche as of the Effective Time and (ii) an assumed purchase price of \$120 per share. UAL and the Unions may, prior to the Effective Time, agree to increase or decrease the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time. The agreement with the ESOP Trustee provides that the number of shares of Class 1 ESOP Preferred Stock sold at the Effective Time shall be no more than 2,088,965 and no fewer than 1,709,153. The actual price per share for the first ESOP Tranche will be 1.38 times the average price of a New Share at the Effective Time. Thus, the ultimate amount recorded at the Effective Time will differ from the pro forma adjustment in order to reflect the actual number of shares issued and the average closing price of the New Shares.

Six additional ESOP Tranches will be issued to the Leveraged ESOP during the 69 months subsequent to the Effective Time, with the total shares of Class 1 ESOP Preferred Stock issued in the seven ESOP Tranches aggregating approximately 14,000,000 shares (subject to increase, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares). The price for the subsequent ESOP Tranches will be as agreed between the Company and the ESOP Trustee at the time of each sale. As the subsequent ESOP Tranches are issued, the shares will be reported as a credit to additional capital invested based on the fair value of the stock when such issuances occur with a corresponding charge to "Unearned ESOP Preferred Stock."

The Unearned ESOP Preferred Stock recorded in the pro forma adjustment together with the Unearned ESOP Preferred Stock recorded from subsequent ESOP Tranches will be recognized as compensation expense over the approximately six year investment period as the shares are committed to be released. The difference between the compensation expense recorded, which is based on the fair value of the stock during an accounting period, and the recorded cost of the unearned ESOP Preferred Stock will be recorded to ESOP capital.

ESOP capital will also be recorded over the approximately six year investment period as the shares of UAL's Class 2 ESOP Preferred Stock are committed to be contributed to the Non-Leveraged Qualified ESOP and credited to employees pursuant to the Supplemental ESOP with the offsetting entry being to

compensation expense. The number of shares of Class 2 ESOP Preferred Stock that will be issued will be equal to 17,675,345 less the number of shares of Class 1 ESOP Preferred Stock that will be sold to the Qualified ESOP.

- (5) To account for the cashless exercise of options in the event of the Recapitalization. (Amount of the entry is based on an assumed Old Share price at the Effective Time of approximately \$131 per share.)
- (6) To record 25,000 restricted shares to Mr. Greenwald that will vest at the Effective Time.
- (7) Represents the offset to entries (1), (2), (5), (6), (8) and (9).
- (8) To record the vesting of the unvested restricted stock as a result of the Recapitalization.
- (9) To reverse \$19 million of transaction fees and expenses recorded during the first quarter of 1994 because these expenses are included in entry (1).

CAPITALIZATION

UAL CORPORATION AND SUBSIDIARY COMPANIES

The following table sets forth the unaudited consolidated capitalization of the Company as of March 31, 1994, as adjusted to give effect to the consummation of the Recapitalization and the Offerings, including (i) reclassification of Old Shares into New Shares and Redeemable Preferred Stock, (ii) The Offerings of the Public Preferred Stock (as represented by Depositary Preferred Shares) and Debentures, (iii) redemption of the Redeemable Preferred Stock for cash and proceeds from the Offerings and (iv) the issuance of the first tranche of Class 1 ESOP Preferred Stock, the Voting Preferred Stock and the Director Preferred Stock. The table should be read in conjunction with the Pro Forma Condensed Statement of Consolidated Financial Position included elsewhere in this document.

| | MARCH 31, 1994 | |
|--|----------------|----------|
| | ----- | |
| | (IN MILLIONS) | |
| | PRO | |
| | HISTORICAL | FORMA |
| | ----- | |
| | (UNAUDITED) | |
| Short-term borrowings, long-term debt maturing within one year and current obligations under capital leases..... | \$ 486 | \$ 486 |
| | ----- | ----- |
| Long-term debt, excluding portion due within one year: | | |
| Secured notes..... | 1,388 | 1,388 |
| Deferred purchase certificates..... | 194 | 194 |
| Debentures..... | 1,000 | 1,765 |
| Convertible debentures..... | 33 | 33 |
| Promissory notes..... | 93 | 93 |
| Unamortized discount on debt..... | (15) | (22) |
| | ----- | ----- |
| | 2,693 | 3,451 |
| Long-term obligations under capital leases..... | 777 | 777 |
| | ----- | ----- |
| Total long-term debt and capital lease obligations.. | 3,470 | 4,228 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Series A Preferred Stock, \$.01 stated value..... | -- | -- |
| Series B Preferred Stock, \$.01 stated value..... | | -- |
| Class 1 ESOP Preferred Stock, \$.01 par value..... | | -- |
| Class 2 ESOP Preferred Stock, \$.01 par value..... | | -- |
| Class P, M and S Voting Preferred Stock, \$.01 par value..... | | -- |
| Class I, MEC, IAM, and SAM Preferred Stock, \$.01 par value..... | | -- |
| Common stock, \$5 par value.. | 128 | -- |
| Common stock, \$.01 par value..... | | -- |
| Additional capital invested. | 963 | 981 |
| Retained earnings (deficit)... | 142 | (1,083) |
| Pension liability adjustment..... | (53) | (53) |
| Unearned compensation..... | (14) | -- |
| Unearned ESOP Preferred Stock..... | | (228) |
| Unrealized loss on investments..... | (2) | (2) |
| Common stock held in treasury..... | (67) | (63) |
| | ----- | ----- |
| Total shareholders' equity..... | 1,097 | (448) |
| | ----- | ----- |
| Total capitalization.... | \$ 5,053 | \$ 4,266 |
| | ===== | ===== |

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

The following table sets forth the unaudited consolidated capitalization of United as of March 31, 1994 and as adjusted to give effect to the consummation of the Recapitalization and the Offerings, including (i) the issuance of Debentures and (ii) the ESOP capital recorded as a result of the issuance of the first tranche of UAL's Class 1 ESOP Preferred Stock to the ESOP Trustee for the Qualified ESOP and the related charge for unearned ESOP Preferred Stock. The table should be read in conjunction with the Pro Forma Condensed Statement of Consolidated Financial Position included elsewhere in this document.

| | MARCH 31, 1994 | |
|--|------------------|---------|
| | ----- | |
| | (IN MILLIONS) | |
| | PRO | |
| | HISTORICAL FORMA | |
| | ----- | |
| | (UNAUDITED) | |
| Short-term borrowings, long-term debt maturing within one year and current obligations under capital leases..... | \$ 466 | \$ 466 |
| Long-term debt, excluding portion due within one year: | | |
| Secured notes..... | \$1,388 | \$1,388 |
| Deferred purchase certificates..... | 194 | 194 |
| Debentures..... | 1,000 | 1,765 |
| Promissory notes..... | 29 | 29 |
| Unamortized discount on debt..... | (15) | (22) |
| | ----- | ----- |
| | 2,596 | 3,354 |
| Long-term obligations under capital leases..... | 774 | 774 |
| | ----- | ----- |
| Total long-term debt and capital lease obligations.. | 3,370 | 4,128 |
| | ----- | ----- |
| Shareholder's equity: | | |
| Common stock, \$5 par value.. | -- | -- |
| Additional capital invested. | 839 | 91 |
| Retained earnings (deficit)... | (200) | (308) |
| ESOP capital..... | | 228 |
| Unearned ESOP shares..... | | (228) |
| Pension liability adjustment..... | (53) | (53) |
| Unearned compensation..... | (14) | -- |
| Unrealized loss on investments..... | (2) | (2) |
| | ----- | ----- |
| Total shareholder's equity..... | 570 | (272) |
| | ----- | ----- |
| Total capitalization.... | \$4,406 | \$4,322 |
| | ===== | ===== |

BENEFICIAL OWNERSHIP OF SECURITIES

FIVE PERCENT BENEFICIAL OWNERS

The following table shows the number of shares of the Company's voting securities beneficially owned by any person or group known to the Company as of May 13, 1994 to be the beneficial owner of more than five percent of the Company's voting securities. The number and percent of shares beneficially owned may include Old Shares issuable upon conversion of Convertible Company Securities, even if not so indicated. Convertible Company Securities not converted prior to the Record Date may not be voted at the Meeting.

| TITLE OF CLASS | NAME AND ADDRESS OF BENEFICIAL OWNER | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS |
|----------------|--|---|------------------|
| Common Stock | Sanford C. Bernstein & Co., Inc. One State Street Plaza New York, NY 10004 | 1,632,736(1) | 6.7% |
| Common Stock | FMR Corp. Edward C. Johnson 3rd 82 Devonshire Street Boston, MA 02109 | 2,301,068(2) | 9.28% |
| Common Stock | Wellington Management Co. 75 State Street Boston, MA 02109 | 2,719,750(3) | 10.99% |
| Common Stock | Vanguard/Windsor Funds, Inc. P.O. Box 823 Valley Forge, PA 19482 | 2,359,200(4) | 9.65% |
| Common Stock | AXA Assurances I.A.R.D. Mutuelle AXA Assurances Vie Mutuelle La Grande Arche Pardi Nord 92044 Paris La Defense France Alpha Assurances I.A.R.D. Mutuelle Alpha Assurances Vie Mutuelle 101-100 Terrasse Boieldieu 92042 Paris La Defense France Uni Europe Assurance Mutuelle 24, Rue Drouot 75009 Paris France AXA 23, Avenue Matignon 75008 Paris France The Equitable Companies Incorporated 787 Seventh Avenue New York, New York 10019 | 3,005,010(5) | 12.2% |

-
- (1) Based on Schedule 13G dated February 14, 1994, in which the beneficial owner reported that as of December 31, 1993, it had sole dispositive power over 1,632,736 Old Shares and sole voting power over 882,770 of such Old Shares.
 - (2) Based on an Amendment to Schedule 13G dated April 8, 1994, in which FMR Corp. reported that as of March 31, 1994, it had sole voting power for 58,682 Old Shares and sole dispositive power for all Old Shares beneficially owned, and Mr. Edward C. Johnson 3rd reported that as of March 31, 1994, he had sole voting and sole dispositive power for all Old Shares beneficially owned. Includes beneficial ownership of 284,355 Old Shares issuable upon conversion of Series A Preferred Stock.
 - (3) Based on Schedule 13G dated February 10, 1994, in which the beneficial owner reported that as of December 31, 1993, it had shared dispositive power over 2,719,750 Old Shares and shared voting power over 188,716 of such Old Shares. Beneficial ownership of certain of these Old Shares was also reported by another entity. See footnote (4) below.
 - (4) Based on Schedule 13G dated February 10, 1994, in which the beneficial owner reported that as of December 31, 1993, it had sole voting power and shared dispositive power over 2,359,200 Old Shares. Beneficial ownership of some or all of these Old Shares was also reported by another entity. See footnote (3) above.
 - (5) Based on Schedule 13G dated April 8, 1994 in which each of AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, Alpha Assurances I.A.R.D. Mutuelle, Alpha Assurances Vie Mutuelle, Uni Europe Assurance Mutuelle, AXA and The Equitable Companies Incorporated reported that as of March 31, 1994 it had sole voting power for 1,738,465 Old Shares and sole dispositive power for 3,005,009 Old Shares. Such amounts include 11,182 Old Shares issuable upon conversion of Series A Preferred Stock.

SECURITIES BENEFICIALLY OWNED BY DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the number of Old Shares beneficially owned as of April 1, 1994, by each director and executive officer included in the Summary Compensation Table, and by all directors and executive officers of the Company, as a group. Unless indicated otherwise by footnote, the owner exercises sole voting and investment power over the securities (other than unissued securities, the ownership of which has been imputed to such owner).

| NAME OF DIRECTOR OR EXECUTIVE OFFICER AND GROUP ----- | NUMBER OF SHARES BENEFICIALLY OWNED ----- | PERCENT OF CLASS ----- |
|--|---|------------------------------|
| Neil Armstrong..... | 1,021(1) | * |
| Andrew F. Brimmer..... | 450(2) | * |
| Richard P. Cooley..... | 1,300 | * |
| Carla A. Hills..... | 300 | * |
| Fujio Matsuda..... | 422 | * |
| John F. McGillicuddy..... | 1,300 | * |
| Harry Mullikin..... | 1,300 | * |
| James J. O'Connor..... | 700 | * |
| Frank A. Olson..... | 800 | * |
| John C. Pope..... | 189,348(3) | * |
| Ralph Strangis..... | 500 | * |
| Paul E. Tierney, Jr..... | 168,559(4) | * |
| Stephen M. Wolf..... | 339,985(5) | 1.4 |
| Joseph R. O'Gorman..... | 50,690(6) | * |
| James M. Guyette..... | 83,911(7) | * |
| Lawrence M. Nagin..... | 62,440(8) | * |
| Directors and Executive Officers as a Group (17 persons)..... | 959,133(9) | 3.7% |

- - - - -

* Less than 1%

- (1) Includes 721 Old Shares held by Lorian, Inc. Pension Trust in which Mr. Armstrong is beneficiary.
- (2) Includes 30 Old Shares owned by Dr. Brimmer's wife.
- (3) Includes 150,000 Old Shares which Mr. Pope has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (4) Includes 16,600 Old Shares held by a trust in which Mr. Tierney is administrator, co-trustee and beneficiary; 34,109 Old Shares held by a corporation of which he is a director and 50% shareholder and 12,500 Old Shares held by a charitable foundation of which he is a director.
- (5) Includes 250,000 Old Shares which Mr. Wolf has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (6) Includes 37,500 Old Shares which Mr. O'Gorman has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (7) Includes 67,120 Old Shares which Mr. Guyette has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (8) Includes 45,000 Old Shares which Mr. Nagin has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (9) Includes 572,970 Old Shares which persons in the group have the right to acquire within 60 days of April 1, 1994, by the exercise of stock options and the 30 Old Shares referred to in note (2) above.

CERTAIN INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Board of Directors of the Company held a total of 24 meetings during 1993. During their periods of service all directors attended 75 percent or more of the total of such meetings and meetings of Board committees of which they were members, other than Mr. Cooley who attended approximately 74 percent of such meetings.

The standing committees of the Board of Directors of the Company during 1993 consisted of the Executive, Audit, Compensation, Nominating and Pension and Welfare Plans Oversight Committees.

Set forth below is a brief description of the functions performed, the names of the committee members, and the number of meetings held by each committee during 1993.

EXECUTIVE COMMITTEE

The Executive Committee is authorized by the Bylaws of the Company to exercise the powers of the Board of Directors in the management of the business and affairs of the Company, with certain exceptions. The Executive Committee held four meetings in 1993.

The members of the Committee are:

| | |
|-------------------|---------------------------|
| Neil A. Armstrong | Paul E. Tierney, Jr. |
| Frank A. Olson | Stephen M. Wolf, Chairman |
| Ralph Strangis | |

AUDIT COMMITTEE

The Audit Committee is authorized by the Board to review with the Company's independent public accountants the annual financial statements of the Company prior to publication, to review the work of and approve non-audit services performed by such independent accountants and to make annual recommendations to the Board for the appointment of independent public accountants for the ensuing year. The Committee reviews the effectiveness of the financial and accounting functions, organization, operations and management of the Company and its subsidiaries and affiliates and the investment policies of the Company. The Audit Committee held two meetings in 1993.

The members of the Committee are:

| | |
|-----------------------------|----------------------|
| James J. O'Connor, Chairman | Fujio Matsuda |
| Neil A. Armstrong | Paul E. Tierney, Jr. |
| Richard P. Cooley | |

COMPENSATION COMMITTEE

The Compensation Committee reviews and approves the compensation and benefits of all officers of the Company and the senior officers of its subsidiaries and reviews general policy matters relating to compensation and benefits of employees of the Corporation and its subsidiaries. The Committee also administers the 1981 Stock Program and the 1988 Restricted Stock Plan. The Compensation Committee held seven meetings in 1993.

The members of the Committee are:

| | |
|--------------------------------|----------------|
| John F. McGillicuddy, Chairman | Harry Mullikin |
| Fujio Matsuda | |

NOMINATING COMMITTEE

The Nominating Committee considers possible candidates for election to the Board and makes recommendations of nominees to the Board. The Nominating Committee will consider nominees recommended by stockholders, who may submit such recommendations by addressing a letter to the Chairman of the Nominating Committee, UAL Corporation, P.O. Box 66919, Chicago, Illinois 60666. The Nominating Committee held one meeting in 1993.

The members of the Committee are:

| | | |
|-----------------------------|----------------|----------------------|
| Richard P. Cooley, Chairman | Carla A. Hills | John F. McGillicuddy |
| Andrew F. Brimmer | Ralph Strangis | |

PENSION AND WELFARE PLANS OVERSIGHT COMMITTEE

The Pension and Welfare Plans Oversight Committee exercises oversight with respect to compliance by the Company and its subsidiaries with laws governing employee benefit plans under the Employees' Retirement Income Security Act of 1974 ("ERISA"). Reports of the subsidiaries concerning ERISA employee benefit plan matters are reviewed by the Committee and the Committee periodically reports its actions, findings and recommendations to the Board. The Committee held one meeting in 1993.

The members of the Committee are:

| | |
|--------------------------|-------------------|
| Harry Mullikin, Chairman | Andrew F. Brimmer |
| Carla A. Hills | James J. O'Connor |

COMPENSATION OF DIRECTORS; EFFECT OF "CHANGE IN CONTROL"

The directors receive an annual retainer of \$20,000 and are paid \$1,000 for each meeting attended. The Chairmen of the Audit, Compensation, Nominating and Pension and Welfare Plans Oversight Committees receive an additional retainer of \$3,000 per year. Each member of a committee receives a fee of \$1,000 for each committee meeting attended. In support of a cost reduction effort announced in January 1993, directors' compensation as reported above was reduced 10%. Directors also receive 100 Old Shares annually. Directors who are officers of the Company or of any subsidiary do not receive any retainer fee, meeting fee or Old Shares for their service on the Board of Directors or any committee.

Non-employee directors are eligible to participate in a retirement income plan (the "Retirement Plan") if they have at least five years of service on the date of retirement and are not otherwise eligible to receive pension benefits from the Company or any of its subsidiaries. If a retiring director has at least ten years of service and is age 70 or over at retirement, he or she is entitled to a life annuity equal to the greater of \$20,000 per year or the annual retainer fee at retirement. Reduced benefits are available if the director has less than ten years of service or if retirement occurs before age 70. For these purposes, a director who is a director at the time of a "change in control" of the Company is credited with three additional years of service, is deemed to have satisfied the five-year minimum service requirement and is deemed to be three years older than his or her actual age. Surviving spouse benefits are available in some cases. A trust (the "Trust") has been created to serve as a source of payments of benefits under this retirement plan. The Trust becomes irrevocable upon the occurrence of a "change in control."

Under the Company's travel policy for directors (the "Travel Policy"), each director of the Company, his or her spouse and their eligible dependent children are entitled to free transportation on United. The directors are reimbursed by the Company for additional income taxes resulting from the taxation of these benefits. The average cost of supplying these benefits for each director in 1993, including cash payments made in January, 1994 for income tax liability, was \$25,300. The Company also has a policy pursuant to which each director is entitled to free cargo shipment on United. A director (and his or her spouse and eligible

dependent children) serving as such at the time of a "change in control" is entitled to continue such benefits thereafter for life.

The transactions contemplated by the Plan of Recapitalization will constitute a "change in control" for purposes of the Travel Policy, the Retirement Plan and the Trust.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Strangis is a member of the law firm of Kaplan, Strangis & Kaplan, P.A., which has represented, and may continue to represent, the Company and its affiliates in connection with various legal matters.

EXECUTIVE COMPENSATION

UAL CORPORATION COMPENSATION COMMITTEE REPORT

PHILOSOPHY

The Company's officer compensation program is designed to attract, retain and motivate top quality and experienced officers. The program provides industry competitive compensation opportunities, supports a pay-for-performance culture and emphasizes pay-at-risk. The program is heavily oriented toward incentive compensation that is tied to the annual and longer-term financial performance of the Company and to its longer-term return to stockholders.

COMPONENTS

There are two components to the executive compensation program:

- . Cash compensation.
- . Stock compensation.

The cash compensation program is comprised of base salary and annual cash incentive compensation. Base salaries are competitive with other large domestic air carriers, which include the three largest of the five carriers on the Relative Market Performance Graph below. Base salaries are substantially less than other corporations of comparable size.

Annual incentive compensation provides an opportunity for additional earnings. An annual incentive pool is created based upon the Company's earnings; each year the Compensation Committee approves a schedule of annual incentive pool funding relative to specified earnings targets. The CEO recommends to the Committee incentive awards for each officer based upon an assessment of each such officer's contribution over the preceding year. The assessment is based on, among other things, an appraisal prepared annually for each officer on his or her managerial skills and the performance by him or her of assigned responsibilities. Before making a recommendation, the CEO will discuss such appraisals with other members of senior management and will consider these discussions, along with an overall assessment of Company performance and industry competitive data, in making a recommendation to the Compensation Committee on incentive awards for each officer. The Compensation Committee determines the award for the CEO based upon a comparable process and makes a final determination on incentive awards for all other officers.

The stock compensation program is comprised of stock options and restricted stock. Stock compensation gives each officer the opportunity to become a stockholder of the Company. Stock grants are set in consideration of airline industry practice using the same industry peer group for base salary and annual incentive compensation. Stock grants are also set in consideration of individual performance and contribution. The CEO recommends to the Compensation Committee stock option and/or restricted stock grants for each officer; there are no specific target award levels or weighting of factors considered in determining stock grants. The Compensation Committee determines stock awards for the CEO based upon a comparable process and

makes a final determination on stock awards for all other officers. Options and restricted shares typically are granted in alternating years (options in one year, restricted stock in the next year, etc.).

Stock options may not be granted at less than fair market value on the date of grant. Stock options carry a ten-year term and have exercise vesting restrictions that lapse ratably over a four-year period. Restricted shares have vesting restrictions of up to 5 years.

The officer compensation program in total, although primarily focused on promoting pay-for-performance and emphasizing pay-at-risk, is heavily oriented toward stockholder interests through the use of long-term stock incentives that create a direct linkage between executive rewards and increased stockholder value. The long-term incentive component, which is comprised totally of stock-based incentives, represents over half of the total income opportunity for the officers.

CEO COMPENSATION

At Mr. Wolf's request, his salary, upon joining United in 1987, was set at \$575,000, which was \$75,000 less than his predecessor was paid. During 1992, Mr. Wolf's base salary was increased for the first time since joining the Company in 1987 to \$675,000. This increase was based primarily on a qualitative review of performance factors and his contributions and leadership in among other things, creating the most comprehensive route structure of any carrier in the world. Further, additional factors considered were that his salary of \$575,000 approximated the bottom tenth percentile of other chief executive officers at U.S. companies exceeding \$10 billion in annual revenue and that his salary had not been increased since joining the Company in 1987.

On February 14, 1993, in support of a cost reduction effort, Mr. Wolf rescinded his raise of \$100,000 and returned to his 1987 starting salary of \$575,000. On October 27, 1993, the Compensation Committee approved an increase in Mr. Wolf's pre-reduction salary by \$50,000, to \$725,000. This increase was based primarily on a qualitative review of performance factors and his continuing contributions and leadership during an extremely difficult time in the airline industry, and as an attempt to partially close the gap between his salary and that of CEOs of other large corporations, especially in light of the fact that he had foregone salary increases during most of his six year tenure at the Company. On November 1, 1993, Mr. Wolf's salary was reinstated to its 1992 rate of \$675,000 per annum, but Mr. Wolf asked the Compensation Committee to defer his October 1993 increase, which was subsequently implemented on April 1, 1994.

Mr. Wolf received no cash incentive award for 1993 performance. No stock options or restricted stock were granted to Mr. Wolf during 1993.

COMPENSATION FOR THE OTHER NAMED OFFICERS

Base salary rates for the other named executive officers were reduced 5% from their 1992 levels in February 1993 in support of a cost reduction effort. Base salaries remained at the reduced levels until September 1993 (November 1993 for Mr. Pope), at which time they were restored to their 1992 levels. In keeping with the Compensation Committee's philosophy of providing compensation to attract, retain and motivate top quality and experienced officers, increases averaging 6.3% were implemented in recognition of a negative competitive differential in salary levels at the Company as compared to other large corporations and because of cost of living increases. None of the other named executive officers received a cash incentive award for 1993 performance. Each received a restricted stock grant, subject to the normal restricted stock grant terms described earlier pursuant to the Company's normal grant schedule, the amount of which took into consideration the need for a retention mechanism due to the fact that no payments had been made under the Incentive Plan for three years.

COMMITTEE ACTIONS REGARDING CHANGES IN CONTROL

As described below under "--Employment Contracts and Change in Control Arrangements," during 1993 the Compensation Committee, as part of an overall review and after consultation with an independent compensation and benefits consultant and with outside counsel, determined to authorize, and the Company and United thereafter entered into, amendments to the Company's employment contract with Mr. Wolf (originally entered into in 1987) and to an employment contract and severance agreements with other named executive officers, new severance agreements with additional executive officers and amendments to agreements with Company officers to provide for the automatic vesting of outstanding stock options, and the confirmation of such treatment for restricted stock awards, upon a "change in control" of the Company.

These changes were made in connection with the first overall review of these arrangements in over three years and were intended in part to achieve greater uniformity in the treatment of the Company's executive officers. The Compensation Committee believes it is important to take steps to maintain a stable management team. Revising, amending and adding these various agreements was an important step in this endeavor. These changes also achieved greater uniformity in severance and change in control policy than had previously existed.

OMNIBUS BUDGET RECONCILIATION ACT OF 1993

The Compensation Committee reviewed and discussed the impact of Section 162(m) of the Internal Revenue Code on the Company's executive compensation programs. As a result of this review, the Company, as an integral part of and conditional upon approval of the Recapitalization, is proposing changes to its incentive compensation program for named executive officers. These changes will make the program totally formula-based and will bring the program fully into compliance with the proposed regulations. The Company is also proposing a change to its stock incentive compensation program to place a per person cap on stock grants and to provide performance-based restricted stock awards to the named executive officers. These changes will cause all future incentive compensation awards thereunder to be in full compliance with the proposed regulations.

COMPENSATION CONSULTANT AND COMPETITIVE DATA

The Committee consults with independent compensation advisors on executive compensation matters. The Committee also has access to competitive data on compensation levels for officer positions.

UAL CORPORATION COMPENSATION COMMITTEE

John F. McGillicuddy, Chairman Fujio Matsuda Harry Mullikin

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION | | OTHER ANNUAL COMPENSATION (\$)(1) | LONG-TERM COMPENSATION | | ALL OTHER COMPENSATION (\$)(3) |
|--|------|---------------------|------------|-----------------------------------|--------------------------------|-------------------|--------------------------------|
| | | SALARY (\$) | BONUS (\$) | | RESTRICTED STOCK AWARDS(\$)(2) | STOCK OPTIONS (#) | |
| Stephen M. Wolf-- Chairman and Chief Executive Officer | 1993 | 604,134 | 0 | 122,173(4) | 0 | 0 | 29,821 |
| | 1992 | 625,000 | 0 | 25,515 | 0 | 0 | 30,985 |
| | 1991 | 575,000 | 0 | -- | 0 | 225,000(5) | -- |
| John C. Pope-- President and Chief Operating Officer | 1993 | 487,846 | 0 | 17,235 | 1,995,000 | 0 | 16,651 |
| | 1992 | 458,333 | 0 | 12,492 | 0 | 110,000 | 14,599 |
| | 1991 | 375,000 | 140,000 | -- | 1,848,438 | 0 | -- |
| | | | | | | (5) | |
| Joseph R. O'Gorman-- Executive Vice President | 1993 | 314,348 | 0 | 7,548 | 855,000 | 0 | 4,024 |
| | 1992 | 300,000 | 0 | 18,379 | 0 | 30,000 | 7,094 |
| | 1991 | 233,385 | 30,000 | -- | 867,000 | 30,000 | -- |
| James M. Guyette-- Executive Vice President | 1993 | 310,749 | 0 | 5,183 | 855,000 | 0 | 10,708 |
| | 1992 | 300,000 | 0 | 327 | 0 | 30,000 | 7,874 |
| | 1991 | 275,000 | 90,000 | -- | 739,375 | 0 | -- |
| Lawrence M. Nagin-- Executive Vice President-- Corporate Affairs and General Counsel | 1993 | 306,439 | 0 | 8,482 | 855,000 | 0 | 10,645 |
| | 1992 | 290,000 | 0 | 21,596 | 0 | 30,000 | 8,187 |
| | 1991 | 265,000 | 80,000 | -- | 1,035,125 | 0 | -- |

(1) Except as otherwise indicated, amounts specified represent tax gross-ups during the fiscal year associated with travel privileges.

(2) The restricted stock granted in 1993 vests 20% per year, from the time of grant, over a five year period. All restricted stock granted in 1991 vests 100% after five years, except that the grant to Mr. O'Gorman vests 25% per year, from the time of grant, over a four year period. The number and aggregate value, respectively, of restricted holdings at fiscal year-end is: Mr. Wolf 15,000 Old Shares, \$2,190,000; Mr. Pope 32,000 Old Shares, \$4,672,000; Mr. O'Gorman 10,500 Old Shares, \$1,533,000; Mr. Guyette 13,500 Old Shares, \$1,971,000; Mr. Nagin 15,300 Old Shares, \$2,233,800. No dividends have been paid on these Old Shares, but officers have a right to retain any dividends paid on restricted shares.

(3) Amounts represent the total reportable compensation attributable to the split-dollar insurance program. None of the above individuals received other compensation not reported elsewhere on this statement in excess of the lesser of \$50,000 or 10% of salary and bonus.

(4) Includes \$39,243 attributable to tax gross-ups during the fiscal year associated with travel privileges, \$16,180 attributable to financial planning, travel, certain insurance and automobile benefits, and the balance attributable to club membership costs and dues.

(5) The 225,000 Old Share option granted to Mr. Wolf in 1991 and the 110,000 Old Share option granted to Mr. Pope in 1992 were granted with exercise prices in excess of the then current market price. In Mr. Wolf's case, 75,000 of the Options are exercisable at \$147.875 on May 29, 1993, 50,000 at \$170.056 on May 29, 1994, 50,000 at \$195.565 on May 29, 1995, and 50,000 at \$224.899 on May 29, 1996. In Mr. Pope's case, 50,000 Options are exercisable at \$124.00 on April 29, 1994, 20,000 at \$142.60 on April 29, 1995, 20,000 at \$163.99 on April 29, 1996, and 20,000 at \$188.59 on April 29, 1997.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION/SAR VALUES

| NAME | SHARES ACQUIRED ON EXERCISE (#) | VALUE REALIZED | NUMBER OF UNEXERCISED OPTIONS/SARS AT FY-END(#) | | VALUE OF UNEXERCISED IN- THE-MONEY OPTIONS/SARS AT FY-END (\$)(1) | |
|-------------------------|--|-------------------|---|---------------|---|---------------|
| | | | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| Stephen M. Wolf..... | 0 | N/A | 181,250 | 168,750 | 6,034,766 | 966,797 |
| John C. Pope..... | 0 | N/A | 87,500 | 122,500 | 5,783,594 | 1,812,531 |
| Joseph R. O'Gorman..... | 0 | N/A | 22,500 | 37,500 | 187,500 | 517,500 |
| James M. Guyette..... | 0 | N/A | 52,120 | 30,000 | 2,764,936 | 881,719 |
| Lawrence M. Nagin..... | 0 | N/A | 31,250 | 28,750 | 1,450,000 | 838,750 |

(1) Market value of the Company's common stock at December 31, 1993, minus exercise price of options/SARS.

PENSION PLAN TABLE

| REMUNERATION | YEARS OF SERVICE | | | | | |
|--------------|------------------|-----------|-----------|-----------|-----------|-----------|
| | 15 | 20 | 25 | 30 | 35 | 40 |
| 375,000 | \$90,000 | \$120,000 | \$150,000 | \$180,000 | \$210,000 | \$240,000 |
| 425,000 | 102,000 | 136,000 | 170,000 | 204,000 | 238,000 | 272,000 |
| 475,000 | 114,000 | 152,000 | 190,000 | 228,000 | 266,000 | 304,000 |
| 525,000 | 126,000 | 168,000 | 210,000 | 252,000 | 294,000 | 336,000 |
| 575,000 | 138,000 | 184,000 | 230,000 | 276,000 | 322,000 | 368,000 |
| 625,000 | 150,000 | 200,000 | 250,000 | 300,000 | 350,000 | 400,000 |
| 675,000 | 162,000 | 216,000 | 270,000 | 324,000 | 378,000 | 432,000 |
| 725,000 | 174,000 | 232,000 | 290,000 | 348,000 | 406,000 | 464,000 |
| 775,000 | 186,000 | 248,000 | 310,000 | 372,000 | 434,000 | 496,000 |
| 825,000 | 198,000 | 264,000 | 330,000 | 396,000 | 462,000 | 528,000 |

The above illustration is based on retirement at age 65 and selection of a straight life annuity (other annuity options are available, which would reduce the amounts shown above). The amount of the normal retirement benefit under the plan is the product of 1.6% times years of credited participation in the plan times final average compensation (highest five of last ten years of covered compensation). The retirement benefit amount is not offset by the participant's Social Security benefit. Compensation covered by the plan includes salary and cash bonuses. Credited years of participation with the Company and United for persons named in the cash compensation table are as follows: Mr. Wolf--5 years; Mr. Pope--5 years; Mr. Guyette--25 years; Mr. O'Gorman--21 years; and Mr. Nagin--4 years. The amounts shown do not reflect limitations imposed by Internal Revenue Code on retirement benefits which may be paid under plans qualified under the Internal Revenue Code. United has agreed to provide under non-qualified plans the portion of the retirement benefits earned under the pension plan which would otherwise be subject to Internal Revenue Code limitations.

The Company has agreed to supplement Messrs. Wolf's and Pope's benefits under the qualified pension plan and United has agreed to supplement Messrs. Nagin's and O'Gorman's benefits under the qualified pension plan, in each case by granting them credit for their prior airline service--22 years for Mr. Wolf, 10 years for Mr. Pope, 6 years for Mr. O'Gorman, and 8 years for Mr. Nagin. Mr. Wolf's benefit will be offset by retirement benefits he is entitled to under any of the plans of his prior employers except Tiger International, Inc.

Pursuant to the Officer Agreements, upon their retirements in accordance with the Plan of Recapitalization, each of Messrs. Wolf, Pope and Nagin will be entitled to receive a cash payment in an amount calculated to be sufficient to provide additional annual retirement income commencing at age 56 (age 55 in the case of Mr. Pope) of approximately \$240,000, \$12,000 and \$32,000, respectively.

UAL CORPORATION
 RELATIVE MARKET PERFORMANCE
 TOTAL RETURN 1989--1993

[chart to come]

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|------------------------------|------|------|------|------|------|------|
| | ---- | ---- | ---- | ---- | ---- | ---- |
| UAL Corp. | 100 | 156 | 101 | 133 | 115 | 133 |
| S&P 500..... | 100 | 132 | 127 | 166 | 179 | 197 |
| D-J Airline Group(1)..... | 100 | 116 | 93 | 125 | 127 | 156 |

Source: Compustat Database

(1) Alaska Air, AMR, Delta, Southwest, USAir.

EMPLOYMENT CONTRACTS AND CHANGE IN CONTROL ARRANGEMENTS

The Company and United originally entered into the Officer Agreements with Mr. Wolf and Mr. Pope when they joined the Company in 1987 and 1988, respectively, (as subsequently amended and restated, the "Employment Agreements").

In the event of a change in control of the Company or United followed by the termination of his employment, Mr. Wolf would be entitled to a payment equal to from one to three times his salary and anticipated bonus deemed equal to his salary, depending upon the circumstances of his termination, together with certain other amounts. In the event of a change in control of the Company or United followed by a termination of his employment, Mr. Pope would be entitled to a payment equal to from one to three times his salary and anticipated bonus of not less than \$100,000, depending upon the circumstances of his termination, together with certain other amounts.

The Employment Agreements also provide for the continuance of certain specified employee benefits for a period of years equal to the number of years of compensation included in the severance payment and, depending on the circumstances applicable to an executive, possibly beyond that time.

Each other executive officer of United is a party to a severance agreement (the "Severance Agreements") with United that provides certain benefits if the executive's employment with United is terminated (1) by the Company without "cause" (as defined in the Severance Agreements) or (2) by the executive for "good reason" (as defined in the Severance Agreements) in either case, within three years following a "change in control" (as defined in the Severance Agreements). Upon such a termination of employment, the executive officer will be entitled to receive (1) a cash payment equal to 3 times the sum of (a) the greater of the executive's base salary as in effect on the date of the change in control or as in effect on the date his or her employment terminates plus (b) the average of the greater of the bonuses paid to the executive with respect to the three years preceding the change in control or the bonuses paid to the executive with respect to the three years preceding his or her termination of employment, (2) continuation of travel privileges (and partial tax reimbursement) on United for the executive and his or her spouse and other dependents for three years following termination of employment (and for life thereafter if the executive would have qualified for retiree travel privileges had his or her employment continued during such three-year period), (3) coverage under United's medical and other welfare benefits for a period of three years following the date of termination (and for life thereafter if the executive would have qualified for retiree medical benefits had his or her employment continued during such three-year period), (4) a lump sum payment equal to the value of the pension benefits (including any early retirement benefits) that the executive officer would have earned under United's pension plans and arrangements had the executive officer continued to be employed for an additional three years and (5) a lump sum payment equal to the amounts that United would have paid on behalf of the executive officer with respect to split dollar life insurance policies in effect for the executive. The concessions to be implemented with respect to Salaried and Management Employees pursuant to the Plan of Recapitalization could be a "good reason" event entitling such other executive officers of United to terminate their employment and receive the benefits described above. The Company has requested that such individuals agree to waive the "good reason" event arising as a result of the implementation of such concessions. All of such other executive officers have provided such a waiver.

Pursuant to the Officer Agreements, upon their retirements, in accordance with the Plan of Recapitalization, each of Messrs. Wolf, Pope, and Nagin will be entitled to receive a cash payment in respect of certain split dollar life insurance policies in effect for them of approximately \$195,000, \$160,000 and \$140,000 respectively.

During 1993 the Company amended stock option and restricted stock agreements with each of the named executive officers to provide for the automatic vesting of outstanding stock options, and for confirmation of such treatment for restricted stock awards, upon a change in control.

RULE 405 DISCLOSURE

Form 5s for 1993, with respect to one exempt transaction each, were inadvertently filed late for Messrs. O'Gorman and Wolf due to an error in the Company's recordkeeping. The Company, and not the individuals, takes responsibility for effecting these filings.

APPROVAL OF AMENDMENTS TO THE 1981 INCENTIVE STOCK PROGRAM

ON MARCH 25, 1994, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDED, IN CONNECTION WITH THE APPROVAL OF THE RECAPITALIZATION, THAT THE STOCKHOLDERS VOTE FOR APPROVAL OF AMENDMENTS (THE "1981 STOCK PROGRAM AMENDMENT") TO THE 1981 INCENTIVE STOCK PROGRAM (THE "1981 STOCK PROGRAM") TO ADD 1,200,000 NEW SHARES (SUBJECT TO ADJUSTMENT AS HEREINAFTER DESCRIBED) TO THE MAXIMUM NUMBER OF SHARES WITH RESPECT TO WHICH GRANTS MAY BE MADE UNDER THE 1981 STOCK PROGRAM.

The full text of the 1981 Stock Program Amendment is filed as an exhibit to the Registration Statement. The following summary of the 1981 Stock Program is qualified in its entirety by the full text of the 1981 Stock Program and the 1981 Stock Program Amendment.

ADMINISTRATION. The 1981 Stock Program is administered by the Compensation Committee of the Board. Upon consummation of the Plan of Recapitalization, the 1981 Stock Program will be administered by the Compensation Administration Committee of the Board.

SHARES SUBJECT TO PROGRAM. As initially approved by the stockholders on April 29, 1982, 1,300,000 shares of common stock were issuable under the 1981 Stock Program. On April 24, 1986 and April 25, 1991, an additional 2,000,000 and 1,000,000 shares, respectively, were authorized for issuance under the 1981 Stock Program. The amendments recommended by the Board would make 1,200,000 (subject to adjustment if additional shares become issuable to the employee groups in accordance with the Plan of Recapitalization, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares.") New Shares available for issuance under the 1981 Stock Program. Stock issuable under the 1981 Stock Program may be newly issued or treasury shares. The Compensation Committee may at any time and from time to time, in its sole discretion, allocate any or all of such shares for issuance pursuant to grants of incentive stock options ("ISOs"), under Section 422 of the Internal Revenue Code, stock options not intended to qualify under Section 422 of the Internal Revenue Code ("NQSOs") and stock appreciation rights ("SARs").

PARTICIPATION. Options and SARs are granted by the Compensation Committee only to officers and key employees (including officers who may also be directors) of the Company or any of its subsidiaries. There is currently no specific limitation on the number of New Shares that may be optioned to any individual (or made subject to an SAR) under the 1981 Stock Program. The amendments recommended by the Board would limit the number of New Shares with respect to which options may be granted under the 1981 Stock Program 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 Plan of Recapitalization. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares."

STOCK OPTIONS. The option price for ISOs and NQSOs may not be less than 100% of the fair market value of the common stock on the date of grant. The closing price of the common stock on the New York Stock Exchange on May 25, 1994 was \$116 7/8. The duration of options granted under the 1981 Stock Program cannot exceed ten years.

STOCK APPRECIATION RIGHTS. SARs may be granted exercisable in cash, or in common stock, or in a combination of cash and common stock. SARs may be granted to any participant in the 1981 Stock Program independent of or in tandem with an NQSO. On exercise of an SAR, the holder will receive up to 100% of the appreciation in fair market value of the shares subject to the SAR. In the case of a tandem SAR, the appreciation shall be measured from the option price. All of the SARs which have been issued under the 1981 Stock Program have been tandem SARs. Exercise of an SAR reduces the number of shares reserved for issuance under the 1981 Stock Program by the number of shares with respect to which the SAR is exercised.

AMENDMENT AND TERMINATION OF PROGRAM. The Board may amend the 1981 Stock Program from time to time or terminate the 1981 Stock Program at any time, but may not reduce the then existing amount of any participant's options or SARs or adversely change the terms and conditions thereof without the participant's consent. 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 1981 Stock Program. The Plan of Recapitalization will automatically terminate on December 8, 2001.

FEDERAL INCOME TAX CONSEQUENCES. The Company has been advised by counsel that the Federal income tax consequences to the participants in the 1981 Stock Program and the affiliate of the Company employing them under the now applicable provisions of the Internal Revenue Code and the regulations thereunder are substantially as follows.

With respect to NQSOs and SARs, an optionee is not deemed to receive any income at the time an NQSO or SAR is granted nor is his employer entitled to a deduction at that time. However, when any part of the NQSO or SAR is exercised the optionee is deemed to have received ordinary income (i) in the case of an NQSO, in an amount equal to the difference between the option price and the fair market value of the shares acquired upon such exercise and (ii) in the case of an SAR, in an amount equal to the sum of the fair market value of the shares and any cash received. The optionee's employer is entitled to a tax deduction in an amount equal to the amount of ordinary income realized by the optionee.

With respect to ISOs, an optionee is not deemed to receive any income at the time an ISO is granted or exercised, and his employer is not entitled to any deduction. If the optionee disposes of the stock prior to the expiration of the holding period required by Section 422 of the Internal Revenue Code, he will have ordinary income in the year of disposition equal to the excess of the amount received for the shares over the option price, and his employer is entitled to a tax deduction at such time in an amount equal to the amount of ordinary income realized by the optionee. If the optionee disposes of the stock after expiration of the holding period required by Section 422 of the Internal Revenue Code, the excess of the amount received for the shares over the option price will be taxed as long term capital gain and no deduction will be available to the employer.

Special rules apply in the case of individuals subject to Section 16(b) of the Exchange Act. In particular, under current law any shares received pursuant to the exercise of a stock option or SAR, absent an election by the optionee to include in his income at the time of exercise the excess of the value of shares received over the option price, are treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of six months after the date of grant of the option. Accordingly, the amount of ordinary income recognized, and the amount of the employer's deduction, are determined as of such later date.

The Board of Directors recommends a vote FOR the approval of the amendments to the 1981 Stock Program.

APPROVAL OF AMENDMENTS TO THE 1988 RESTRICTED STOCK PLAN

ON MARCH 25, 1994, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDED IN CONNECTION WITH THE APPROVAL OF THE RECAPITALIZATION THAT THE STOCKHOLDERS VOTE FOR APPROVAL OF AMENDMENTS (THE "1988 RESTRICTED STOCK PLAN AMENDMENTS") TO THE 1988 RESTRICTED STOCK PLAN (THE "1988 RESTRICTED STOCK PLAN") TO PRESERVE, TO THE MAXIMUM EXTENT POSSIBLE, THE DEDUCTIBILITY BY THE COMPANY OF AMOUNTS AWARDED UNDER THE PLAN.

The full text of the 1988 Restricted Stock Plan Amendment is filed as an exhibit to the Registration Statement. The following summary of the 1988 Restricted Stock Plan is qualified in its entirety by the full text of the 1988 Restricted Stock Plan and the 1988 Restricted Stock Plan Amendment.

SHARES. A maximum of 500,000 Old Shares may be awarded under the 1988 Restricted Stock Plan. Upon consummation of the Plan of Recapitalization, the Old Shares remaining to be issued under the 1988 Restricted Stock Plan will be converted into New Shares. Shares awarded under the 1988 Restricted Stock Plan (the "Restricted Stock") may only be treasury shares. Shares of Restricted Stock that are forfeited under the 1988 Restricted Stock Plan may subsequently be awarded to other participants under the 1988 Restricted Stock Plan.

The closing price of the common stock on the NYSE on May 25, 1994 was \$116 7/8.

PARTICIPATION. Restricted Stock may be awarded under the 1988 Restricted Stock Plan to key employees, including officers, of the Corporation and its subsidiaries. The 1988 Restricted Stock Plan currently imposes no limit on the number of officers and other key employees to whom Restricted Stock may be awarded or on the number of shares that may be granted to any individual. The 1988 Restricted Stock

Plan Amendments would limit the number of New Shares that may be awarded under the 1988 Restricted Stock Plan to any individual during any two-year period to 30,000 (60,000 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 Plan of Recapitalization. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares."

ADMINISTRATION. The 1988 Restricted Stock Plan is administered by the Compensation Committee of the Board. Upon consummation of the Plan of Recapitalization, the Plan will be administered by the Compensation Administration Committee of the Board.

RESTRICTIONS. Restricted Stock is awarded under the 1988 Restricted Stock Plan in the discretion of the Compensation Committee. All shares of stock awarded pursuant to the 1988 Restricted Stock Plan (including any shares received by the holders thereof as a result of stock dividends, stock splits or any other forms of recapitalization) shall be subject to the restrictions specified in the 1988 Restricted Stock Plan. Restricted Stock certificates shall remain in the custody of the Company and shall bear a legend that such Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. Restrictions expire ten years after award unless the Compensation Committee determines in its discretion to accelerate or terminate the period of restriction. Restrictions expire upon a Change in Control, as defined in the 1988 Restricted Stock Plan. In addition, the restrictions expire if the Company is dissolved, or is not the surviving corporation in a merger or consolidation, unless the surviving corporation agrees to exchange the Restricted Stock for its shares having an equivalent value. Participants, as owners of the awarded shares, shall have all other stockholder rights, including the right to vote shares of Restricted Stock and to receive dividends and other distributions, if any, during the restriction period. The 1988 Restricted Stock Plan Amendments would permit the Committee to provide that the "Restricted Period" with respect to any 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 ESOPs or the ESOP Trusts, (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 1988 Restricted Stock Plan and (4) the Company's Incentive Compensation Plan (as defined below)). Such target level(s) shall be determined by the Compensation Committee on or before the allocation of such Restricted Shares, shall relate to such period or periods of time as the Compensation Committee shall prescribe and may provide that any period in which such pre-tax income is less than zero may be disregarded.

AMENDMENT. The 1988 Restricted Stock Plan may be amended, suspended or terminated by the Board, provided that no such action shall increase the maximum number of shares that may be awarded pursuant to the Plan of Recapitalization, render any Compensation Committee member eligible to receive Restricted Stock while a Compensation Committee member, or adversely affect awards already made without the participant's consent.

ADJUSTMENTS. In case of a stock split, stock dividend, merger, consolidation, reorganization, recapitalization or other change in corporate structure of the Company, appropriate adjustments will be made by the Compensation Committee in the number and kind of shares subject to the 1988 Restricted Stock Plan.

FEDERAL INCOME TAX CONSEQUENCES. No income will be recognized by a participant upon receipt of any award of Restricted Stock, unless the participant files an election with the IRS within 30 days of the award to recognize such income. If the participant makes such an election, the Company would be entitled to a deduction for payment of compensation, assuming compliance with applicable withholding requirements, and the participant would be required to report as ordinary income, the fair market value of the Restricted Stock

on the award date. In the absence of such an election, the participant's income and the Company's corresponding deduction are deferred until the restrictions cease to apply, at which time the amount of the income and deduction would be based on the fair market value of the shares at the time the restrictions cease to apply.

Unless the election referred to above is made, dividends received with respect to Restricted Stock prior to the time the restrictions cease to apply would be taxed as ordinary income to the participant and would be deductible by the Company as payment of compensation, assuming compliance with applicable withholding requirements. Dividends received with respect to shares after such an election has been made or after the restrictions cease to apply would be taxed as dividends to the participant and would not be deductible by the Company.

APPROVAL OF AMENDMENTS TO THE INCENTIVE COMPENSATION PLAN

ON MARCH 25, 1994 THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDED IN CONNECTION WITH THE APPROVAL OF THE RECLASSIFICATION THAT THE STOCKHOLDERS VOTE FOR APPROVAL OF AMENDMENTS (THE "INCENTIVE PLAN AMENDMENT") TO THE COMPANY'S INCENTIVE COMPENSATION PLAN (THE "INCENTIVE PLAN") TO PRESERVE, TO THE MAXIMUM EXTENT POSSIBLE, THE DEDUCTIBILITY BY THE COMPANY OF AMOUNTS PAID THEREUNDER.

The full text of the Incentive Compensation Amendment is filed as an exhibit to the Registration Statement. The following summary of the Incentive Compensation Plan is qualified in its entirety by the full text of the Incentive Plan and the Incentive Plan Amendment.

Key employees and officers of the Company and its subsidiaries are eligible to participate in the Incentive Plan. The grant of awards and the size thereof depends upon the degree to which the Company's financial targets, as approved by the Compensation Committee, are reached or exceeded and the extent to which individual performance objectives set by management (or by the Compensation Committee in the case of the Company's CEO) are attained or exceeded. Performance is measured annually and awards are vested in the year awarded. Awards are paid in the year awarded.

Pursuant to the Incentive Plan Amendment, awards under the Incentive Plan with respect to any participant who is a "covered employee" (as defined in Section 162(m)(3) of the Internal Revenue Code) with respect to the applicable award year (i) may not exceed \$900,000 and (ii) shall be determined by reference to a formula which shall define the 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 ESOPs or the ESOP Trusts, (2) any event or occurrence that the Compensation Administration 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 Incentive 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 Compensation Administration Committee prior to the commencement of such award year (or at such later time as may be permissible under Section 162(m) of the Internal Revenue Code). Notwithstanding the foregoing, the Compensation Administration Committee may reduce the award otherwise determined pursuant to such formula in its sole discretion.

The Incentive Plan Amendment further provides that payment of an award may be deferred, pursuant to a prior election by a participant, to a period selected by the participant. The Incentive Plan may be amended, modified or terminated by the Board in its discretion.

Amounts paid under the Incentive Plan should be taxable as ordinary income to the participant and deductible by the Company, in each case, in the year in which the amounts are paid.

The Board of Directors recommends a vote FOR approval of the amendments to the Incentive Plan.

DESCRIPTION OF SECURITIES

THE DEBENTURES

The Series A Debentures and the Series B Debentures will be issued under an Indenture dated as of July 1, 1991 between United, as issuer, and The Bank of New York, as Trustee (the "Indenture Trustee") and an officers' certificate that sets forth certain terms of the Debentures (collectively, the "Indenture"). Copies of the Indenture and the related documentation have been filed as an exhibit to the Registration Statement of which this Proxy Statement/Prospectus is a part. The summary of terms of the Debentures contained in this Proxy Statement/Prospectus does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Indenture, including the definitions therein of certain capitalized terms used in this Proxy Statement/Prospectus. Where the summaries do not make a distinction between the Series A Debentures and the Series B Debentures, such summaries refer to either series. Whenever particular Sections or defined terms of the Indenture are referred to herein, such sections or defined terms are incorporated herein by reference.

General

The Debentures will be issued only in fully registered form without coupons in denominations of \$100 principal amount and integral multiples thereof, provided that if the Offerings are consummated, the Debentures may be issued in denominations of \$1,000 principal amount and integral multiples thereof. Although United intends to apply to list the Debentures on the NYSE, there can be no assurance that at or following the Effective Time the Debentures will be listed on the NYSE or any other securities exchange or that any trading market for the Debentures will develop. If the Debentures are listed on the NYSE, the Debentures will trade on such exchange only in denominations of \$1,000 and integral multiples thereof.

The Indenture pursuant to which the Debentures will be issued does not limit the aggregate principal amount of Debentures that may be issued in either series. United has registered \$449,802,200 aggregate principal amount of each series of Debentures for distribution to holders of Old Shares in connection with the Recapitalization if the Offerings are not consummated, based upon the number of Fully Diluted Old Shares. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--General." Of that amount, United expects that approximately \$382,071,900 aggregate principal amount of each series of Debentures will be issued in respect of the Old Shares currently outstanding (including the unvested restricted shares) and not more than approximately \$67,730,300 aggregate principal amount of each series of Debentures will be issued in connection with the exercise of Options and Convertible Company Securities. Many of the Options and Convertible Company Securities are out of the money and are not currently expected to be exercised. If market conditions change, Options and Convertible Company Securities that are currently out of the money may be exercised. Similarly, the number of Fully Diluted Old Shares presumes that the Company uses the proceeds from the exercise of Options and Convertible Company Securities to purchase Recapitalization Consideration. This assumption is meant to mimic the effect of the "cashless exercise" feature of the Options. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." The effect of the "cashless exercise" is to reduce the amount of the Recapitalization Consideration required to be issued in connection with the Recapitalization. Holders of Options and Convertible Company Securities may elect not to use the "cashless exercise" feature. Accordingly, the aggregate principal amount of each series of Debentures that is required to be issued in connection with the exercise of Options and Convertible Company Securities may exceed \$67,730,300. As an alternative to issuing additional Debentures, if conditions permit, the Company or United may attempt to acquire previously issued Debentures in the market. At the present time, the Company and United believe that the aggregate principal amount of Debentures that it has registered will be sufficient for purposes of the Recapitalization, including in connection with the exercise of Options and Convertible Company Securities, although there can be no assurance that this will be the case.

The Indenture does not contain any covenants or provisions that provide protection to the holder of Debentures in the event of a highly leveraged transaction or a change of control.

The Series A Debentures will bear interest at a rate per annum that has been fixed provisionally at 9.00%, and the Series B Debentures will bear interest at a rate per annum that has been fixed provisionally at 9.70%. As provided in the Plan of Recapitalization, the rates of interest proposed to be borne by the Series A Debentures and the Series B Debentures may be adjusted in advance of the Meeting to rates that would permit the Series A Debentures and the Series B Debentures to trade at par, on a fully distributed basis, as of the date on which such determination is made, although the interest rates to be borne by the Debentures may not be adjusted above 10.125% in the case of the Series A Debentures and 10.825% in the case of the Series B Debentures. The Company will make a public announcement of the rates of interest to be borne by the Series A Debentures and the Series B Debentures at least five days but not more than ten days in advance of the Meeting. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities." The underwriting agreements provide that if the Offerings are consummated, the interest rates on the Debentures may be adjusted to permit them to be sold at or closer to par, but if that is done, the principal amount of the series of Debentures affected must be reduced so that the aggregate amount of interest payable annually by United on the Debentures will not exceed certain maximum limits. If the Offerings are not consummated, the interest rates borne by the Debentures will be subject to the caps. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

The Plan of Recapitalization also provides that, at the request of the Unions, either or both series of Debentures may be made redeemable prior to their respective final stated maturity at the option of United. See "--Redemption" below. Interest on the Debentures will be paid semi-annually beginning in 1994 to holders of record on the record date for such payment. The Series A Debentures will mature in 2004. The Series B Debentures will mature in 2014. Prior to the Effective Time, the Company will establish the semi-annual interest payment dates, the specific final maturity dates and the maximum aggregate principal amount of each series of Debenture. The Debentures will bear interest from the date of their original issuance or the most recent interest payment date from which interest has been paid.

The Debentures will be unsecured and unsubordinated obligations of United and will rank on a parity with all other unsecured and unsubordinated indebtedness of United. As of March 31, 1994 United had outstanding approximately \$2.8 billion aggregate principal amount of indebtedness that will rank pari passu with the Debentures offered hereby, of which approximately \$1.8 billion was secured and approximately \$1.0 billion was unsecured. The Indenture does not limit the right of United to incur additional senior indebtedness. As of March 31, 1994, senior indebtedness of United on a consolidated basis aggregated approximately \$3.7 billion.

Redemption

The Debentures will not be subject to any sinking fund or other obligation of United to redeem or retire the Debentures. The Debentures may not be called for redemption prior to their respective final stated maturities. The Plan of Recapitalization provides that either or both series of Debentures may be made redeemable at the option of United prior to their respective final stated maturities if the Unions so request not less than seven days prior to the Announcement Date. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

Payment, Registration, Transfer and Exchange

Payments in respect of the Debentures will be made at the office or agency of United maintained for that purpose as United may designate from time to time, except that, at the option of United, interest payments, if any, on the Debentures may be made by checks mailed by the Indenture Trustee to the holders of Debentures entitled thereto at their registered addresses. (Sections 3.7(a) and 9.2 of the Indenture.) Payment of any installment of interest on Debentures will be made to the persons in whose names such Debentures are registered at the close of business on the regular record date for such interest. (Sections 3.7(a) of the Indenture.)

Debentures will be transferable or exchangeable at the office or agency of United maintained for such purpose as designated by United from time to time. (Sections 3.5 and 9.2 of the Indenture.) Debentures may be transferred or exchanged without service charge, other than any tax or other governmental charge imposed in connection therewith. (Section 3.5 of the Indenture.)

Consolidation, Merger or Sale by United

The Indenture provides that United may merge or consolidate with or into any other corporation or sell, convey, transfer or otherwise dispose of all or substantially all of its assets to any person, firm or corporation, if (i)(a) in the case of a merger or consolidation, United is the surviving corporation or (b) in the case of a merger or consolidation where United is not the surviving corporation and in the case of such a sale, conveyance or other disposition, the successor or acquiring corporation is a corporation organized and existing under the laws of the United States of America or a State thereof and such corporation expressly assumes by supplemental indenture all the obligations of United under the Debentures and the Indenture, (ii) immediately after giving effect to such merger or consolidation, or such sale, conveyance, transfer or other disposition, no Default or Event of Default has occurred and is continuing and (iii) certain other conditions are met. In the event a successor corporation assumes the obligations of United, such successor corporation will succeed to and be substituted for United under the Indenture and under the Debentures and all obligations of United will terminate. (Section 7.1 of the Indenture.)

Events of Default, Notice and Certain Rights on Default

The Indenture provides that, if an Event of Default occurs with respect to the Debentures of either series and is continuing, the Indenture Trustee for such series or the holders of at least 25% in aggregate principal amount of all of the outstanding Debentures of that series, by written notice to United (and to the Indenture Trustee for such series, if notice is given by such holders of Debentures), may declare the principal of all the Debentures of that series to be due and payable. (Section 5.2 of the Indenture.)

Events of Default with respect to Debentures of either series are defined in the Indenture as being: (i) default for 30 days in payment of interest on any Debentures of that series when due, (ii) default for 10 days in payment of principal, premium, if any, at its maturity or on redemption or otherwise, of any Debentures of that series when due, (iii) default for 60 days after notice to United by the Indenture Trustee for such series, or to United and the Indenture Trustee by the holders of at least 25% in aggregate principal amount of the Debentures of such series then outstanding, in the performance of any other agreement in the Debentures of that series, in the Indenture or in any supplemental indenture, (iv) default resulting in acceleration of other indebtedness of United for borrowed money where the aggregate principal amount so accelerated exceeds \$100 million and such acceleration is not rescinded or annulled within 10 days after the written notice thereof to United by the Indenture Trustee or to United and the Indenture Trustee by the holders of at least 25% in aggregate principal amount of the Debentures of such series then outstanding, provided that such Event of Default will be cured or waived if the default that resulted in the acceleration of such other indebtedness is cured or waived, and (v) certain events of bankruptcy, insolvency or reorganization of United. (Section 5.1 of the Indenture.)

The Indenture provides that the Indenture Trustee for either series of Debentures will, within 90 days after the occurrence of a Default with respect to Debentures of that series, give to the holder of the Debentures of that series notice of all uncured Defaults known to it; provided that, except in the case of default in payment on the Debentures of that series, the Indenture Trustee may withhold the notice if and so long as a committee of its responsible officers in good faith determines that withholding such notice is in the interest of the holders of the Debentures of that series. (Section 6.6 of the Indenture.) "Default" means any event that is, or, after notice or passage of time or both, would be, an Event of Default. (Section 1.1 of the Indenture.)

The Indenture provides that the holders of a majority in aggregate principal amount of the Debentures of each series affected (with each such series voting as a class) may direct the time, method and place of

conducting any proceeding for any remedy available to the Indenture Trustee for such series or exercising any trust or power conferred on such Indenture Trustee. (Section 5.8 of the Indenture.)

The Indenture includes a covenant that United will file annually with the Indenture Trustee a certificate as to United's compliance with all conditions and covenants of the Indenture. (Section 9.7 of the Indenture.)

The holders of a majority in aggregate principal amount of either series of Debentures by notice to the Indenture Trustee for such series may waive, on behalf of the holders of all Debentures of such series, any past Default or Event of Default with respect to that series and its consequences except a Default or Event of Default in the payment of the principal of, premium, if any, or interest on any Debenture and certain other defaults. (Section 5.7 of the Indenture.)

Modification of the Indenture

The Indenture contains provisions permitting United and the Indenture Trustee to enter into one or more supplemental indentures without the consent of the holders of any of the Debentures (i) to evidence the succession of another corporation to United and the assumption of the covenants of United by a successor to United, (ii) to add to the covenants of United for the benefit of either series of Debentures or surrender any right or power of United, (iii) to add additional Events of Default with respect to any series, (iv) to secure the Debentures, (v) to evidence and provide for successor Indenture Trustees, (vi) to correct or supplement any inconsistent provisions or to make any other provisions with respect to matters or questions arising under the Indenture, provided that such action does not adversely affect the interests of any holder of Debentures of any series issued under the Indenture, or (vii) to cure any ambiguity or correct any mistake. (Section 8.1 of the Indenture.)

The Indenture also contains provisions permitting United and the Indenture Trustee, with the consent of the holders of a majority in aggregate principal amount of the outstanding Debentures of each series affected by a supplemental indenture, to execute such supplemental indenture to add any provisions to or to change or to eliminate any of the provisions of the Indenture or any supplemental indenture or to modify the rights of the holders of Debentures of such series, except that no such supplemental indenture may, without the consent of the holder of each Debenture so affected, (i) change the time for payment of principal or interest on any Debenture, (ii) reduce the principal of, or any installment of interest on, any Debenture, (iii) reduce the amount of premium, if any, payable upon the redemption of any Debenture, (iv) change the coin or currency in which any Debenture or any premium or interest thereon is payable, (v) impair the right to institute suit for the enforcement of any payment on or with respect to any Debenture, (vi) reduce the percentage in principal amount of the outstanding Debentures of any series the consent of whose holders is required for modification or amendment of the Indenture or for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults, (vii) change the obligation of United to maintain an office or agency in the places and for the purposes specified in the Indenture or (viii) modify the provisions relating to waiver of certain defaults or any of the foregoing provisions. (Section 8.2 of the Indenture.)

Defeasance and Covenant Defeasance

United may elect either (i) to defease and be discharged from any and all obligations with respect to the Debentures of any series (except as described below) ("defeasance") or (ii) to be released from its obligations with respect to certain covenants applicable to the Debentures of any series ("covenant defeasance"), upon the deposit with the Indenture Trustee for such series (or other qualifying trustee), in trust for such purpose, of money and/or Government Obligations that through the payment of principal and interest in accordance with their terms will provide money in the amount sufficient to pay the principal of, premium, if any, and interest on such Debentures to their respective final stated maturity or redemption, as the case may be. Upon the occurrence of a defeasance, United will be deemed to have paid and discharged the entire indebtedness represented by such Debentures and to have satisfied all of its other obligations under such Debentures (except for (i) the rights of holders of such Debentures to receive, solely from the trust funds deposited to

defeasance such Debentures, payments in respect of the principal of, premium, if any, and interest on such Debentures when such payments are due and (ii) certain other obligations as provided in the Indenture). Upon the occurrence of a covenant defeasance, United will be released only from its obligations to comply with certain covenants contained in the Indenture relating to such Debentures, will continue to be obligated in all other respects under such Debentures and will continue to be contingently liable with respect to the payment of principal, premium, if any, and interest with respect to such Debentures.

The conditions to both defeasance and covenant defeasance are as follows: (i) such defeasance or covenant defeasance must not result in a breach or violation of, or constitute a Default or Event of Default under, the Indenture, or result in a breach or violation of, or constitute a default under, any other material agreement or instrument of United, (ii) certain bankruptcy related Defaults or Events of Default with respect to United must not have occurred and be continuing during the period commencing on the date of the deposit of the trust funds to defease such Debentures and ending on the 91st day after such date, (iii) United must deliver to the Indenture Trustee an Opinion of Counsel to the effect that the holders of such Debentures will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to Federal income tax on the same amounts and in the same manner and at all the same times as would have been the case if such defeasance or covenant defeasance had not occurred (such Opinion of Counsel, in the case of defeasance, must refer to and be based upon a ruling of the IRS or a change in applicable Federal income tax law occurring after the date of the Indenture) and (iv) United must deliver to the Indenture Trustee an Officers' Certificate and an Opinion of Counsel with respect to compliance with the conditions precedent to such defeasance or covenant defeasance and with respect to certain registration requirements under the Investment Company Act of 1940, as amended. (Article 4 of the Indenture.) The Indenture requires that a nationally recognized firm of independent public accountants deliver to the Indenture Trustee a written certification as to the sufficiency of the trust funds deposited for the defeasance or covenant defeasance of such Debentures. The Indenture does not provide the holders of such Debentures with recourse against such firm. In the event that Government Obligations deposited with the Indenture Trustee for the defeasance of such Debentures decrease in value or default subsequent to their being deposited, United will have no further obligation, and the holders of such Debentures will have no additional recourse against United, as a result of such decrease in value or default. As described above, in the event of a covenant defeasance, United remains contingently liable with respect to the payment of principal, premium, if any, and interest with respect to such Debentures.

United may exercise its defeasance option with respect to such Debentures notwithstanding its prior exercise of its covenant defeasance option. If United exercises its defeasance option, payment of such Debentures may not be accelerated because of a Default or an Event of Default. If United exercises its covenant defeasance option, payment of such Debentures may not be accelerated by reason of a Default or an Event of Default with respect to the covenants to which such covenant defeasance is applicable. However, if such acceleration were to occur, the realizable value at the acceleration date of the money and Government Obligations in the defeasance trust could be less than the principal and interest then due on such Debentures, in that the required deposit in the defeasance trust is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

The Indenture Trustee

The Bank of New York is the Indenture Trustee under the Indenture. United and the Company also maintain banking and other commercial relationships with The Bank of New York and its affiliates in the ordinary course of business and The Bank of New York acts as trustee under several indentures for United and the Company.

THE CAPITAL STOCK OF THE COMPANY

As of the date of this Proxy Statement/Prospectus, the Company's current Amended and Restated Certificate of Incorporation authorizes the issuance of 125,000,000 shares of Old Shares and 16,000,000 shares

of preferred stock. As of May 11, 1994, there were outstanding (a) 24,571,077 Old Shares, (b) 6,000,000 shares of Series A Preferred Stock that were convertible into 3,833,866 Old Shares, (c) Options to purchase an aggregate of 1,632,568 Old Shares, (d) \$33,005,000 principal amount of Air Wis Convertible Debentures that were convertible into 130,369 Old Shares and (e) rights to purchase 245,710 shares of Junior Participating Preferred Stock. The Company has designated 1,250,000 shares of a series of preferred stock as Junior Participating Preferred Stock (as defined below), which are reserved for issuance upon exercise of certain preferred share purchase rights associated with each outstanding Old Share (the "Rights"), as described below.

Upon consummation of the Recapitalization, the authorized capital stock of the Company will consist of (i) 100,000,000 New Shares, par value \$0.01 per share, (ii) 16,000,000 shares of serial preferred stock, without par value (the "Serial Preferred Stock"), of which (a) 6,000,000 shares will be designated as Series A Preferred Stock, (b) 50,000 shares will be designated Public Preferred Stock, (c) 1,250,000 shares will be designated Junior Participating Preferred Stock, (d) 50,000 will be designated as Series D Redeemable Preferred Stock and (e) 50,000 shares will be designated Series E Redeemable Preferred Stock, (iii) an aggregate of 50,000,000 shares will be allocated between shares designated as Class 1 ESOP Preferred Stock, par value \$0.01 per share, and shares designated as Class 2 ESOP Preferred Stock, par value \$0.01 per share, (iv) 11,500,000 shares of the Class P Preferred Stock, par value \$0.01 per share, (v) 9,300,000 shares of the Class M Preferred Stock, par value \$0.01 per share, (vi) 4,200,000 shares of the Class S Preferred Stock, par value \$0.01 per share, (ix) ten shares of the Class I Preferred Stock, par value \$0.01 per share, (x) one share of the Class Pilot MEC Preferred Stock, par value \$0.01 per share, (xi) one share of the Class IAM Preferred Stock, par value \$0.01 per share and (xii) ten shares of the Class SAM Preferred Stock, par value \$0.01 per share. The serial preferred stock not otherwise designated may be issued from time to time in one or more series, without stockholder approval, with such powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations, or restrictions thereof as may be adopted by the Board of Directors or a duly authorized committee thereof.

Upon consummation of the Recapitalization, assuming that (i) none of the Options is exercised, (ii) none of the Convertible Company Securities is converted and (iii) none of the ESOP Preferred Stock or the Voting Preferred Stock is converted, the outstanding capital stock of the Company will consist of (a) 12,285,530 New Shares, (b) 6,000,000 shares of Series A Preferred Stock, (c) 30,566,419 Depositary Preferred Shares representing 30,566.5 shares of Public Preferred Stock, (d) the number of shares of ESOP Preferred Stock referred to below, (e) three shares of Voting Preferred Stock and (f) nine shares of Director Preferred Stock. Upon consummation of the Recapitalization assuming that (I) all the Options are exercised, (II) all the converted and (III) none of the ESOP Preferred Stock or Voting Preferred Stock is converted, the outstanding capital stock of the Company will consist of (A) 15,083,939 New Shares, (B) 37,528,842 Depositary Preferred Shares representing interests in 37,528.8 shares of Public Preferred Stock, (C) the number of shares of ESOP Preferred Stock referred to below, (D) three shares of Voting Preferred Stock and (E) nine shares of Director Preferred Stock. In either case, all the shares of Redeemable Preferred Stock that are issued will be redeemed for cash; Debentures and Depositary Preferred Shares immediately upon issuance. The Plan of Recapitalization provides that at least 17,675,345 shares of ESOP Preferred Stock will be transferred to the ESOPs over the 69 months following the Effective Time, see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--General," and that under certain circumstances a greater number may be transferred. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." Immediately after the Effective Time, a smaller number of ESOP Preferred Stock, including both Class 1 ESOP Preferred Stock and Class 2 ESOP Preferred Stock will be outstanding. Some additional shares of ESOP Preferred Stock will not be outstanding but will be recorded on the books of the Company as Book-Entry Shares. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Sales of ESOP Preferred Stock."

Upon the consummation of the Recapitalization and prior to the Sunset, the New Shares and the Voting Preferred Stock will vote together as a single class with respect to all matters submitted to the vote of the

holders of common stock pursuant to law or as provided in the Restated Certificate except with respect to (a) such matters upon which the DGCL requires a separate class vote and (b) the election of the Public Directors, whom the New Shares will elect separately as a class, and on whose election the Voting Preferred Stock will not vote. Initially, the Voting Preferred Stock will represent the right to cast 55% of the votes that may be cast by the New Shares and the Voting Preferred Stock voting together as a single class (less a number of votes that is equal to the number of New Shares that have been issued upon conversion of the ESOP Preferred Stock and the Voting Preferred Stock that are held in the ESOPs). Under certain circumstances, the voting power of the Voting Preferred Stock may be increased so that it represents up to 63% of the votes that may be cast by the New Shares and the Voting Preferred Stock voting together as a single class (less a number of votes that is equal to the number of New Shares that have been issued upon conversion of the ESOP Preferred Stock and the Voting Preferred Stock and that are held in the ESOPs). See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares."

After the Sunset, the New Shares and the Voting Preferred Stock will continue to vote together as a single class with respect to all matters submitted to the vote of the holders of common stock pursuant to law or as provided in the Restated Certificate except with respect to such matters upon which the DGCL requires a separate class vote. After the Sunset, the Voting Preferred Stock will represent the right to cast a number of votes that is equal to the number of New Shares into which the ESOP Preferred Stock can be converted.

Upon the consummation of the Recapitalization, (i) the Class Pilot MEC Preferred Stock will elect the ALPA Director until the later of the Sunset or the date that ALPA members cease to be employees of the Company, (ii) the Class IAM Preferred Stock will elect the IAM Director until the later of the Sunset or the date that IAM members cease to be employees of the Company, (iii) the Class SAM Preferred Stock will elect the Salaried and Management Director until the later of (x) the Sunset or (y) the earlier of the time when ALPA members or IAM members cease to be employees of the Company, and (iv) the Class I Preferred Stock will elect the Independent Directors until the Sunset.

THE PUBLIC PREFERRED STOCK

The summary of terms of the Public Preferred Stock contained in this Proxy Statement/Prospectus does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Restated Certificate that will become effective in connection with the consummation of the Recapitalization. A copy of the Restated Certificate is included elsewhere in this Proxy Statement/Prospectus.

General

As part of the Recapitalization, each outstanding Old Share will, without further action on the part of the holder thereof, be reclassified and converted into, among other things, Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock. See "--The Depositary Preferred Shares." As contemplated by the Plan of Recapitalization, the Company has elected to issue Depositary Preferred Shares, each representing interests in one one-thousandth of a share of Public Preferred Stock having a liquidation preference of \$25. When issued, the Public Preferred Stock will be validly issued, fully paid and nonassessable. The holders of the Public Preferred Stock will not have any preemptive rights with respect to any shares of capital stock of the Company or any other securities of the Company convertible into or carrying rights or options to purchase any such shares. The Public Preferred Stock will not be subject to any sinking fund or other obligation of the Company to redeem or retire the Public Preferred Stock. Unless redeemed by the Company, the Public Preferred Stock will have perpetual maturity.

The Company has registered under the Securities Act 35,984,175 Depositary Preferred Shares representing interests in \$899,604,375 aggregate liquidation preference of the Public Preferred Stock for distribution to holders of Old Shares in connection with this Recapitalization if the Offerings are not consummated, based upon the number of Fully Diluted Old Shares. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--General." Of that amount, the Company expects that

approximately 30,565,751 Depositary Shares representing interests in \$764,143,775 aggregate liquidation preference of the Public Preferred Stock will be issued in respect of the Old Shares currently outstanding (including the unvested restricted shares) and approximately 5,418,424 Depositary Preferred Shares representing interests in \$135,460,600 aggregate liquidation preference of the Public Preferred Stock are expected to be issued in connection with the exercise of Options and Convertible Company Securities. Many of the Options and Convertible Company Securities are out of the money and are not currently expected to be exercised. If market conditions change, Options and Convertible Company Securities that are currently out of the money may be exercised. Similarly, the number of Fully Diluted Old Shares presumes that the Company uses the proceeds from the exercise of Options and Convertible Company Securities to purchase Recapitalization Consideration. This assumption is meant to mimic the effect of the "cashless exercise" feature of the Options. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." The effect of the "cashless exercise" is to reduce the amount of the Recapitalization Consideration required to be issued in connection with the Recapitalization. Holders of Options and Convertible Company Securities may elect not to use the "cashless exercise" feature. Accordingly, the number of Depositary Preferred Shares and the aggregate liquidation value of the Public Preferred Stock that are required to be issued in connection with the exercise of Options and Convertible Company Securities may exceed 5,418,424 Depositary Preferred Shares and \$135,460,600 aggregate liquidation value. As an alternative to issuing additional Depositary Preferred Shares of Public Preferred Stock, if conditions permit, the Company may attempt to acquire previously issued Depositary Preferred Shares in the market. The terms of the Restated Certificate and the Deposit Agreement (as defined below) would not prevent issuance of Depositary Preferred Shares or shares of Public Preferred Stock in excess of the number already registered. At the present time, although there can be no assurance, the Company believes that the number of Depositary Preferred Shares and the aggregate liquidation value of the Public Preferred Stock that it has registered will be sufficient for purposes of the Recapitalization, including in connection with the exercise of Options and Convertible Company Securities. As contemplated by the Plan of Recapitalization, the Company has elected to issue Depositary Shares, each representing interests in one one-thousandth of a share of Public Preferred Stock, which is the equivalent of \$25 liquidation preference.

Ranking

The Public Preferred Stock will rank on a parity with the Series A Preferred Stock and the Redeemable Preferred Stock and will rank senior to the New Shares, the ESOP Preferred Stock, the Voting Preferred Stock, the Director Preferred Stock and any shares of Junior Participating Preferred Stock issued pursuant to the Rights with respect to payment of dividends and amounts payable upon liquidation, dissolution or winding up.

While any shares of Public Preferred Stock are outstanding, the Company may not authorize the creation or issue of any class or series of stock that ranks senior to the Public Preferred Stock as to dividends or upon liquidation, dissolution or winding up without the consent of the holders of 66 2/3% of the outstanding shares of Public Preferred Stock. The Company may create additional classes or series of preferred stock or authorize, or increase the authorized amount of, any shares of any class or series of preferred stock ranking on a parity with or junior to the Public Preferred Stock without the consent of any holder of Public Preferred Stock. See "--Voting Rights" below.

Dividends

Holders of shares of Public Preferred Stock will be entitled to receive, when, as and if declared by the Board of the Company out of assets of the Company legally available therefor, cumulative cash dividends at a rate per annum that has been fixed provisionally at 10.25% of the \$25,000 liquidation preference thereof (or \$2,526.50 per share) per annum. As provided in the Plan of Recapitalization, the dividend rate proposed to be borne by the Public Preferred Stock may be adjusted in advance of the Meeting to a rate that would permit the Public Preferred Stock to trade at par, on a fully distributed basis, as of the date such

determination is made, although the dividend rate to be borne by the Public Preferred Stock may not be adjusted above 11.375%. The Company will make a public announcement of the revised dividend rate at least five days but not more than ten days in advance of the Meeting. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities." The underwriting agreements will provide that if the Offerings are consummated, the dividend rate on the Public Preferred Stock may be adjusted to permit the Depositary Preferred Shares to be sold at or closer to par, but if that is done, the number of Depositary interests in the Public Preferred Stock must be reduced so that the aggregate amount of dividends payable annually by the Company on the Public Preferred Stock will not exceed certain maximum limits. If the Offerings are not consummated, the dividend rate borne by the Public Preferred Stock will be subject to the cap. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Pricing the Securities."

Dividends on the Public Preferred Stock will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, commencing on the first dividend payment date that follows the Effective Time, (and, in the case of any accrued but unpaid dividends, at such additional times and for such interim periods, if any, as determined by the Board of Directors), at such annual rate, provided that if the Offerings are consummated, the regular dividend payment dates may be as determined by the Company after consultation with the underwriters. Each such dividend will be payable to holders of record as they appear on the stock records of the Company at the close of business on such record dates, which will not be more than 60 days or less than 10 days preceding the payment dates corresponding thereto, as may be fixed by the Board of Directors of the Company or a duly authorized committee thereof. Dividends will accrue from the date of the original issuance of the Public Preferred Stock (the "Issue Date"). Dividends will be cumulative from such date, whether or not in any dividend period or periods there are assets of the Company legally available for the payment of such dividends.

Each share of Public Preferred Stock issued after the Issue Date (whether issued upon transfer of or in exchange for an outstanding share of Public Preferred Stock or issued for any other reason) will be entitled to receive, when, as and if declared by the Board, dividends with respect to each dividend period, starting with the Issue Date, for which full dividends have not been paid prior to the date upon which such share of Public Preferred Stock was issued. Any share of Public Preferred Stock that is issued after the record date with respect to any dividend payment and before such dividend is paid will not be entitled to receive the dividend paid to holders of Public Preferred Stock as of such record date.

The regular quarterly dividend payment dates with respect to Public Preferred Stock coincide with the regular dividend payment dates on the Series A Preferred Stock, and two of the dividend payment dates with respect to the Public Preferred Stock will coincide with the regular semi-annual interest payment dates on the Debentures unless the Offerings are consummated, in which case such payments need not coincide. The Plan of Recapitalization provides that, unless the Offerings are consummated, the Company will use the same record date with respect to regular quarterly dividend payments on the Public Preferred Stock and the Series A Preferred Stock. It also provides that the Company will use the same record date with respect to the Public Preferred Stock, the Series A Preferred Stock and the Debentures when the regular dividend payment dates coincide with the regular interest payment date.

Accumulations of dividends on shares of Public Preferred Stock will not bear interest. Dividends payable on the Public Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Public Preferred Stock for each full dividend period will be computed by dividing the annual dividend rate by four.

Except as provided in the next sentence, no dividend will be declared or paid on any Parity Stock (as defined below) unless full cumulative dividends have been paid on the Public Preferred Stock for all prior dividend periods. If accrued dividends on the Public Preferred Stock for all prior dividend periods have not been paid in full, then any dividend declared on the Public Preferred Stock for any dividend period and on

any Parity Stock will be declared ratably in proportion to accrued and unpaid dividends on the Public Preferred Stock and such Parity Stock.

The Company will not (i) declare, pay or set apart funds for the payment of any dividend or other distribution with respect to any Junior Stock (as defined below) or (ii) redeem, purchase or otherwise acquire for consideration any Junior Stock or Parity Stock through a sinking fund or otherwise (except by conversion into or exchange for shares of Junior Stock and other than a redemption or purchase or other acquisition of New Shares made for purposes of an employee incentive or benefit plan of the Company or any subsidiary), unless all accrued and unpaid dividends with respect to the Public Preferred Stock and any Parity Stock at the time such dividends or other distributions payable or such redemption, purchase or acquisition is to occur have been paid or funds have been set apart for payment of such dividends.

For purposes of the description of the Public Preferred Stock, (i) the term "dividend" does not include dividends payable solely in shares of Junior Stock on Junior Stock, or in options, warrants or rights to holders of Junior Stock to subscribe for or purchase any Junior Stock, (ii) the term "Parity Stock" means any other class or series of preferred stock ranking on a parity with the Public Preferred Stock as to the payment of dividends and amounts payable upon liquidation, dissolution or winding up and (iii) the term "Junior Stock" means the New Shares, the ESOP Preferred Stock, the Voting Preferred Stock, the Director Preferred Stock, any shares of Junior Participating Preferred Stock issued pursuant to the Rights and any other class or series of capital stock of the Company now or hereafter issued and outstanding that ranks junior as to the payment of dividends or amounts payable upon liquidation, dissolution or winding up to the Public Preferred Stock.

Redemption

The Public Preferred Stock is not redeemable prior to the fifth anniversary of the Issue Date. On and after such date, the Public Preferred Stock is redeemable at the option of the Company, in whole or in part, at the redemption price of \$25,000 per share, plus, in each case, all dividends accrued and unpaid on the Public Preferred Stock up to the date fixed for redemption, upon giving notice as provided below.

If fewer than all of the outstanding shares of Public Preferred Stock are to be redeemed, the shares to be redeemed will be determined pro rata or by lot or in such other manner as is prescribed by the Company's Board.

At least 30 days but not more than 60 days prior to the date fixed for the redemption of the Public Preferred Stock, a written notice will be mailed to each holder of record of Public Preferred Stock to be redeemed, notifying such holder of the Company's election to redeem such shares, stating the date fixed for redemption thereof and calling upon such holder to surrender to the Company on the redemption date at the place designated in such notice the certificate or certificates representing the number of shares specified therein. On or after the redemption date, each holder of Public Preferred Stock to be redeemed must present and surrender his certificate or certificates for such shares to the Company at the place designated in such notice and thereupon the redemption price of such shares will be paid to or on the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate will be canceled. Should fewer than all the shares represented by any such certificate be redeemed, a new certificate will be issued representing the shares not redeemed.

From and after the redemption date (unless the Company defaults in payment of the redemption price), all dividends on the shares of Public Preferred Stock designated for redemption in such notice will cease to accrue, and all rights of the holders thereof as stockholders of the Company, except the right to receive the redemption price thereof (including all accrued and unpaid dividends up to the redemption date), will cease and terminate. Such shares may not thereafter be transferred (except with the consent of the Company) on the Company's books, and such shares may not be deemed to be outstanding for any purpose whatsoever. On the redemption date, the Company must pay any accrued and unpaid dividends in arrears for any dividend period ending on or prior to the redemption date. In the case of a redemption date falling after a dividend

payment record date and prior to the related payment date, the holders of Public Preferred Stock at the close of business on such record date will be entitled to receive the dividend payable on such shares on the corresponding dividend payment date, notwithstanding the redemption of such shares following such dividend payment record date. Except as provided for in the preceding sentences, no payment or allowance will be made for accrued dividends on any shares of Public Preferred Stock called for redemption.

At its election, the Company, prior to the redemption date, may deposit the redemption price of the shares of Public Preferred Stock so called for redemption in trust for the holders thereof with a bank or trust company, in which case such notice to holders of the shares of Public Preferred Stock to be redeemed will (i) state the date of such deposit, (ii) specify the office of such bank or trust company as the place of payment of the redemption price and (iii) call upon such holders to surrender the certificates representing such shares at such place on or after the date fixed in such redemption notice (which may not be later than the redemption date), against payment of the redemption price (including all accrued and unpaid dividends up to the redemption date). Any moneys so deposited which remain unclaimed by the holders of Public Preferred Stock at the end of two years after the redemption date will be returned by such bank or trust company to the Company.

Liquidation Preference

The holders of shares of Public Preferred Stock will be entitled to receive, in the event of any liquidation, dissolution or winding up of the Company, \$25,000 per share plus an amount per share equal to all dividends (whether or not earned or declared) accrued and unpaid thereon to the date of final distribution to such holders (for purposes of the description of the Public Preferred Stock, the "Liquidation Preference"), and no more.

Until the holders of the Public Preferred Stock have been paid the Liquidation Preference in full, no payment will be made to any holder of Junior Stock upon the liquidation, dissolution or winding up of the Company. If, upon any liquidation, dissolution or winding up of the Company, the assets of the Company, or proceeds thereof, distributable among the holders of the shares of Public Preferred Stock are insufficient to pay in full the Liquidation Preference and the liquidation preference with respect to any other shares of Parity Stock, then such assets, or the proceeds thereof, will be distributed among the holders of shares of Public Preferred Stock and any such Parity Stock ratably in accordance with the respective amounts that would be payable on such shares of Public Preferred Stock and any such Parity Stock if all amounts payable thereon were paid in full. Neither a consolidation or merger of the Company with another corporation nor a sale, lease or transfer of all or substantially all of the Company's assets will be considered a liquidation, dissolution or winding up, voluntary or involuntary, of the Company.

Voting Rights

Except as indicated below, or except as otherwise from time to time required by applicable law, the holders of shares of Public Preferred Stock will not have any voting rights, and their consent will not be required for taking any corporate action. When and if the holders of the Public Preferred Stock are entitled to vote, each share will be entitled to 1,000 votes.

If the equivalent of six quarterly dividends payable on the Public Preferred Stock have not been declared and paid or set apart for payment, whether or not consecutive, the number of directors of the Company will be increased by two and the holders of all Public Preferred Stock and any other series of Serial Preferred Stock 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 set apart for payment.

The affirmative vote or consent of the holders of 66 2/3% of the outstanding shares of the Public Preferred Stock will be required for any amendment of the Restated Certificate that alters or changes the powers,

preferences, privileges or rights of the Public Preferred Stock so as to materially adversely affect the holders thereof. The affirmative vote or consent of the holders of shares representing 66 2/3% of the outstanding shares of the Public Preferred Stock will be required to authorize the creation or issue of, or reclassify any authorized stock of the Company into, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any additional class or series of stock ranking senior to the Public Preferred Stock.

Except as required by law, the holders of Public Preferred Stock will not be entitled to vote on any merger or consolidation involving the Company or a sale of all or substantially all of the assets of the Company.

DEPOSITARY PREFERRED SHARES

The Depositary Preferred Shares will be issued under a Deposit Agreement (the "Deposit Agreement") between the Company and First Chicago Trust Company of New York, as the Depositary (the "Depositary"). A copy of the Deposit Agreement has been filed as an exhibit to the Registration Statement of which this Proxy Statement/Prospectus is a part. The summary of terms of the Depositary Preferred Shares, the Depositary Receipts (as defined below) and the Deposit Agreement contained in this Proxy Statement/Prospectus does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Deposit Agreement and the form of Depositary Receipt attached thereto, including the definitions therein of certain capitalized terms used in this Proxy Statement/Prospectus.

General

The Company will issue receipts for fractional interests ("Depositary Preferred Shares" or "Depositary Shares") in the shares of the Public Preferred Stock rather than full shares of the Public Preferred Stock. Each Depositary Preferred Share will represent an interest in one one-thousandth of a share of the Public Preferred Stock (the equivalent of \$25 liquidation preference of Public Preferred Stock).

The shares of the Public Preferred Stock represented by Depositary Preferred Shares will be deposited under the Deposit Agreement. Subject to the terms of the Deposit Agreement, each owner of a Depositary Preferred Share will be entitled, in proportion to the applicable interest in a share of the Public Preferred Stock represented by such Depositary Preferred Share, to all the rights and preferences of the interest in shares of the Public Preferred Stock represented thereby (including dividend, voting, redemption and liquidation rights).

Although the Company intends to apply to list the Depositary Preferred Shares on the NYSE, there can be no assurance that at or following the Effective Time the Depositary Preferred Shares will be listed on the NYSE or any other securities exchange or that any trading market for the Depositary Preferred Shares will develop.

Dividends and Other Distributions

The Depositary will distribute all cash dividends or other cash distributions received in respect of the shares of the Public Preferred Stock to the record holders of Depositary Preferred Shares relating to the Public Preferred Stock in proportion to the numbers of such Depositary Preferred Shares owned by such holders.

In the event of a distribution other than in cash, the Depositary will distribute property received by it to the record holders of Depositary Preferred Shares in an equitable manner, unless the Depositary determines that it is not feasible to make such distribution, in which case the Depositary may sell such property and distribute the net proceeds from such sale to such holders.

Redemption of Depositary Preferred Shares

If the shares of the Public Preferred Stock represented by Depositary Preferred Shares are subject to redemption, the Depositary Preferred Shares will be redeemed from the proceeds received by the Depositary

resulting from the redemption, in whole or in part, of such shares of the Public Preferred Stock held by the Depositary. The redemption price per Depositary Preferred Share will be equal to the applicable fraction of the redemption price per share payable with respect to such shares of the Public Preferred Stock. Whenever the Company redeems shares of the Public Preferred Stock held by the Depositary, the Depositary will redeem as of the same redemption date the number of Depositary Preferred Shares representing shares of the Public Preferred Stock so redeemed. If fewer than all the Depositary Preferred Shares are to be redeemed, the Depositary Preferred Shares to be redeemed will be selected by lot, pro rata or by any other equitable method as may be determined by the Depositary.

Voting the Shares of the Public Preferred Stock

Upon receipt of notice of any meeting at which the holders of the Public Preferred Stock are entitled to vote, the Depositary will mail the information contained in such notice of meeting to the record holders of the Depositary Preferred Shares relating to such shares of the Public Preferred Stock. Each record holder of such Depositary Preferred Shares on the record date (which will be the same date as the record date for the shares of the Public Preferred Stock) will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the fraction of the shares of the Public Preferred Stock represented by such holder's Depositary Shares. The Depositary will endeavor, insofar as practicable, to vote the shares of the Public Preferred Stock represented by such Depositary Preferred Shares in accordance with such instructions, and the Company will agree to take all reasonable action that may be deemed necessary by the Depositary in order to enable the Depositary to do so. The Depositary will abstain from voting the shares of the Public Preferred Stock to the extent it does not receive specific instructions from the holder of Depositary Preferred Shares representing such shares of the Public Preferred Stock.

Amendment and Termination of the Deposit Agreement

The form of Depositary Receipt evidencing the Depositary Preferred Shares and any provision of the Deposit Agreement may at any time be amended by agreement between the Company and the Depositary. However, any amendment that materially and adversely alters the rights of the holders of Depositary Shares will not be effective unless the holders of at least a majority of the Depositary Preferred Shares then outstanding approve such amendment. The Deposit Agreement will only terminate if (i) all outstanding Depositary Preferred Shares have been redeemed or (ii) there has been a final distribution in respect of the shares of the Public Preferred Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution has been distributed to the holders of the Depositary Receipts.

Charges of Depositary

The Company will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. The Company will pay charges of the Depositary in connection with the initial deposit of the shares of the Public Preferred Stock and issuance of Depositary Receipts, all withdrawals of shares of the Public Preferred Stock by owners of Depositary Preferred Shares and any redemption of the shares of the Public Preferred Stock. Holders of Depositary Receipts will pay other transfer and other taxes and governmental charges and such other charges as are expressly provided in the Deposit Agreement to be for their accounts.

Resignation and Removal of Depositary

The Depositary may resign at any time by delivering to the Company notice of its election to do so, and the Company may at any time remove the Depositary, any such resignation or removal to take effect upon the appointment of a successor Depositary and its acceptance of such appointment. Such successor Depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

Miscellaneous

The Depositary will forward all reports and communications from the Company that are delivered to the Depositary and that the Company is required or otherwise determines to furnish to the holders of the Depositary Preferred Shares.

Neither the Depositary nor the Company will be liable under the Deposit Agreement to holders of Depositary Receipts other than for its gross negligence, willful misconduct or bad faith. Neither the Company nor the Depositary will be obligated to prosecute or defend any legal proceeding in respect of any Depositary Preferred Shares or Public Preferred Stock unless satisfactory indemnity is furnished. The Company and the Depositary may rely upon written advice of counsel or accountants, or upon information provided by persons presenting shares of the Public Preferred Stock for deposit, holders of Depositary Receipts or other persons believed to be competent and on documents believed to be genuine.

THE REDEEMABLE PREFERRED STOCK

The summary of terms of the Redeemable Preferred Stock contained in this Proxy Statement/Prospectus Section does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Restated Certificate that will become effective in connection with the consummation of the Recapitalization. A copy of the Restated Certificate is included elsewhere in this Proxy Statement/Prospectus.

General

The Redeemable Preferred Stock will be issued in units equal to one one-thousandth of a share, and as part of the Recapitalization, each outstanding Old Share will, without further action on the part of the holder thereof, be reclassified and converted into, among other things, one one-thousandth of a share of Redeemable Preferred Stock. When issued, the Redeemable Preferred Stock will be validly issued, fully paid and nonassessable.

The Redeemable Preferred Stock consists of two series of Preferred Stock that are identical except that the holder of Series E Redeemable Preferred Stock will receive cash upon the redemption of the stock or the liquidation of the Company and the holder of Series D Redeemable Preferred Stock will receive cash, Debentures and interests in Public Preferred Stock that will be represented by Depositary Shares upon the redemption of the stock or the liquidation of the Company. Where the summaries do not make a distinction between the Series E Redeemable Preferred Stock and the Series D Redeemable Preferred Stock, such summaries refer to either series.

Shares of only one of the series of Redeemable Preferred Stock will be issued. If the Offerings are consummated, the Series E Redeemable Preferred Stock will be issued, and if the Offerings are not consummated, the Series D Redeemable Preferred Stock will be issued.

Redemption

Each one one-thousandth of a share of Series E Redeemable Preferred Stock will be redeemable, and immediately upon the issuance thereof the Company will redeem each one one-thousandth of a share of Series E Redeemable Preferred Stock that is issued, for cash in an amount equal to the sum of (i) \$25.80, (ii) the proceeds (without deducting the underwriting discount or other costs) from the sale by United of \$15.55 principal amount of its Series A Debentures and \$15.55 principal amount of its Series B Debentures pursuant to the United Debt Offering and (iii) the proceeds (without deducting the underwriting discount or other costs) from the sale by the Company of Depositary Preferred Shares representing interests in \$31.10 liquidation preference of its Series B Preferred Stock pursuant to the UAL Preferred Offering.

Each one one-thousandth of a share of Series D Redeemable Preferred Stock will be redeemable, and immediately upon the issuance thereof the Company will redeem each one one-thousandth of a share of Series

D Redeemable Preferred Stock that is issued, for (i) \$25.80 in cash, (ii) \$15.55 principal amount of Series A Debentures, (iii) \$15.55 principal amount of Series B Debentures and (iv) Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock. Fractional shares of Redeemable Preferred Stock will be issued, and immediately redeemed, in the Recapitalization. The Series A Debentures and Series B Debentures will be issued to holders of Series D Redeemable Preferred Stock only in principal amounts equal to integral multiples of \$100, and Depositary Preferred Shares will be issued only to represent interests in \$25 liquidation preference of the Series B Preferred Stock or integral multiples thereof. In lieu of issuing Series A Debentures and Series B Debentures other than in integral multiples of \$100, and Depositary Preferred Shares other than in multiples of \$25, the Company will pay to each holder of Series D Redeemable Preferred Stock an amount of cash that is equal to the portion of the Series A Debentures and Series B Debentures, or Depositary Preferred Shares to which such holder would be entitled but for the immediately preceding sentence, that is not an integral multiple of \$100 or \$25, as the case may be. See "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Payment for Shares."

At the time of the redemption, the rights of all holders of Redeemable Preferred Stock will cease as stockholders of the Company with respect to such shares (except the right to receive the Redemption Consideration as provided above), and the person entitled to receive the Redemption Consideration upon the redemption will be treated for all purposes as the owner of such Redemption Consideration as of the date of such redemption.

Ranking

The Redeemable Preferred Stock will rank on a parity with the Series A Preferred Stock and the Public Preferred Stock and will rank senior to the New Shares, the ESOP Preferred Stock, the Voting Preferred Stock, the Director Preferred Stock and any shares of Junior Participating Preferred Stock issued pursuant to the Rights with respect to amounts payable upon liquidation, dissolution or winding up.

Dividends

Holders of shares of Redeemable Preferred Stock will not be entitled to receive any dividends.

Liquidation Preference

The holder of a share of Series E Redeemable Preferred Stock, or any fraction thereof, will be entitled to receive, in the event of any liquidation, dissolution or winding up of the Company, for each one one-thousandth of a share of Series E Redeemable Preferred Stock, cash equal to the sum of (A) \$25.80, (B) the proceeds (without deducting the underwriting discount and other costs) from the sale by United of \$15.55 face amount of its Series A Debentures and \$15.55 face amount of its Series B Debentures and (C) the proceeds (without deducting the underwriting discount and other costs) from the sale by the Company of Depositary Preferred Shares representing interests in \$31.10 liquidation preference of its Public Preferred Stock (for purposes of the description of the Series E Redeemable Preferred Stock, the "Liquidation Preference"), and no more.

The holder of a share of Series D Redeemable Preferred Stock, or any fraction thereof, will be entitled to receive, in the event of any liquidation, dissolution or winding up of the Company, for each one one-thousandth of a share of Series D Redeemable Preferred Stock, \$25.80 in cash, \$15.55 principal amount of Series A Debentures, \$15.55 principal amount of Series B Debentures and Depositary Preferred Shares representing interests in \$31.10 liquidation preference of Public Preferred Stock, (for purposes of the description of the Series D Redeemable Preferred Stock, the "Liquidation Preference") and no more.

Until the holders of the Redeemable Preferred Stock have been paid the Liquidation Preference in full, no payment will be made to any holder of Junior Stock (as defined below) upon the liquidation, dissolution or winding up of the Company. If, upon any liquidation, dissolution or winding up of the Company, the

assets of the Company, or proceeds thereof, distributable among the holders of the shares of Redeemable Preferred Stock are insufficient to pay in full the Liquidation Preference and the liquidation preference with respect to any other shares of Parity Stock (as defined below), then such assets, or the proceeds thereof, will be distributed among the holders of shares of Redeemable Preferred Stock and any such Parity Stock ratably in accordance with the respective amounts that would be payable on such shares of Redeemable Preferred Stock and any such Parity Stock if all amounts payable thereon were paid in full. Neither a consolidation or merger of the Company with another corporation nor a sale, lease or transfer of all or substantially all of the Company's assets will be considered a liquidation, dissolution or winding up, voluntary or involuntary, of the Company.

For purposes of the description of the Redeemable Preferred Stock, (i) the term "Parity Stock" means any other class or series of preferred stock ranking on a parity with the Redeemable Preferred Stock as to the payment of dividends and amounts payable upon liquidation, dissolution or winding up and (ii) the term "Junior Stock" means the New Shares, the ESOP Preferred Stock, the Voting Preferred Stock, the Director Preferred Stock, any shares of Junior Participating Preferred Stock issued pursuant to the Rights and any other class or series of capital stock of the Company now or hereafter issued and outstanding that ranks junior as to the payment of dividends and amounts payable upon liquidation, dissolution or winding up to the Redeemable Preferred Stock.

Voting Rights

Except as otherwise from time to time required by applicable law, the holders of shares of Redeemable Preferred Stock will not have any voting rights and their consent will not be required for taking any corporate action. When and if the holders of the Redeemable Preferred Stock are entitled to vote, each share will be entitled to one vote.

THE ESOP PREFERRED STOCK

The summary of terms of the ESOP Preferred Stock contained in this Proxy Statement/Prospectus does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Restated Certificate that will become effective in connection with the consummation of the Recapitalization. A copy of the Restated Certificate is included elsewhere in this Proxy Statement/Prospectus.

General

The ESOP Preferred Stock will consist of two similar classes of Preferred Stock of the Company that will be designated as Class 1 ESOP Convertible Preferred Stock (the "Class 1 ESOP Preferred Stock") and Class 2 ESOP Convertible Preferred Stock (the "Class 2 ESOP Preferred Stock" and, together with the Class 1 ESOP Preferred Stock, the "ESOP Preferred Stock"). Where the summaries do not make a distinction between the Class 1 ESOP Preferred Stock and the Class 2 ESOP Preferred Stock, such summaries refer to either class.

An aggregate of up to 17,675,345 shares of Class 1 ESOP Preferred Stock and Class 2 ESOP Preferred Stock will be issued to the ESOP Trustee in connection with the Recapitalization. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs." The shares of the ESOP Preferred Stock will be convertible into New Shares as described below. If all the shares of ESOP Preferred Stock to be issued in connection with the Recapitalization were to be converted into New Shares immediately upon issuance, such New Shares would constitute approximately 55% of the New Shares (including New Shares issuable upon exercise of the ESOP Preferred Stock) that would be outstanding at that time, on a fully diluted basis based on the treasury stock method. If the New Shares maintain an average fair market value that exceeds \$136 per share during the year following the Issue Date that is established under the Plan of Recapitalization, a number of additional shares of ESOP Preferred Stock will be issued or reserved for issuance as Book-Entry Shares. With the issuance or reservation for issuance of such additional shares, the ownership interest

of the ESOPs could be increased from approximately 55% to up to approximately 63% of the Company. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares."

Ranking

The ESOP Preferred Stock will rank junior to the Series A Preferred Stock, the Public Preferred and the Redeemable Preferred Stock and will rank senior to the New Shares, the Voting Preferred Stock, the Director Preferred Stock and any shares of Junior Participating Preferred Stock issued pursuant to the Rights with respect to payment of dividends and amounts payable upon liquidation, dissolution or winding up. The Class 1 ESOP Preferred Stock will rank senior to the Class 2 ESOP Preferred Stock with respect to the payment of Fixed Dividends (as defined below) and the Class 1 ESOP Preferred Stock will rank on a parity with the Class 2 ESOP Preferred Stock as to the payment of Participating Dividends (as defined below) and as to amounts payable upon liquidation, dissolution or winding up.

Dividends

Holders of Class 1 ESOP Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors of the Company out of assets of the Company legally available therefor, cumulative cash dividends at a rate per annum of a dollar amount per share of Class 1 ESOP Preferred Stock not to exceed, without the consent of the unions, seven percent of the price per share paid by the ESOP Trustee for such shares at the Effective Time (See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Sales of ESOP Preferred Stock") (the "Fixed Dividend"). The Fixed Dividends on the Class 1 ESOP Preferred Stock will cease to accrue on March 31, 2000. Under certain circumstances, any Fixed Dividends that remain accrued and unpaid on April 1, 2000 will not prevent the payment of dividends on any capital stock of the Company that ranks junior to the Class 1 ESOP Preferred Stock with respect to the payment of dividends, although such accrued and unpaid Fixed Dividends will remain a part of the Liquidation Preference (as defined below) payable in respect of the Class 1 ESOP Preferred Stock upon any liquidation, dissolution or winding up of the Company. In addition, if during any 12-month period ending on the annual dividend payment date, holders of the New Shares receive any cash dividends or cash distributions thereon, and the aggregate amount of such dividends and distributions that would have been received, during such period, by the holder of a share of Class 1 ESOP Preferred Stock had such share of Class 1 ESOP Preferred Stock been converted into New Shares exceeds, the amount of the Fixed Dividend paid on such share of Class 1 ESOP Preferred Stock, then the holders of the Class 1 ESOP Preferred Stock will be entitled to receive an additional cash dividend in an amount equal to such excess (the "Participating Dividend"), although the aggregate amount of the Fixed Dividend and the Participating Dividend paid on any share of Class 1 ESOP Preferred Stock with respect to any annual dividend period may not exceed 12 1/2% of the fair market value of the New Shares into which such share of Class 1 ESOP Preferred Stock is convertible.

Holders of Class 2 ESOP Preferred Stock will not be entitled to receive any Fixed Dividend. If during any 12-month period ending on the annual dividend payment date, holders of the New Shares receive any cash dividends or cash distributions thereon, then the holders of the Class 2 ESOP Preferred Stock will be entitled to receive a cash dividend in an amount equal to the dividend they would have received had their shares of Class 2 ESOP Preferred Stock been converted into and were outstanding as New Shares at all relevant times, although the aggregate amount of the dividend paid on any share of Class 2 ESOP Preferred Stock with respect to any annual dividend period may not exceed 12 1/2% of the fair market value of the New Shares into which it is convertible.

If the holders of the New Shares receive cash dividends and cash distributions that exceed 12 1/2% of the fair market value of such shares, such excess will be applied to adjust the Conversion Rate (as defined below) on the ESOP Preferred Stock.

Except as described above, the Company will not (i) declare, pay or set apart funds for the payment of any dividend or other distribution with respect to any Junior Stock (as defined below) or (ii) redeem, purchase or otherwise acquire for consideration any Junior Stock or Parity Stock (as defined below) through a sinking fund or otherwise (except by conversion into or exchange for shares of Junior Stock and other than a

redemption or purchase or other acquisition of New Shares made for purposes of an employee incentive or benefit plan of the Company or any subsidiary), unless all accrued and unpaid dividends with respect to the ESOP Preferred Stock and any Parity Stock at the time such dividends are payable have been paid or funds have been set apart for payment of such dividends.

For purposes of the description of the ESOP Preferred Stock, (i) the term "dividend" does not include dividends payable solely in shares of Junior Stock on Junior Stock, or in options, warrants or rights to holders of Junior Stock to subscribe for or purchase any Junior Stock, (ii) the term "Parity Stock" means any class or series of preferred stock ranking on a parity with the ESOP Preferred Stock as to payment of dividends (with respect to such dividends) or amounts payable upon liquidation, dissolution or winding up (with respect to such amounts) and (iii) the term "Junior Stock" means the New Shares, the Voting Preferred Stock, the Director Preferred Stock, any shares of Junior Participating Preferred Stock issued pursuant to the Rights and any other class or series of capital stock of the Company now or hereafter issued and outstanding that ranks junior as to the payment of dividends (with respect to such dividends) or amounts payable upon liquidation, dissolution or winding up (with respect to such amounts) to the ESOP Preferred Stock.

Conversion

The ESOP Preferred Stock will be convertible, in whole or in part, at any time and from time to time, into New Shares initially at the rate (for purposes of the description of ESOP Preferred Stock, the "Conversion Rate") of one New Share for each share of ESOP Preferred Stock converted. The Conversion Rate will be adjusted if there occurs an Equity Adjustment unless the Additional Shares are transferred to the ESOP, as described under "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares." In addition, the Conversion Rate on the ESOP Preferred Stock will be adjusted upon the occurrence of a variety of events, including, without limitation, a distribution of capital stock to holders of New Shares, a subdivision, recombination or reclassification of the New Shares, the issuance to holders of New Shares of rights to subscribe for equity securities at a price per New Share that is less than the fair market value of a New Share, the issuance of New Shares or securities representing a right to acquire New Shares at a price per New Share that is less than the fair market value of a New Share, the payment of cash dividends and cash distributions to holders of New Shares that exceed in the aggregate 12 1/2% of the fair market value of the New Shares, the payment of any non-cash dividend or distribution to holders of New Shares and certain Pro Rata Repurchases of New Shares.

Redemption

The ESOP Preferred Stock will not be redeemable.

Liquidation Preference

The holders of shares of ESOP Preferred Stock will be entitled to receive, in the event of any liquidation, dissolution or winding up of the Company, a dollar amount per share equal to the price per share paid by the ESOP Trustee for such shares at the Effective Time (see "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Sales of ESOP Preferred Stock"), plus an amount per share equal to all dividends (whether or not earned or declared) accrued and unpaid thereon to the date of final distribution to such holders, including, without limitation, Fixed Dividends in respect of the Class 1 ESOP Preferred Stock that are accrued and unpaid as of April 1, 2000 (but that will not prevent the payment of dividends on any capital stock of the Company that ranks junior to the Class 1 ESOP Preferred Stock with respect to the payment of dividends) (for purposes of the description of the ESOP Preferred Stock, the "Liquidation Preference"), and no more.

Until the holders of the ESOP Preferred Stock have been paid the Liquidation Preference in full, no payment will be made to any holder of Junior Stock upon the liquidation, dissolution or winding up of the Company. If, upon any liquidation, dissolution or winding up of the Company, the assets of the Company, or proceeds thereof, distributable among the holders of the shares of ESOP Preferred Stock are insufficient to pay in full the Liquidation Preference and the liquidation preference with respect to any other shares of Parity

Stock, then such assets, or the proceeds thereof, will be distributed among the holders of shares of ESOP Preferred Stock and any such Parity Stock ratably in accordance with the respective amounts that would be payable on such shares of ESOP Preferred Stock and any such Parity Stock if all amounts payable thereon were paid in full. Neither a consolidation or merger of the Company with another corporation nor a sale, lease or transfer of all or substantially all of the Company's assets will be considered a liquidation, dissolution or winding up, voluntary or involuntary, of the Company.

Voting Rights

Except as otherwise from time to time required by applicable law, the holders of shares of ESOP Preferred Stock will not have any voting rights, and their consent will not be required for taking any corporate action. When and if the holders of ESOP Preferred Stock are entitled to vote, each share will be entitled to one vote.

Consolidation, Merger, etc.

Upon the occurrence of certain mergers and other similar transactions, the holders of the ESOP Preferred Stock will be entitled to receive depending on the circumstances either (i) a preferred stock having the same powers, preference and relative, participating, optional or other special rights as the class of ESOP Preferred Stock they held prior to such merger or other transaction or (ii) the consideration receivable by the holders of the number of New Shares into which such shares of ESOP Preferred Stock could have been converted immediately prior to such merger or other transaction.

THE VOTING PREFERRED STOCK

The summary of terms of the Voting Preferred Stock contained in this Proxy Statement/Prospectus does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Restated Certificate that will become effective in connection with the consummation of the Recapitalization. A copy of the Restated Certificate is included elsewhere in this Proxy Statement/Prospectus.

General

The Voting Preferred Stock will consist of three similar classes of Preferred Stock of the Company that will be designated as Class P ESOP Voting Junior Preferred Stock, which will be allocated to ESOP accounts of employees represented by ALPA (the "Class P Voting Preferred Stock"), Class M ESOP Voting Junior Preferred Stock, which will be allocated to ESOP accounts of employees represented by the IAM (the "Class M Voting Preferred Stock") and Class S ESOP Voting Junior Preferred Stock, which will be allocated to Salaried and Management Employees' accounts (the "Class S Voting Preferred Stock" and, together with the Class P Voting Preferred Stock and the Class M Voting Preferred Stock, the "Voting Preferred Stock"). Where the summaries do not make a distinction between the Class M Voting Preferred Stock, the Class P Voting Preferred Stock and the Class S Voting Preferred Stock, such summaries refer to any such class.

One share of Class P Voting Preferred Stock, one share of Class M Voting Preferred Stock and one share of Class S Voting Preferred Stock will be issued to the ESOP Trustee in connection with the Recapitalization at the Effective Time. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs."

Voting Rights

The Voting Preferred Stock will vote with the holders of the New Shares as a single class on all matters (except as to such matters as to which a separate class vote may be required by the DGCL), except that until the Sunset, holders of the Voting Preferred Stock will not be entitled to vote to elect members of the Board of Directors. Until the Sunset, the Voting Preferred Stock will represent the right to cast in the aggregate approximately 55% of the votes of all classes of capital stock that will vote together with the New Shares as

a single class (other than for the election of members to the Board of Directors), subject to reduction for the number of New Shares that have been issued upon conversion of shares of the ESOP Preferred Stock that continue to be held by the ESOP. If the fair market value of the New Shares exceeds \$136 per share during the year following the Effective Time, the number of votes represented by the Voting Preferred Stock will be increased above approximately 55% of the New Shares (including New Shares issuable upon exercise of the ESOP Preferred Stock that would be outstanding reserved for issuance as Book-Entry Shares or remaining to be transferred to the ESOPs) to up to a maximum of approximately 63%. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--Additional Shares."

The voting power of the Voting Preferred Stock will be held in the Agreed Percentages. Accordingly, by way of example, assuming that the Voting Preferred Stock in the aggregate has the right to cast approximately 55% of the voting power of the Company on a fully diluted basis based on the treasury stock method, the Class P Voting Preferred Stock will be entitled to cast approximately 24.5%, the Class M Voting Preferred Stock will be entitled to cast approximately 19.7%, and the Class S Voting Preferred Stock will be entitled to cast approximately 8.8%, subject to reduction as noted above.

After the Sunset, each class of Voting Preferred Stock will represent the right to cast in the aggregate the number of votes that is equal to the relevant Agreed Percentage of the number of New Shares into which the ESOP Preferred Stock can be converted plus the number of Book-Entry Shares remaining to be issued plus the number of Shares of ESOP Preferred Stock, if any, remaining to be transferred to the ESOP. See "THE PLAN OF RECAPITALIZATION--Establishment of ESOPs--General."

Other

The Voting Preferred Stock will not be entitled to receive any dividends. The Voting Preferred Stock will be convertible into New Shares at the rate of one ten-thousandth of a New Share for each share of Voting Preferred Stock converted. All the Voting Preferred Stock will be converted into New Shares automatically upon the occurrence of an Uninstructed Trustee Action (as defined below) or at such time when none of the ESOP Preferred Stock remains outstanding. The Voting Preferred Stock will have a liquidation preference of \$0.01 per share.

Upon the occurrence of certain mergers and other similar transactions, the holders of the Voting Preferred Stock will be entitled to receive a preferred stock having the same powers, preference and relative, participating, optional or other special rights as the class of Voting Preferred Stock they held prior to such merger or other transaction except that such preferred stock will not control 53% of the vote.

THE DIRECTOR PREFERRED STOCK

The summary of terms of the Director Preferred Stock contained in the Proxy Statement/Prospectus does not purport to be complete and is subject to, and is qualified in its entirety by, the provisions of the Restated Certificate that will become effective in connection with the consummation of the Recapitalization. A copy of the Restated Certificate is included elsewhere in this Proxy Statement/Prospectus.

General

The Director Preferred Stock will consist of four classes of Preferred Stock of the Company that will be designated as the Class I Junior Preferred Stock (the "Class I Preferred Stock"), the Class Pilot MEC Junior Preferred Stock (the "Class Pilot MEC Preferred Stock"), the Class IAM Junior Preferred Stock (the "Class IAM Preferred Stock") and the Class SAM Junior Preferred Stock (the "Class SAM Preferred Stock" and, together with the Class I Preferred Stock, the Class Pilot MEC Preferred Stock and the Class IAM Preferred Stock, the "Director Preferred Stock"). Where the summaries do not make a distinction among the several classes of Director Preferred Stock, such summaries refer to any of them.

Each of the classes of Director Preferred Stock has the power to elect one or more members of the Board. None of the classes of Director Preferred Stock will bear dividends. Each class of Director Preferred Stock will have a liquidation preference of \$0.01 per share.

Each of the Class Pilot MEC Preferred Stock, the Class IAM Preferred Stock and the Class SAM Preferred Stock provides that upon the consolidation, merger or similar transaction involving the Company or United, pursuant to which the outstanding New Shares are to be exchanged for or converted into securities of a successor or resulting company or cash or other property, the Class Pilot MEC Preferred Stock, the Class IAM Preferred Stock and the Class SAM Preferred Stock, respectively, will be converted into, or exchanged for, preferred stock of such successor or resulting company having, in respect of such company, the same powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, that the original Class Pilot MEC Preferred Stock, Class IAM Preferred Stock and Class SAM Preferred Stock had, respectively.

Class I Preferred Stock

The Class I Preferred Stock will be issued initially to Duane D. Fitzgerald, Richard D. McCormick, John K. Van de Kamp and Paul A. Volcker who will serve as the Independent Directors of the Company immediately following consummation of the Recapitalization. The Restated Certificate authorizes the issuance of 10 shares of Class I Preferred Stock, although the Company expects that no more than four shares will be outstanding at any time. The shares of Class I Preferred Stock will be issued to the initial holders thereof pursuant to a subscription agreement for a purchase price that is equal to the \$0.01 liquidation value thereof.

The initial holders of the Class I Preferred Stock will enter into a Stockholders' Agreement among themselves, ALPA, the IAM and the Company (the "Class I Preferred Stockholders' Agreement"), pursuant to which the holders agree to vote their shares to elect the Independent Directors nominated pursuant to the provisions described in "THE PLAN OF RECAPITALIZATION--Revised Governance Structure-- Independent Directors," and to refrain from transferring the shares of Class I Preferred Stock other than to a person who has been elected to serve as one of the Independent Directors and who agrees to be subject to the provisions of the Class I Preferred Stockholders' Agreement. Both the Restated Certificate and the Class I Preferred Stockholders' Agreement provide that the Company, subject to legally available funds will redeem or purchase the shares of Class I Preferred Stock held by any holder thereof who votes contrary to the Class I Preferred Stockholder's Agreement or who purports to transfer the share of Class I Preferred Stock to any person other than an Independent Director. Any share of Class I Preferred Stock redeemed or purchase as provided in the immediately prior sentence may be reissued as provided in the Restated Certificate or the Class I Preferred Stockholders' Agreement. All shares of the Class I Preferred Stock will be redeemed automatically upon the occurrence of the Sunset, and following such redemption, none of the shares of Class I Preferred Stock may be reissued thereafter.

Class Pilot MEC Preferred Stock and Class IAM Preferred Stock

The Restated Certificate authorizes the issuance of one share of each of the Class Pilot MEC Preferred Stock and the Class IAM Preferred Stock. The share of the Class Pilot MEC Preferred Stock will be issued to the ALPA MEC, and the share of Class IAM Preferred Stock will be issued to the IAM or its designee, each pursuant to a subscription agreement for a purchase price equal to the \$0.01 liquidation value thereof. Each of the Class Pilot MEC Preferred Stock and the Class IAM Preferred Stock will have the right to elect one Employee Director, and the shares of such stock will be redeemed automatically upon the purported transfer thereof to any person other than the holder thereof authorized under the Restated Certificate. The Class Pilot MEC Preferred Stock will be redeemed automatically upon the later of the Sunset or the occurrence of the ALPA Termination Date. The Class IAM Preferred Stock will be redeemed automatically upon the later of the Sunset or the occurrence of the IAM Termination Date.

Class SAM Preferred Stock

The Class SAM Preferred Stock will be issued initially to the person nominated to serve as the Salaried and Management Director of the Company immediately following consummation of the Recapitalization and to an additional holder (the "Designated Holder"). The Restated Certificate authorizes the issuance of ten

shares of Class SAM Preferred Stock, although the Company expects that no more than three shares will be outstanding at any time. Two shares of Class SAM Preferred Stock will be held by the Salaried and Management Director, and one share will be issued to the Designated Holder, pursuant to a subscription agreement for a purchase price that is equal to the \$0.01 liquidation value thereof.

The initial holders of the Class SAM Preferred Stock will enter into a Stockholders' Agreement among themselves and the Company (the "Class SAM Preferred Stockholders' Agreement"), pursuant to which the holders agree to vote their shares to elect the Salaried and Management Director nominated by the System Roundtable, and to refrain from transferring the shares of Class SAM Preferred Stock other than to a person who has been elected to serve as the Salaried and Management Director or another person designated by the System Roundtable to be the Designated Holder, each of whom must agree to be subject to the provisions of the Class SAM Preferred Stockholders' Agreement. The Class SAM Preferred Stockholders' Agreement provides that in most instances the Designated Holder will be the senior executive of United who has primary responsibility for human resources. Both the Restated Certificate and the Class SAM Preferred Stockholders' Agreement provide that the Company, subject to legally available funds, will redeem or purchase the shares of Class SAM Preferred Stock of any holder who votes contrary to the instructions given by the System Roundtable or who purports to transfer the share or shares of Class SAM Preferred Stock to any person other than the Salaried and Management Director or another person designated by the System Roundtable. The Restated Certificate provides that no holder of shares of Class SAM Preferred Stock will have the right to vote unless at such time such person is the Salaried and Management Director of the Designated Holder. Any share of Class SAM Preferred Stock that is redeemed or purchase as provided in the immediately prior sentence may be reissued as provided in the Restated Certificate and the Class SAM Preferred Stockholders' Agreement. All shares of the Class SAM Preferred Stock will be redeemed automatically on or after the Sunset upon the earlier to occur of the ALPA Termination Date and the IAM Termination Date, and following such redemption, none of the shares of Class SAM Preferred Stock may be reissued thereafter.

Uninstructed Trustee Actions

Under certain circumstances prior to the Sunset, described below, (i) the Voting Preferred Stock will cease to vote and (ii) the right to cast the votes that the holder of the Voting Preferred Stock would otherwise have been entitled to cast will be transferred generally in the following percentages: 46.23% to the holder of the Class Pilot MEC Preferred Stock, 37.13% to the holder of the Class IAM Preferred Stock and 16.64% to the holders of the Class SAM Preferred Stock.

In connection with (i) a stockholder vote on a transaction involving a merger of the Company or United or a change of control of the Company or United, or (ii) if the trustee under either ESOP enters into a binding commitment with respect to any such transaction or (iii) if the trustee disposes of 10% or more of the common equity initially represented by the ESOP Preferred Stocks, (x) if the trustee either (1) fails to solicit timely instructions from the Plan participants or the Committees or (2) fails to act in accordance with the instructions received, (y) if the merger or change of control transaction would have been approved or if the trustee disposes of 10% or more of the common equity initially represented by the ESOP Preferred Stocks and (z) (I) the trustee solicited instructions, failed to follow them and such transaction would not have been approved if the trustee had followed the instructions, (II) the trustee failed to follow instructions and the transaction would not have been approved had the trustee cast all the votes represented by securities in the Plan against the transaction or (III) the trustee failed to follow instructions or to solicit instructions with respect to a matter upon which no vote is required (the occurrence of the conditions set forth in clauses (x), (y) and (z) being referred to as an "Uninstructed Trustee Action"), the voting rights of the Voting Preferred Stocks will be transferred from the Voting Preferred Stock to the Class Pilot MEC Preferred Stock, the Class IAM Preferred Stock and the Class SAM Preferred Stock in the proportions referred to above. In addition, if the trustee fails to solicit instructions or disregards instructions received in respect of a vote on a transaction which, if consummated, would constitute an Uninstructed Trustee Action, then the voting power of the Voting Preferred Stock will shift to the Class Pilot MEC Preferred Stock, the Class IAM Preferred Stock and the Class SAM Preferred Stock and the transaction must be approved by the vote of the Class Pilot MEC Preferred Stock, the Class IAM Preferred stock and the Class SAM Preferred Stock voting together as

a class with the New Shares, in addition to any other vote required by the Restated Certificate, stock exchange requirements or applicable law.

In addition, if the Sunset occurs directly or indirectly as a result of an Uninstructed Trustee Action (or for any reason within one year after an Uninstructed Trustee Action), the voting power to which the Class Pilot MEC Preferred Stock, the Class IAM Preferred stock and the Class SAM Preferred Stock succeed as a result of an Uninstructed Trustee Action will survive until the anniversary of the Issue Date that occurs in the year 2010.

THE COMMON STOCK, THE SERIES A PREFERRED STOCK AND THE JUNIOR PARTICIPATING PREFERRED STOCK

The following descriptions do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete descriptions thereof set forth in the following documents, all of which have been filed as exhibits to the Registration Statement of which this Proxy Statement/Prospectus is a part: (i) the Company's current Amended and Restated Certificate of Incorporation, (ii) its current By-Laws, (iii) the Restated Certificate that will become effective upon the consummation of the Recapitalization, (iv) the By-Laws that will become effective upon the consummation of the Recapitalization and (v) the Rights Agreement, as amended, between the Company and First Chicago Trust Company of New York, as Rights Agent, pursuant to which shares of Series C Junior Participating Preferred Stock ("Junior Participating Preferred Stock") are issuable. A copy of the Restated Certificate is included elsewhere in this Proxy Statement/Prospectus. Where the descriptions do not make a distinction between the Old Shares and the New Shares, such descriptions are applicable to both.

Common Stock

Dividend Rights. Holders of Old Shares are entitled to, and holders of New Shares will be entitled to, receive dividends when, as and if declared by the Board out of funds legally available therefor, provided that, so long as any shares of preferred stock are outstanding, no dividends (other than dividends payable in common stock) or other distributions may be made with respect to the Old Shares (or, after the Effective Time, New Shares) unless full cumulative dividends on the shares of preferred stock have been paid. The Company has not paid cash dividends on the Old Shares since the third quarter of 1987.

As a holding company, the Company relies on distributions from United to pay dividends on its capital stock. There are currently no contractual restrictions on United's ability to pay dividends to the Company.

Voting Rights. Holders of Old Shares are entitled to one vote per share in the election of directors and on any question arising at any stockholders' meeting, voting as a single class. The New Shares will be entitled to cast one vote per share. Upon the consummation of the Recapitalization and prior to the Sunset, the New Shares and the Voting Preferred Stock will vote together as a single class with respect to all matters submitted to the vote of the holders of common stock pursuant to law or as provided in the Restated Certificate except with respect to (a) such matters upon which the DGCL requires a separate class vote and (b) the election of the Public Directors, whom the New Shares will elect separately as a class. Until the Sunset, the New Shares will not vote to elect any directors other than the Public Directors. After the Sunset, the New Shares and the Voting Preferred Stock will continue to vote together as a single class with respect to all matters submitted to the vote of the holders of common stock pursuant to law or as provided in the Restated Certificate except with respect to such matters upon which the DGCL requires a separate class vote. See "--The Voting Preferred Stock--Voting Rights."

Right of First Refusal. In connection with the Recapitalization, the Company will enter into a First Refusal Agreement (the "First Refusal Agreement") with ALPA, the IAM and the Salaried and Management Director (solely as the representative of the Salaried and Management Employees) pursuant to which the Company will agree that, if it proposes to issue any New Shares or other securities that are exchangeable for or convertible into New Shares (collectively, the "Equity Securities"), it must first offer such Equity Securities

to ALPA and the IAM on behalf of the employees represented thereby and to the Salaried and Management Employees on the same terms and conditions upon which the Company proposes to sell such Equity Securities to a third party. Under the First Refusal Agreement, the members of ALPA will be entitled to purchase 46.23% of the Equity Securities offered, the members of the IAM will be entitled to purchase 37.13% of the Equity Securities offered and the Salaried and Management Employees will be entitled to purchase 16.64% of the Equity Securities offered. The First Refusal Agreement will terminate on the Sunset.

Series A Preferred Stock

Dividends. Holders of shares of Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of the Company out of assets of the Company legally available therefor, cumulative cash dividends at the rate per annum of \$6.25 per share of Series A Preferred Stock. Dividends on the Series A Preferred Stock are payable quarterly in arrears. Dividends on the Series A Preferred Stock are cumulative, and accumulations of dividends on shares of Series A Preferred Stock do not bear interest.

Except as provided in the next sentence, no dividend will be declared or paid on any Parity Stock (as defined below) unless full cumulative dividends have been paid on the Series A Preferred Stock for all prior dividend periods. If accrued dividends on the Series A Preferred Stock for all prior dividend periods have not been paid in full then any dividend declared on the Series A Preferred Stock for any dividend period and any dividend on any Parity Stock will be declared ratably in proportion to accrued and unpaid dividends on the Series A Preferred Stock and such Parity Stock.

The Company will not (i) declare, pay or set apart funds for the payment of any dividend or other distribution with respect to any Junior Stock (as defined below) or (ii) redeem, purchase or otherwise acquire for consideration any Junior Stock or Parity Stock through a sinking fund or otherwise (except by conversion into or exchange for shares of Junior Stock and other than a redemption or purchase or other acquisition of shares of common stock of the Company made for purposes of an employee incentive or benefit plan of the Company or any subsidiary), unless all accrued and unpaid dividends with respect to the Series A Preferred Stock and any Parity Stock at the time such dividends are payable have been paid or funds have been set apart for payment of such dividends.

For purposes of the description of the Series A Preferred Stock, (i) the term "dividend" does not include dividends payable solely in shares of Junior Stock on Junior Stock, or in options, warrants or rights to holders of Junior Stock to subscribe for or purchase any Junior Stock, (ii) the term "Parity Stock" means any class or series of preferred stock ranking on a parity with the Series A Preferred Stock as to payment of dividends and amounts payable upon liquidation, dissolution or winding up and (iii) the term "Junior Stock" means the common stock (Old Shares or New Shares), the ESOP Preferred Stock, the Voting Preferred Stock, the Director Preferred Stock, any shares of Junior Participating Preferred Stock issued pursuant to the Rights, and any other class or series of capital stock of the Company now or hereafter issued and outstanding that ranks junior as to the payment of dividends or amounts payable upon liquidation, dissolution or winding up to the Series A Preferred Stock.

Redemption. The Series A Preferred Stock is not redeemable prior to May 1, 1996. On and after such date, the Series A Preferred Stock is redeemable at the option of the Company, in whole or in part, initially at \$104.375 per share and thereafter at prices declining ratably on each May 1 to \$100.00 per share on and after May 1, 2003, plus, in each case, all accrued and unpaid dividends. Unless converted by the holders or redeemed by the Company, the Series A Preferred Stock will have perpetual maturity.

Liquidation Preference. The holders of shares of Series A Preferred Stock will be entitled to receive, in the event of any liquidation, dissolution or winding up of the Company, \$100 per share plus an amount per share equal to all dividends (whether or not earned or declared) accrued and unpaid thereon to the date of final distribution to such holders (for purposes of the description of the Series A Preferred Stock, the "Liquidation Preference"), and no more.

Until the holders of the Series A Preferred Stock have been paid the Liquidation Preference in full, no payment will be made to any holder of Junior Stock upon the liquidation, dissolution or winding up of the Company. If, upon any liquidation, dissolution or winding up of the Company, the assets of the Company, or proceeds thereof, distributable among the holders of the shares of Series A Preferred Stock are insufficient to pay in full the Liquidation Preference and the liquidation preference with respect to any other shares of Parity Stock, then such assets, or the proceeds thereof, will be distributed among the holders of shares of Series A Preferred Stock and any such Parity Stock ratably in accordance with the respective amounts which would be payable on such shares of Series A Preferred Stock and any such Parity Stock if all amounts payable thereon were paid in full. Neither a consolidation or merger of the Company with another corporation nor a sale or transfer of all or substantially all of the Company's assets will be considered a liquidation, dissolution or winding up, voluntary or involuntary, of the Company.

Voting Rights. Except as indicated below, or except as otherwise from time to time required by applicable law, the holders of shares of Series A Preferred Stock will not have any voting rights, and their consent will not be required for taking any corporate action. When and if the holders of the Series A Preferred Stock are entitled to vote, each share will be entitled to one vote.

If the equivalent of six quarterly dividends payable on the Series A Preferred Stock or any other series of Serial Preferred Stock of the Company have not been declared and paid or set apart for payment, whether or not consecutive, the number of directors of the Company will 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.

The affirmative vote or consent of the holders of 66 2/3% of the outstanding shares of the Series A Preferred Stock, voting separately as a class with all other affected series of Serial Preferred Stock that is also a Parity Stock, will be required for any amendment of the Restated Certificate which alters or changes the powers, preferences, privileges or rights of the Series A Preferred Stock so as to materially adversely affect the holders thereof. The affirmative vote or consent of the holders of shares representing 66 2/3% of the outstanding shares of the Series A Preferred Stock and any other series of Parity Stock, voting as a single class without regard to series, will be required to authorize the creation or issue of, or reclassify any authorized stock of the Company into, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any additional class or series of stock ranking senior to all such series of Parity Stock.

Except as required by law, the holders of Series A Preferred Stock will not be entitled to vote on any merger or consolidation involving the Company or a sale of all or substantially all of the assets of the Company.

Conversion Rights. Shares of Series A Preferred Stock are convertible, in whole or in part, at any time at the option of the holders thereof, into Old Shares. As of the date of this Proxy Statement/Prospectus, the conversion price is \$156.50 per Old Share (equivalent to a rate of approximately 0.639 Old Shares for each share of Series A Preferred Stock), subject to adjustment as set forth in the Restated Certificate ("Conversion Price"). Upon consummation of the Recapitalization, each share of Series A Preferred Stock will receive, upon conversion thereof, in respect of each Old Share into which such share of Series A Preferred Stock was convertible immediately prior to the Effective Time of the Recapitalization. The right to convert shares of Series A Preferred Stock called for redemption will terminate at the close of business on the day preceding a redemption date.

Junior Participating Preferred Stock

General. The Company has designated 1,250,000 shares of a series of Serial Preferred Stock as Junior Participating Preferred Stock and such shares are reserved for issuance upon exercise of the Rights associated

with each share of Common Stock. See "--Preferred Share Purchase Rights" below. As of the date of this Proxy Statement/Prospectus, there are no shares of Junior Participating Preferred Stock outstanding.

Ranking. The Junior Participating Preferred Stock ranks junior to all other series of preferred stock as to dividends and amounts payable upon any voluntary or involuntary liquidation, dissolution or winding up of the Company unless the terms of any such other series shall provide otherwise.

Dividends. Holders of shares of Junior Participating Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors of the Company out of funds legally available therefor, cumulative cash dividends payable quarterly on the fifteenth day of January, April, July and October in each year (each such date being 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 Junior Participating Preferred Stock, in an amount per share equal to the greater of (a) \$10.00 or (b) subject to certain provisions for adjustment set forth in the Restated Certificate, 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 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 Junior Participating Preferred Stock.

The Company must declare a dividend or distribution on the Junior Participating Preferred Stock immediately after it declares a dividend or distribution on common stock (other than a dividend payable in shares of common stock), provided that in the event no dividend or distribution has been declared on 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 Junior Participating Preferred Stock will nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

The Restated Certificate sets forth certain restrictions imposed upon the Company whenever quarterly dividends or other distributions payable on Junior Participating Preferred Stock are in arrears, including, but not limited to, restrictions on the Company's ability to declare or pay dividends on, make any other distributions on, redeem or purchase or otherwise acquire for consideration shares ranking junior to or on a parity with the Junior Participating Preferred Stock either as to dividends or amounts payable upon liquidation, dissolution or winding up of the Company.

Redemption. When issued and outstanding, the shares of Junior Participating Preferred Stock will not be redeemable.

Liquidation Preference. Subject to (a) the rights of holders of preferred stock of the Company ranking senior to Junior Participating 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 Restated Certificate, upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or amounts payable upon any voluntary or involuntary liquidation, dissolution or winding up) to the Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Junior Participating Preferred Stock will have received \$100.00 per share, plus accrued and unpaid dividends to the date of such payment, provided that the holders of shares of Junior Participating Preferred Stock will be entitled to receive an aggregate amount per share, subject to certain provisions for adjustment set forth in the Restated Certificate, 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 amounts payable upon any voluntary or involuntary liquidation, dissolution or winding up) with the Junior Participating Preferred Stock, except distributions made ratably on Junior Participating 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.

Voting Rights. Except as indicated below or as expressly required by applicable law, the holders of Junior Participating Preferred Stock will not have voting rights.

Subject to certain provisions for adjustment set forth in the Restated Certificate, each share of Junior Participating Preferred Stock will entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company. Except as indicated below or expressly required by applicable law, the holders of Junior Participating Preferred Stock and the holders of shares of common stock will vote together as one class on all matters submitted to a vote of stockholders of the Company.

If the equivalent of six quarterly dividends payable on the Junior Participating Preferred Stock or any other series of Serial Preferred Stock of the Company have not been declared and paid or set aside for payment, whether or not consecutive, the number of directors of the Company will 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 a year.

Consolidation, Merger, Etc. In the event of any consolidation, merger, combination or other transaction in which shares of common stock are exchanged for or changed into other stock, securities, cash or other property, each share of Junior Participating Preferred Stock shall be similarly exchanged or changed in an amount per share equal to 100 times the aggregate amount of stock, securities, cash or other property, as the case may be, for or into which each share of common stock is exchanged or changed.

Preferred Share Purchase Rights

A Right is associated with, and trades with, each Old Share outstanding. Similarly, a Right will be associated with, and trade with, each New Share outstanding. As long as the Rights are associated with the New Share, each newly issued New Share issued by the Company, including New Shares into which the ESOP Preferred Stock and the Series A Preferred Stock are convertible, will include one Right. Moreover, the Rights Agreement will be amended such that a Right will be associated with each share of ESOP Preferred Stock outstanding. Each Right will entitle its holder to purchase one one-hundredth of a share of Junior Participating Preferred Stock for \$185 (subject to adjustment). Subject to amendment, the Rights are not exercisable until 10 business days after any person or group announces its beneficial ownership of 15% or more of the Common Stock. The Rights Agreement will be amended to provide that the transactions contemplated by the Recapitalization, including without limitation, the issuance of the ESOP Preferred Stock and the Voting Preferred Stock to the ESOP and the Class Pilot MEC Preferred Stock, the Class IAM Preferred Stock and the Class SAM Preferred Stock to the respective holders thereof, will not cause the Rights to become exercisable as a result thereof. See "THE PLAN OF RECAPITALIZATION--Revised Governance Structure--Rights Plan."

If any person or group acquires 15% or more of the New Shares outstanding, each Right holder (except the acquiring party) has the right to receive, upon exercise, New Shares (or, under certain circumstances, cash, property or other Company securities) having a market value of three times the exercise price of the Right. If, after the Rights become exercisable, the Company is involved in a merger where it does not survive or survives with a change or exchange of its New Shares or the Company sells or transfers more than 50% of its assets or earning power, each Right will be exercisable for common stock of the other party to such transaction having a market value of three times the exercise price of the Right. The Company has the right to redeem the Rights for \$.05 per Right prior to the time that they become exercisable. The Rights will expire on December 31, 1996.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's Board of Directors, except pursuant to an offer conditioned on a substantial number of Rights being acquired. The Rights should

not interfere with any merger or other business combination approved by the Company's Board of Directors since the Rights may be redeemed or their terms amended by the Company as described above.

STOCKHOLDER PROPOSALS

PROPOSAL CONCERNING CUMULATIVE VOTING

Ms. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Avenue, N.W., Suite 215, Washington, D.C. 20037, owner of 53 Old Shares, has given notice that she will introduce the following resolution at the Meeting:

RESOLVED: "That the stockholders of UAL Corp., assembled in Annual Meeting in person and by proxy, hereby request the Board of Directors to take the necessary steps to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

REASONS: "Many states have mandatory cumulative voting, so do National Banks."

"In addition, many corporations have adopted cumulative voting."

"Last year the owners of . . . shares, representing approximately 23.3% of shares voting, voted FOR this proposal."

"If you AGREE, please mark your proxy FOR this resolution."

THE BOARD OF DIRECTORS OPPOSES THE ABOVE PROPOSAL

The Board structure included in the Recapitalization reflects a careful and thoughtful balancing of interests between the employees of the Company, who as of the Closing will beneficially own a majority of the economic and voting power represented by the fully diluted common equity of the Company, and the holders of the publicly traded New Shares, who at the time of Closing, will, in effect, be minority stockholders in the Company. In particular, as the Recapitalization is structured, the five Public Directors^{1/} are elected by the holders of the New Shares as a single cohesive group without any structural bias in favor of any particular holder of New Shares or group of such holders. The Board structure in the Recapitalization was heavily negotiated and is complex, and the Board believes any additional complexity that would be introduced through cumulative voting is both unwarranted and inappropriate.

Cumulative voting also is undesirable because, among other things, it introduces an opportunity for an individual holder of New Shares or group of such holders to weight their votes and influence the Public Director election process in a manner that may be contrary to the wishes of the holders of a majority of the publicly-held New Shares. The Board believes that each Public Director should serve on the Board only if he or she has been endorsed by the holders of the New Shares as a whole. In addition, in the absence of the Recapitalization transaction, the Board believes that the interests of the stockholders as a whole are best served if the Board is elected by the stockholders as a whole without cumulative voting.

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^{1/}The Board assumes that for purposes of the Recapitalization, the proposal would apply only to the election of Public Directors, and not to the election of any class of directors on which the holders of New Shares would not vote.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE AGAINST THE PROPOSAL.

PROPOSAL CONCERNING CONTINGENT EXECUTIVE COMPENSATION AGREEMENTS

The Board of Trustees of the National Electrical Benefit Fund, 1125 15th Street, N.W., Washington, D.C. 20005, owner of 14,000 Old Shares, has given notice that it will introduce the following resolution at the Meeting:

BE IT RESOLVED: That the shareholders of UAL Corporation ("United" or "Company") request that the Board of Directors in the future refrain from entering into agreements providing executive compensation contingent on a change in control of the Company unless such agreements or arrangements are specifically submitted to the shareholders for approval.

SUPPORTING STATEMENT

The Company has contingency employment arrangements with certain senior executives, including Messrs. Wolf, Pope, and Nagin, which provide compensation contingent upon a change in control of the Company. The agreements provide that if an executive's employment is involuntarily terminated after a change of control of the Company that executive will be entitled to payment of lucrative severance compensation. In the case of Mr. Wolf, such payments may amount to several million dollars (approximately \$3,400,000). Both Mr. Wolf's and Mr. Pope's agreements also provide for vesting of unvested stock options, vesting of supplemental retirement credits, and certain other benefits of an unspecified nature. Mr. Nagin's agreement would provide payment of three times his base salary, as well as payment for and the vesting of certain other unspecified benefits. As described on pages 19, 23 & 24 of the Company's 1993 Proxy Statement, these so-called "golden parachutes" may amount to millions of dollars in guaranteed compensation for the affected executives. These employment agreements with the "golden parachute" provisions were adopted without consideration by the Company's shareholders. Golden parachutes, as defined in this proposal, are payments contingent on change in control.

Lucrative severance pay to corporate executives triggered by a change in control of the corporation, commonly referred to as "golden parachutes," is a controversial matter. Golden parachutes introduce an inappropriate element of personal consideration for managers that potentially conflicts with their fiduciary responsibility to shareholders. We believe this may cause managers to operate in a manner which fails to maximize value for shareholders in the event of a potential takeover. Such a situation, we believe, is fundamentally unfair to shareholders, the ultimate owners of the Company. Moreover, it is our opinion that special compensation arrangements for a favored few executives undoubtedly has a corrosive impact on the morale and attitude of the remainder of employees who do not share such privileged status. Shareholders, as owners concerned with the long-term productive and financial performance of the Company, should be concerned with this type of disparity.

A study by the United Shareholders Association also provides justification for the submission of golden parachute arrangements to shareholders for consideration. The study of 1,000 major U.S. corporations found that the average annualized two-year return was 20 percent higher for the 559 companies without such plans for management.

We believe that the issue of whether the Company should, in the future, provide management with golden parachutes is of such critical importance that shareholders should make this decision. We believe shareholder approval is one of the best ways available to address potential conflicts of interest that may arise between the Board and top executives on one hand, and shareholders on the other hand, when a change of control is threatened.

Accordingly, we urge your approval of this Proposal.

THE BOARD OF DIRECTORS OPPOSES THE ABOVE PROPOSAL

The Board of Directors believes that the best interests of the Company and its stockholders are promoted by creating a unity of interest between Company executives and stockholders. The Company's various benefit

plans, described elsewhere in this Proxy Statement/Prospectus, promote this unity of interest by encouraging management to own stock in the Company and to seek other incentive awards based upon performance of the Company, as well as individual performance. Each of the Company's current executive officers has a significant ownership interest in the Company's common equity, and it is expected that these policies and practices will continue following the Recapitalization.

The Board believes that severance arrangements contingent upon a change in control do not create a conflict as suggested by the proponents. Rather, these arrangements encourage management to assess takeover bids, tender offers and other potential change in control transactions objectively and with fewer distractions. The arrangements provide management with a level of financial security in the event of the loss of their jobs following a change of control so management can remain attentive and dedicated to their duties to the Company and less inclined to feel threatened or to seek positions outside the Company in the face of a change in control.

The Compensation Committee of the Board, consisting exclusively of directors who are not employees of the Company, as well as the non-employee directors of the full Board, have approved the various change in control severance arrangements for the Company's existing management, which the Board believes to be in the best interests of the Company and its stockholders. The Board of Directors believes that adoption of this resolution would inappropriately limit the Board's flexibility in designing competitive compensation plans and would adversely affect the ability of the Company to recruit and retain experienced, effective management and to respond to changing economic and business situations. Further, the Board believes the delays occasioned by such an approval process are not in the best interest of the Company or its stockholders.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE AGAINST THE PROPOSAL.

PROPOSAL CONCERNING CONFIDENTIAL VOTING

The Central Pension Fund of the International Union of Operating Engineers and Participating Employers, 4115 Chesapeake Street, N.W., Washington, D.C. 20016, owner of 4,722 Old Shares, has given notice that it will introduce the following resolution at the Meeting:

BE IT RESOLVED: That the stockholders of United Air Lines Corporation (or "Company") recommend that the Board of Directors take the necessary steps to adopt and implement a policy of confidential voting at all meetings of its stockholders which includes the following provisions:

1. that the voting of all proxies, consents and authorizations be secret, and that no such document shall be available for examination nor shall the vote or identity of any shareholder be disclosed except to the extent necessary to meet the legal requirements, if any, of the Company's state of incorporation;
2. that the receipt, certification and tabulation of such votes shall be performed by independent election inspectors; and
3. that confidential voting shall be suspended in the case of a proxy contest, where non-management groups have access to voting results.

SUPPORTING STATEMENT

It is the proponents' belief that it is vitally important that a system of confidential proxy voting be established at the Company. Confidential balloting is a basic tenet of our political electoral process ensuring its integrity. The integrity of corporate board elections should also be protected against potential abuses given the importance of corporate policies and practices to corporate owners and our national economy.

The implementation of a confidential voting system would enhance shareholder rights in several ways. First, in protecting the confidentiality of the corporate ballot, shareholders would feel free to oppose management nominees and issue positions without fear of retribution. This is especially important for professional money managers whose business relationships can be jeopardized by their voting positions.

The second important benefit of confidential voting would be to invigorate the corporate governance process at the Company. We believe that shareholder activism would be promoted within the Company. It is our belief that shareholders empowered with a free and protected vote would be more active in the proposing of corporate policy resolutions and alternate board candidates.

Finally, it is our belief that the enhancement of the proxy voting process would change the system where too often shareholders vote "with their feet" not with their ballots. This change would help to develop a long-term investment perspective where corporate assets could be deployed and used in a more effective and efficient manner.

Confidential voting is gaining popularity. By 1993, 94 major U.S. publicly-traded companies had adopted confidential proxy voting procedures for corporate elections, up from 74 in 1992. The list of Fortune 500 companies with confidential voting includes: AT&T, U.S. West, American Express, American Brands, Coca Cola, CitiCorp., Gillette, Exxon, Sara Lee, J.P. Morgan, Bear Stearns, General Electric, General Mills, General Motors, Colgate-Palmolive, American Home Products, Honeywell, Avon Products, 3M, DuPont, Boeing, Lockheed, Rockwell International, Amoco, Mobil, Eastman Kodak, IBM, Xerox and many others. It's time for the Company to do the same.

For the reasons outlined above, we urge you to VOTE FOR THIS PROPOSAL.

THE BOARD OF DIRECTORS OPPOSES THE ABOVE PROPOSAL

The Board of Directors believes that the Company's existing procedures for submitting proxies and conducting balloting are appropriate, have worked well and should not be changed. The proposal suggests that there is a problem when the Board of Directors in fact believes that none exists.

The Company conducts its stockholder votes in accordance with all applicable legal requirements, including the use of an independent inspector of election for tabulating ballots and reporting on election results. Thus, the second part of the proposal would add nothing to the Company's existing practice.

The Board of Directors believes that a requirement of confidential voting would undermine a valuable means of communication between the Company and its stockholders. Over the years, a number of stockholders have expressed comments and opinions by writing notes on their proxy cards. These comments are reviewed and taken into consideration like any other communications from our stockholders.

The Board of Directors believes that from time to time circumstances may arise in which it would be appropriate and desirable to know how stockholders are voting and sees no reason to restrict its discretion in this regard. For example, an occasion could arise in which the Board believes that stockholders have been confused on a particular issue and that it would be appropriate to engage in discussions or other communications with such stockholders in order to address any misunderstandings. Such a dialogue would help ensure that all stockholders are adequately informed on important matters that they have been asked to consider.

The Board of Directors believes that the proposal is unnecessary because any stockholder who wishes to cast a confidential vote may do so under the current voting system simply by registering his or her shares in the name of a bank, broker or other nominee. Nominee holders do not disclose the names of beneficial owners without the owner's permission.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE AGAINST THE PROPOSAL.

FEEES AND EXPENSES

All expenses of the Company and certain expenses of the Coalition (see "THE PLAN OF RECAPITALIZATION--Terms and Conditions--Fees and Expenses; Indemnification") incurred in connection with the Recapitalization will be paid by the Company. The estimated fees and expenses to be incurred in connection with the Recapitalization are as follows (in millions):

| | |
|--|----------|
| Coalition expense amounts | \$45.00 |
| Financial advisory fees and expenses..... | 10.00 |
| Accounting fees and expenses..... | 0.10 |
| Legal fees and expenses..... | 15.00 |
| Commission filing fee..... | 0.70 |
| Printing and mailing expenses..... | 1.20* |
| Exchange agent fees and expenses..... | 0.20 |
| Employee stock ownership plan and related fees and expenses..... | 4.15 |
| Solvency and surplus opinion fees and expenses..... | 0.18 |
| Underwriting discount and related fees and expenses..... | |
| Miscellaneous expenses..... | 2.62 |
| | ----- |
| Total..... | \$79.15* |
| | ===== |

* Estimate.

If the Offerings are consummated, the Company will also incur underwriting discount and related fees and expenses of approximately \$33 million.

INDEPENDENT PUBLIC ACCOUNTANTS

The Board, at the recommendation of the Audit Committee, has appointed, subject to approval by the stockholders, the firm of Arthur Andersen & Co., as independent public accountants, to examine the financial statements of the Company for the year 1994. It is anticipated that a representative of Arthur Andersen & Co. will be present at the meeting and will have the opportunity to make a statement, if he desires to do so, and will be available to respond to appropriate questions at that time.

The affirmative vote of a majority of Old Shares present at the meeting is necessary for approval of this proposal. If the stockholders do not approve the appointment of Arthur Andersen & Co., the selection of independent public accountants will be reconsidered by the Board.

THE BOARD RECOMMENDS A VOTE FOR THE APPROVAL OF THE APPOINTMENT OF ARTHUR ANDERSEN & CO. AS INDEPENDENT PUBLIC ACCOUNTANTS FOR THE COMPANY FOR 1994.

DISCRETIONARY AUTHORITY OF PROXIES

The Board of Directors of the Company does not know of any matters, other than as described in the Notice of Meeting attached to this Proxy Statement/Prospectus, that are to come before the Meeting. If a proxy is given to vote in favor of the Plan of Recapitalization, the persons named in such proxy will have authority to vote in accordance with their best judgment on any other matter that is properly presented at the Meeting for action, including, without limitation, any proposal to adjourn the Meeting or otherwise concerning the conduct of the Meeting.

In the event that a quorum is not present at the time the Meeting is convened, or if for any other reason the Company believes that additional time should be allowed for the solicitation of proxies, the Company may adjourn the Meeting with a vote of the stockholders. The persons named in the accompanying form of proxy will vote any Shares for which they have voting authority in favor of such adjournment. The Company has made no determination whether it would adjourn the Meeting to allow additional time for the solicitation

of proxies should an insufficient number of favorable votes be received to approve and adopt the Plan of Recapitalization.

EXPERTS

The consolidated financial statements and related schedules of the Company and United as of December 31, 1993 and 1992 and for each of the three years in the period ended December 31, 1993, incorporated by reference in this Proxy Statement/Prospectus and elsewhere in the Registration Statement have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their report with respect thereto, and are incorporated by reference herein in reliance upon the authority of said firm as experts in giving said report. Reference is made to said report which includes an explanatory paragraph with respect to the changes in methods of accounting for income taxes and postretirement benefits other than pensions as discussed in the notes to the consolidated financial statements.

LEGAL OPINION

The validity of the New Shares, Debentures, the Depositary Preferred Shares and Public Preferred Stock issuable pursuant to the Recapitalization will be passed upon by Skadden, Arps, Slate, Meagher & Flom. Such counsel have assumed that the Company will not be rendered insolvent as a result of the Recapitalization.

PROXY SOLICITATION

Proxies are being solicited by and on behalf of the Board. All expenses of this solicitation including the cost of preparing and mailing this Proxy Statement/Prospectus will be borne by the Company. In addition to solicitation by use of the mails, proxies may be solicited by directors, officers and employees of the Company in person or by telephone, telegram or other means of communication. Such directors, officers and employees will not be additionally compensated, but may be reimbursed for out-of-pocket expenses, in connection with such solicitation. Arrangements will also be made with custodians, nominees and fiduciaries for forwarding of proxy solicitation material to beneficial owners of Old Shares held of record by such persons, and the Company may reimburse such custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith. To assure the presence in person or by proxy of the largest number of stockholders possible, the Company has engaged Georgeson & Co. to solicit proxies on behalf of the Company. The Company has agreed to pay such firm a proxy solicitation fee of \$ and to reimburse such firm for its reasonable out-of-pocket expenses.

PROPOSALS FOR 1995 ANNUAL MEETING

The Company expects to hold its 1995 Annual Meeting, in accordance with historic practices, on the fourth Thursday in April, April 27, 1995. Accordingly, any stockholder proposals intended to be presented at the 1995 Annual Meeting must be received by November 25, 1994, by the Secretary of the Company (Francesca M. Maher, Secretary, UAL Corporation, P.O. Box 66919, Chicago, Illinois 60666), in writing in accordance with rules promulgated by the Commission.

OTHER MATTERS

The Board does not know of any other business which may be presented for consideration at the meeting. If any business not described herein should come before the meeting, the persons named in the enclosed proxy will vote on those matters in accordance with their best judgment.

UAL CORPORATION
UNITED AIR LINES, INC.

EXHIBITS--VOLUME I TO THE
PROXY STATEMENT/JOINT PROSPECTUS MAY , 1994

PAGE

Amended and Restated Agreement and Plan of Recapitalization+*.....
Restated Certificate of Incorporation*.....
Restated Bylaws.....

* To be included upon finalization of Definitive Documentation to the
Employee Investment Transaction.

+ Schedules thereto are omitted.

AMENDED AND RESTATED BYLAWS

OF

UAL CORPORATION

ARTICLE 1

Definitions

As used in these Restated Bylaws, unless the context otherwise requires, the following terms shall have the following meanings:

1.1 "Assistant Secretary" means an Assistant Secretary of the Corporation.

1.2 "Assistant Treasurer" means an Assistant Treasurer of the Corporation.

1.3 "Board" means the Board of Directors of the Corporation.

1.4 "Board Committees" has the meaning defined in the Restated Certificate.

1.5 "Chairman" means the Chairman of the Board of Directors of the Corporation.

1.6 "Chief Executive Officer" means the Chief Executive Officer of the Corporation.

1.7 "Corporation" means UAL corporation.

1.8 "Director" means a director of the Corporation.

1.9 "Effective Time" has the meaning defined in the Restated Certificate.

1.10 "entire Board" means all Directors of the Corporation who would be in office if there were no vacancies.

1.11 "General Counsel" means the General Counsel of the Corporation.

1.12 "GCL" means the General Corporation Law of the State of Delaware, as amended from time to time.

1.13 "Management Public Director" has the meaning defined in the Restated Certificate.

1.14 "President" means the President of the Corporation.

1.15 "Restated Certificate" means the Restated Certificate of Incorporation of the Corporation, as amended from time to time.

1.16 "Restated Bylaws" means the Amended and Restated Bylaws of the Corporation, as amended from time to time.

1.17 "Secretary" means the Secretary of the Corporation.

1.18 "Stockholders" means the stockholders of the Corporation.

1.19 "Subsidiary" has the meaning defined in the Restated Certificate.

1.20 "Substantive Amendment" has the meaning defined in the Restated Certificate.

1.21 "Termination Date" has the meaning defined in the Restated Certificate.

1.22 "Treasurer" means the Treasurer of the Corporation.

1.23 "Union Directors" has the meaning defined in the Restated Certificate.

1.24 "Vice President" means a Vice President of the Corporation.

ARTICLE 2

Stockholders' Meetings

2.1 Annual Meeting. A meeting of Stockholders shall be held annually for the election of Directors and the transaction of other business at an hour and date as shall be determined by the Board and designated in the notice of meeting.

2.2 Special Meetings.

(a) Until the Termination Date, a special meeting of Stockholders may be called at any time by (i) the Board, (ii) any two Directors, (iii) the Chief Executive Officer or (iv) the Secretary. At any special meeting of Stockholders only such business may be transacted as is related to the purpose or purposes of such meeting set forth in the notice thereof given pursuant to Section 2.4.*

(b) Upon the occurrence of the Termination Date, subject to the Restated Certificate, a special meeting of the Stockholders may be called only by the Board, and at an hour and date as shall be determined by them.

2.3 Place of Meetings. All meetings of Stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be fixed by the Board or as specified or fixed in the respective notices.

2.4 Notices of Stockholders' Meetings. Except as otherwise provided in Section 2.5 or otherwise required by the Restated Certificate or applicable law, written notice of each meeting of Stockholders, whether annual or special, shall be given to each Stockholder required or permitted to take any action at or entitled to notice of such meeting not less than ten nor more than sixty days before the date on which the meeting is to be held, by delivering such notice to him, personally or by mail. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage prepaid, directed to the Stockholder at his address as it appears on the stock books of the Corporation. Every notice of a meeting of Stockholders shall state the place, date and hour of the meeting and the purpose or purposes for which the meeting is called.

2.5 Waivers of Notice. Notwithstanding any other provision in these Restated Bylaws, notice of any meeting of Stockholders shall not be required as to any Stockholder who shall attend such meeting in person or be represented by proxy, except when such Stockholder attends such meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business at such meeting because the meeting is not lawfully called or convened. If any Stockholder shall, in person or represented by proxy, waive notice of any meeting, whether before or after such meeting, notice thereof shall not be required as to such Stockholder.

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* An asterisk indicates those Sections or Subsections of these Restated Bylaws the Substantive Amendment of which will require, until the Termination Date, a special vote of either the Board or the Stockholders, as provided in the Restated Certificate.

2.6 Quorum Requirements and Required Vote at Stockholder Meetings.

(a) Except as otherwise required by applicable law, until the Termination Date, the quorum requirements at any meeting of Stockholders shall be as set forth in the Restated Certificate.*

(b) Except as otherwise required by applicable law, the Restated Certificate or these Restated Bylaws, upon the occurrence of the Termination Date, at all meetings of Stockholders the presence, in person or represented by proxy, of the holders of outstanding shares representing at least one-third of the total voting power entitled to vote at a meeting of Stockholders shall constitute a quorum for the transaction of business; provided, however, that where a separate vote of a class or classes or series of stock is required, the presence in person or represented by proxy of the holders of outstanding shares representing at least one-third of the total voting power of all outstanding shares of such class or classes or series shall constitute a quorum thereof entitled to take action with respect to such separate vote.

(c) Except as otherwise required by applicable law, the Restated Certificate or these Restated Bylaws, including, without limitation, Section 3.3 hereof, the affirmative vote of at least a majority in voting power of the shares present in person or represented by proxy and entitled to vote thereon at a meeting of Stockholders at which a quorum is present shall be the act of the Stockholders.*

(d) The holders of a majority in voting power of the shares entitled to vote and present in person or represented by proxy at any meeting of Stockholders, whether or not a quorum is present, may adjourn such meeting to another time and place. At any such adjourned meeting at which a quorum shall be present, any business may be transacted that might have been transacted at the meeting as originally called. Unless otherwise required by applicable law, the Restated Certificate or these Restated Bylaws, no notice of an adjourned meeting need be given.

2.7 Proxies. Each Stockholder entitled to vote at a meeting of Stockholders may authorize another person or persons to act for him by proxy, but such proxy shall no longer be valid eleven months after the date of such proxy.

2.8 Judges. At every meeting of Stockholders, the votes shall be conducted by two judges appointed for that purpose by the Board or, failing such appointment, appointed by the affirmative vote of a majority in voting power of the Stockholders present in person or represented by proxy at the meeting. All questions with respect to the qualification of voters, the validity of the proxies and the acceptance or rejection of votes shall be decided by such judges. Before acting at any meeting, the judges shall be sworn faithfully to execute their duties with strict impartiality and according to the best of their ability. If any judge appointed to act at any meeting shall fail to be present or shall decline to act, the Stockholders at the meeting present in person or represented by proxy shall, by the affirmative vote of the holders of at least a majority in voting power of the stock present in person or represented by proxy and entitled to vote thereon, appoint another judge to act in his place.

2.9 Conduct of Stockholders' Meetings. The Chairman or, in his absence, a Director or officer designated by the Chairman, shall preside at all meetings of Stockholders and may establish such rules of procedure for conducting the meetings as he deems fair and reasonable.

ARTICLE 3

Board of Directors

3.1 Number, Composition and Term of Office. The number of Directors on the Board, the composition of the Board and term of office of Directors shall be as provided in the Restated Certificate.*

3.2 Nomination of the Chief Executive Officer as a Management Public Director. Until the Termination Date, subject to the fiduciary obligations of the Directors, one of the Management Public Directors nominated by the Board in accordance with Section 2.5 of Article Fifth of the Restated Certificate shall be the Chief Executive Officer.*

3.3 Election. Except as otherwise required by applicable law or the Restated Certificate, and notwithstanding Section 2.6(c) hereof, Directors shall be elected by a plurality of the votes cast at a meeting of Stockholders by the holders of shares entitled to vote on their election.*

3.4 Place of Meetings. Meetings of the Board may be held either within or without the State of Delaware.

3.5 Organization Meeting. The Board shall meet as soon as practicable after each annual meeting of Stockholders at the place of such annual meeting for the purpose of organization and the transaction of other business. No notice of such meeting of the Board shall be required. Such organization meeting may be held at any other time or place specified in a notice given as hereinafter provided for special meetings of the Board, or in a consent and waiver of notice thereof, signed by all of the Directors.

3.6 Stated Meetings. The Board may from time to time, by resolution adopted by the affirmative vote of at least a majority of the votes entitled to be cast by the entire Board, appoint the time and place for holding stated meetings of the Board; and such meetings shall thereupon be held at the time and place so appointed, without the giving of any special notice with regard thereto. In case the day appointed for a stated meeting shall fall upon a legal holiday, such meeting shall be held on the next following day, not a legal holiday, at the regularly appointed hour. Any and all business may be transacted at any stated meeting; provided, however, no business may be transacted at any stated meeting which under the Restated Certificate may be taken by the Board only with a greater or additional vote of the Board or any class of Directors than that provided for in Section 2.11 of Article Fifth of the Restated Certificate, including, without limitation, any business that is subject to Section 3 of Article Fifth of the Restated Certificate, unless a description of such business is set forth in a notice of meeting given in accordance with Section 3.8.*

3.7 Special Meetings. Special meetings of the Board shall be held whenever called by any two Directors or by the Chairman, or, in the event that the office of the Chairman is vacant, by the President. Notice of a special meeting shall set forth a description of such meeting and be sent to the Directors as provided in Section 3.8. The only business that may be transacted at such meeting shall be the business as described in such notice.*

3.8 Notices of Board Meetings. Notice of any special meeting or, to the extent required pursuant to Section 3.6, stated meeting shall be sent to each Director at his residence or usual place of business either (a) by reputable overnight delivery service in circumstances to which such service guarantees next day delivery, not later than five business days before the day of such meeting, or (b) by facsimile, telex, telegram or electronic mail, not later than two business days before the day of such meeting. If sent by overnight delivery service, such notice shall be deemed to be given when delivered to such service; if sent by facsimile, telex, telegram or electronic mail, such notice shall be deemed to be given when transmitted. Notice of any meeting of the Board need not however be given to any Director, if waived by him in writing or if, subject to applicable law, he shall be present at the meeting. Any meeting of the Board shall be a legal meeting without any notice thereof having been given if all of the Directors shall be present thereat, except when a Director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.*

3.9 Quorum and Manner of Acting.

(a) Until the Termination Date, the quorum requirements for meetings of the Board and the vote required for Board action shall be as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, except as otherwise required by applicable law, the Restated Certificate or these Restated Bylaws, the presence of at least one-third of the Directors in office at the time of any organization, stated or special meeting of the Board shall constitute a quorum for the transaction of business; and, except as otherwise required by applicable law, the Restated Certificate or these Restated Bylaws, the affirmative vote of a majority of the votes entitled to be cast by the Directors present at any meeting at which a quorum is present shall be the act of the Board. In the absence of a quorum, the affirmative vote of a majority of the votes entitled to be cast by the Directors present may adjourn any meeting, from time to time, until a quorum is present.

3.10 Telephone Meetings. Directors or members of any committee of the Board may participate in a meeting of the Board or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.10 shall constitute presence in person at such meeting.*

3.11 Chairman of the Board Pro Tempore. In the absence of both the Chairman and the Chief Executive Officer at any meeting of the Board, the Board may appoint from among its members a Chairman of the Board pro tempore, who shall preside at such meeting, except where otherwise provided by law.

3.12 Removal of Directors.

(a) Until the Termination Date, any Director may be removed without cause or for cause as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, (i) any Director may be removed without cause at any time only by the affirmative vote of the holders of a majority in voting power of the shares of the class or classes or series of stock that are entitled to vote for the election of such Director, voting separately as a class or series, and (ii) any Director or the entire Board may be removed for cause as provided under the GCL.

3.13 Additional Qualification of Directors. No person shall be eligible for election as a Director if at the time of such election such person is 70 or more years of age.

3.14 Vacancies on the Board.

(a) Until the Termination Date, vacancies on the Board may only be filled as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, except as otherwise provided in the Restated Certificate, any vacancy on the Board caused by the removal, either for or without cause, of a Director may be filled by the Stockholders entitled to vote thereon at the meeting at which such Director is removed or at any subsequent meeting. Upon the occurrence of the Termination Date, except as otherwise provided in the Restated Certificate, in case of any increase in the authorized number of Directors, unless such increase is created by reason of the failure to pay dividends on some class or classes or series of stock of the Corporation, or of any vacancy created by the death or resignation of a Director, unless such vacancy arises in any Directorship created by reason of a failure to pay dividends on some class or classes or series of stock of the Corporation, then, the additional Director or Directors may be elected, or, as the case may be, the vacancy or vacancies may be filled, either (a) by the Board by the affirmative vote of a majority of the votes entitled to be cast by the Directors then in office, although less than a quorum, or (b) by a plurality of the votes cast by the Stockholders entitled to vote thereon, either at an annual meeting or at a special meeting called for such purpose at which a quorum is present.

3.15 Directors' Fees. The Board shall have authority to determine, from time to time, the amount of compensation that shall be paid to its members for attendance at meetings of the Board or of any committee of the Board, which compensation may be payable currently or deferred.

ARTICLE 4

Board Committees

4.1 Designation.

(a) Until the Termination Date, the designation of Board Committees shall be as provided in the Restated Certificate.*

(b) So far as practicable, members of each committee of the Board shall be appointed annually at the organization meeting of the Board.

(c) Upon the occurrence of the Termination Date, except as otherwise provided in the Restated Certificate, the Board may, by resolution adopted by the affirmative vote of at least a majority of the votes entitled to be cast by the entire Board designate one or more committees of the Board, each such committee to consist of one or more Directors. Upon the occurrence of the Termination Date, except as otherwise provided in the Restated Certificate, unless sooner discharged by the affirmative vote of a majority of the votes entitled to be cast by the entire Board, members of each committee of the Board shall hold office until the organization meeting of the Board in the next subsequent year and until their respective successors are appointed. Each committee of the Board shall have power to appoint one of its members to act as chairman of such committee by the affirmative vote of a majority of the votes entitled to be cast by all of the members of such committee.

4.2 Meetings.

(a) Stated meetings of any committee of the Board shall be held at such times and at such places as shall be fixed, from time to time, by resolution adopted by the Board or by the affirmative vote of a majority of the votes entitled to be cast by the members of such committee of the Board and upon notification pursuant to Section 4.3 to all the members of such committee. In the case the day appointed for a stated meeting shall fall upon a legal holiday, such meeting shall be held on the next following day, not a legal holiday, at the appointed hour. Any and all business may be transacted at any stated meeting of any committee of the Board; provided, however, no business may be transacted at any stated meeting of any committee of the Board which under the Restated Certificate may be taken by such committee only with a greater or additional vote of such committee or any class of Directors than that provided for in Section 4.1.12 of Article Fifth of the Restated Certificate, unless a description of such business is set forth in a notice of meeting given in accordance with Section 4.3.*

(b) Special meetings of any committee of the Board may be called at any time by the chairman of such committee or by any two members of the committee. Notice of a special meeting of any committee of the Board shall set forth a description of the business to be transacted at such meeting and be sent to the members of such committee of the Board as provided in Section 4.3.

The only business that may be transacted at such meeting shall be the business as described in such notice.*

4.3 Notice of Board Committee Meetings. Notice of any special meeting of any committee of the Board or, to the extent required pursuant to Section 4.2(a), stated meeting of any committee of the Board shall be sent to each member of such committee at his residence or usual place of business either (a) by reputable overnight delivery service in circumstances to which such service guarantees next day delivery, not later than five business days before the day of such meeting, or (b) by facsimile, telex, telegram or electronic mail, not later than two business days before the day of such meeting. If sent by overnight delivery service, such notice shall be deemed to be given when delivered to such service; if sent by facsimile, telex, telegram or electronic mail, such notice shall be deemed to be given when transmitted. Notice of any meeting of a committee of the Board need not however be given to any member of such committee, if waived by him in writing or if, subject to applicable law, he shall be present at the meeting. Any meeting of a committee of the Board shall be a

legal meeting without any notice thereof having been given if all of the members shall be present thereat except when a Director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.*

4.4 Place of Meetings. Meetings of any committee of the Board may be held either within or without the State of Delaware.

4.5 Quorum and Voting Requirements of Board Committees.

(a) Until the Termination Date, the quorum and voting requirements of Board Committee meetings shall be as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, the presence of Directors entitled to cast at least a majority of the aggregate number of votes entitled to be cast by all Directors on a committee of the Board shall constitute a quorum for the transaction of business, and any act of a committee of the Board shall require the affirmative vote of at least a majority of the votes entitled to be cast by the Directors present at a meeting of such committee at which a quorum is present.

(c) Upon the occurrence of the Termination Date, members of a committee of the Board present at a meeting of such committee, whether or not constituting a quorum, may unanimously appoint other Directors to act at such meeting in place of absent members (other than Employee Directors). The members of any committee of the Board shall act only as a committee of the Board, and the individual members of the Board shall have no power as such.

4.6 Records. Each Board Committee shall keep a record of its acts and proceedings and shall report the same, from time to time, to the Board. The Secretary, or, in his absence, an Assistant Secretary, shall act as secretary to each Board Committee, or a Board Committee may, in its discretion, appoint its own secretary.

4.7 Vacancies.

(a) Until the Termination Date, the filling of vacancies on any Board Committee shall be as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, except as otherwise provided in the Restated Certificate, any vacancy in any committee of the Board shall be filled by the affirmative vote of a majority of the votes entitled to be cast by the entire Board.

4.8 Executive Committee.

(a) Until the Termination Date, the composition, function and powers of the Executive Committee shall be as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, in addition to any requirements set forth in the Restated Certificate, an Executive Committee shall be appointed, to consist of the Chairman, ex officio, and two or more other Directors; provided, however, that (i) each of the Union Directors shall be members of the Executive Committee and (ii) at least a majority of the Executive Committee shall consist of Directors who are neither officers nor employees of the Corporation or of any of its affiliated corporations.

(c) Upon the occurrence of the Termination Date, subject to the provisions of the GCL, the Executive Committee shall have and may exercise all the powers of the Board in the management of the business and affairs of the Corporation, including, without limitation, the power to authorize the seal of the Corporation to be affixed to all papers that may require it; provided, that neither the Executive Committee nor any other committee of the Board shall be authorized to (i) elect any officer designated as such in Section 5.1 or to fill any vacancy in any such office, (ii) designate the Chief Executive Officer, (iii) fill any vacancy in the Board or

any newly created Directorship, (iv) amend these Restated Bylaws or (v) take any action that under these Restated Bylaws is required to be taken by vote of a specified proportion of the entire Board or of the Directors at the time in office.

(d) Upon the occurrence of the Termination Date, subject to any provision in the Restated Certificate, any action herein authorized to be taken by the Executive Committee and which is duly taken by it in accordance herewith shall have the same effect as if such action were taken by the Board. Upon the occurrence of the Termination Date, with the exception of members who are also elected officers designated as such in Section 5.1, no member may serve on the Executive Committee more than three consecutive years, but may again serve after an intervening period of at least one year.

ARTICLE 5

Officers, Employees and Agents: Powers and Duties

5.1 Officers.

(a) Until the Termination Date, to the extent provided therein, the appointment of officers of the Corporation shall be as provided in the Restated Certificate.*

(b) Until the Termination Date, to the extent not otherwise provided in the Restated Certificate, and upon the occurrence of the Termination Date, the officers of the Corporation, who shall be elected by the Board, may be a Chairman of the Board (who shall be a Director) and a Treasurer, and shall be a Chief Executive Officer (who shall be a Director), a President, one or more Vice Presidents, a General Counsel and a Secretary. The Board may also elect such other officers and select such other employees or agents as, from time to time, may appear to be necessary or advisable in the conduct of the affairs of the Corporation. Any officer may also be elected to another office or offices.*

5.2 Term of Office.

(a) Until the Termination Date, the term of office for officers of the Corporation shall be as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, so far as practicable, each officer shall be elected at the organization meeting of the Board in each year, and shall hold office until the organization meeting of the Board in the next subsequent year and until his successor is chosen or until his earlier death, resignation or removal in the manner hereinafter provided.

5.3 Removal of Officers.

(a) Until the Termination Date, removal of officers of the Corporation shall be as provided in the Restated Certificate; provided, however, that the term of office of the Chief Executive Officer (other than the first Chief Executive Officer following the Effective Time) shall automatically terminate if following his appointment or proposed appointment as Chief Executive Officer he is not elected as a Management Public Director by the Stockholders entitled to vote thereon at the first meeting for the election of Directors at which he is eligible for nomination as a Management Public Director under Subsection 2.3 of Article Fifth of the Restated Certificate. Such automatic termination shall not be applicable in the event the Chief Executive Officer is not elected as a Management Public Director by the Stockholders entitled to vote thereon at any meeting following such first meeting.*

(b) Upon the occurrence of the Termination Date, any officer may be removed at any time, either for or without cause, by the affirmative vote of at least a majority of the votes entitled to be cast by the entire Board, at any meeting called for that purpose.

5.4 Vacancies.

(a) Until the Termination Date, vacancies in any office of the Corporation shall be filled as provided in the Restated Certificate.*

(b) Upon the occurrence of the Termination Date, if any vacancy occurs in any office, the Board may elect a successor to fill such vacancy for the remainder of the term.

5.5 Chief Executive Officer. The Chief Executive Officer shall have general and active control of the business and affairs of the Corporation. He shall have general power (a) to execute bonds, deeds and contracts in the name of the Corporation, (b) to affix the corporate seal, (c) to sign stock certificates, (d) subject to the provisions of the Restated Certificate, these Restated Bylaws and the approval of the Board, to select all employees and agents of the Corporation whose selection is not otherwise provided for and to fix the compensation thereof, (e) to remove or suspend any employee or agent who shall not have been selected by the Board, (f) to suspend for cause, pending final action by the Board any employee or agent who shall have been selected by the Board and (g) to exercise all the powers usually and customarily performed by the chief executive officer of a corporation.

5.6 Chairman of the Board.

(a) The Board may elect a Director as Chairman of the Board. Until the Termination Date, so long as the Chief Executive Officer is a Director, he shall also be the Chairman of the Board.*

(b) The Chairman shall preside at all meetings of Stockholders and of the Board at which he may be present. The Chairman shall have such other powers and duties as he may be called upon by the Board to perform.

5.7 President. The President, if not designated as Chief Executive Officer of the Corporation, shall perform such duties as are delegated by the Board, the Chairman or the Chief Executive Officer. In the event of the absence, disability or vacancy in the office of the Chief Executive Officer, the President shall act in the place of the Chief Executive Officer with authority to exercise all his powers and perform his duties. In the event no Treasurer is elected, the President shall also have the duties of the Treasurer specified in these Restated Bylaws.

5.8 Vice Presidents and Other Officers. The several Vice Presidents and other elected officers, including, without limitation, the General Counsel, shall perform all such duties and services as shall be assigned to or required of them, from time to time, by the Board, or the Chief Executive Officer, respectively. In the event of the absence or disability of both the Chairman and the Chief Executive Officer, the President may designate one of the several Vice Presidents to act in his place with authority to exercise all of his powers and perform his duties, provided that the Board may change such designation, or if the President fails or is unable to make such designation, the Board may make such designation at a regular or special meeting called for that purpose.

5.9 Secretary. The Secretary shall attend to the giving of notice of all meetings of Stockholders and the Board and shall keep and attest true records of all proceedings thereat. He shall have charge of the corporate seal and have authority to attest any and all instruments or writings to which the same may be affixed. He shall keep and account for all books, documents, papers and records of the Corporation, except those which are hereinafter directed to be in charge of the Treasurer. He shall have authority to sign stock certificates and shall generally perform all the duties usually appertaining to the office of secretary of a corporation. In the absence of the Secretary, an Assistant Secretary or Secretary pro tempore shall perform his duties.

5.10 Treasurer. The Treasurer, if any, shall be responsible for the collection, receipt, care, custody and disbursement of the funds of the Corporation and shall deposit or cause to be deposited all funds of the

Corporation in and with such depositaries as the Board shall, from time to time, direct. He shall have the care and custody of all securities owned by the Corporation and shall deposit such securities with such banks or in such safe deposit vaults, and under such controls, as the Board shall, from time to time, direct. He shall disburse funds of the Corporation on the basis of vouchers properly approved for payment by the controller of the Corporation or his duly authorized representative. He shall be responsible for the maintenance of detailed records of cash and security transactions and shall prepare such reports thereof as may be required. He shall have the power to sign stock certificates and to endorse for deposit or collection or otherwise all checks, drafts, notes, bills of exchange or other commercial paper payable to the Corporation and to give proper receipts or discharges therefor. He shall have such other duties as are commonly incidental to the office of treasurer of a corporation. In the absence of the Treasurer, an Assistant Treasurer shall perform his duties.

5.11 Additional Powers and Duties. In addition to the foregoing especially enumerated duties and powers, the officers of the Corporation shall perform such other duties and exercise such further powers as may be provided in these Restated Bylaws or as the Board may, from time to time, determine or as may be assigned to them by any competent superior officer.

5.12 Compensation. Except as otherwise provided in the Restated Certificate, the compensation of all officers of the Corporation shall be fixed, from time to time, by the Board.

ARTICLE 6

Stock and Transfers of Stock

6.1 Stock Certificates. Every Stockholder shall be entitled to a certificate signed by the Chairman or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, certifying the number of shares owned by such Stockholder in the Corporation. Any or all of the signatures on the certificate may be a facsimile. In case any officer, Transfer Agent or Registrar who has signed or whose facsimile signature has been placed upon a certificate shall cease to be such officer, Transfer Agent or Registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, Transfer Agent or Registrar at the date of issuance.

6.2 Transfer Agents and Registrars. The Board may, in its discretion, appoint responsible banks or trust companies in the Borough of Manhattan, in the City of New York, State of New York, and in such other city or cities as the Board may deem advisable, from time to time, to act as Transfer Agents and Registrars of the stock of the Corporation; and, when such appointments shall have been made, no stock certificate shall be valid until countersigned by one of such Transfer Agents and registered by one of such Registrars.

6.3 Transfers of Stock. Except as otherwise provided in the Restated Certificate, and subject to any other transfer restriction applicable thereto, shares of stock may be transferred by delivery of the certificates therefor, accompanied either by an assignment in writing on the back of the certificates or by written power of attorney to sell, assign and transfer the same, signed by the record holder thereof; but no transfer shall affect the right of the Corporation to pay any dividend upon the stock to the holder of record thereof, or to treat the holder of record as the holder in fact thereof for all purposes, and no transfer shall be valid, except between the parties thereto, until such transfer shall have been made upon the books of the Corporation.

6.4 Lost Certificates. In case any certificate of stock shall be lost, stolen or destroyed, the Board, in its discretion, may authorize the issuance of a substitute certificate in place of the certificate so lost, stolen or destroyed and may cause such substitute certificate to be countersigned by the appropriate Transfer Agent (if any) and registered by the appropriate Registrar (if any); provided, that, in each such case, the applicant for a substitute certificate shall furnish to the Corporation and to such of its Transfer Agents and Registrars as

may require the same, evidence to their satisfaction, in their discretion, of the loss, theft or destruction of such certificate and of the ownership thereof, and also such security or indemnity as may be required by them.

6.5 Record Date.

(a) In order that the Corporation may determine the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, or, subject to applicable law, to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board is authorized, from time to time, to fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

(b) A determination of Stockholders of record entitled to notice of or to vote at a meeting of Stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE 7

Miscellaneous

7.1 Fiscal Year. The fiscal year of the Corporation shall be the calendar year.

7.2 Surety Bonds. The Treasurer, each Assistant Treasurer and such other officers or agents of the Corporation as the Board may direct, from time to time, shall be bonded for the faithful performance of their duties in such amounts and by such surety companies as the Board may determine. The premiums on such bonds shall be paid by the Corporation and the bonds so furnished shall be in the custody of the Chief Executive Officer.

7.3 Signature of Negotiable Instruments. All bills, notes, checks or other instruments for the payment of money shall be signed or countersigned by such officer or officers and in such manner as, from time to time, may be prescribed by resolution (whether general or special) of the Board.

ARTICLE 8

Amendments

8.1 Amendment of these Restated Bylaws Prior to the Termination Date. Until the Termination Date, notwithstanding that a lesser or no vote of either the Board or the Stockholders may be required by applicable law, and in addition to any other vote of the Board or the Stockholders required by applicable law or the Restated Certificate, (a) any Substantive Amendment to these Restated Bylaws shall be effected as provided in the Restated Certificate and (b) any amendment or supplement to or modification of these Restated Bylaws that is not a Substantive Amendment and any new bylaw provisions not inconsistent with any provision of the Restated Certificate, these Restated Bylaws or applicable law may be effected or adopted, as the case may be, either (i) by the affirmative vote of at least a majority of the votes entitled to be cast by the entire Board, or (ii) by the affirmative vote of the holders of at least 75% in voting power of the stock present in person or represented by proxy and entitled to vote thereon, at an annual meeting of Stockholders, or at a special meeting thereof, at which a quorum is present, the notice of which meeting shall include the form of the proposed amendment or supplement to or modification of these Restated Bylaws or of the proposed new bylaws, or a summary thereof.*

8.2 Amendment of these Restated Bylaws Upon the Occurrence of the Termination Date. Upon the occurrence of the Termination Date, except as herein otherwise expressly provided, these Restated Bylaws may be altered or repealed, and new bylaws, not inconsistent with any provision of the Restated Certificate or applicable law, may be adopted, either (a) by the affirmative vote of at least a majority of the votes entitled to be cast by the entire Board, or (b) by the affirmative vote of the holders of at least a majority in voting power of the stock present in person or represented by proxy and entitled to vote thereon, at an annual meeting of Stockholders, or at a special meeting thereof, at which a quorum is present, the notice of which meeting shall include the form of the proposed amendment or supplement to or modification of these Restated Bylaws or of the proposed new bylaws, or a summary thereof.

I, The Undersigned, Secretary of UAL CORPORATION, a corporation of the State of Delaware, HEREBY CERTIFY that the foregoing is a true, correct and complete copy of the Restated Bylaws of said Corporation as at present in force.

In Witness Whereof, I have hereunto subscribed my name and affixed the seal of this Corporation this day of , 1994.

Secretary
UAL CORPORATION

UAL CORPORATION
UNITED AIR LINES, INC.

EXHIBITS--VOLUME II TO THE
PROXY STATEMENT/JOINT PROSPECTUS MAY , 1994

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| Form 10-K for United for the year ended December 31, 1993..... | |
| Form 10-Q for UAL for the quarter ended March 31, 1994, as amended... | |
| Form 10-Q for United for the quarter ended March 31, 1994..... | |
| Statement of Exhibit Fees..... | |
| Amendment to the 1981 Incentive Stock Program..... | |
| Amendment to the 1988 Restricted Stock Program..... | |
| UAL Corporation Incentive Compensation Plan..... | |
| Amendment to the UAL Corporation Incentive Compensation Plan..... | |

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, 1993 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 36-2675207
(STATE OR OTHER JURISDICTION OF (IRS EMPLOYER
INCORPORATION OR ORGANIZATION) 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 (\$5 par value)... | New York, Chicago and Pacific Stock Exchanges |
| Preferred Stock Purchase Rights..... | New York, Chicago and Pacific Stock Exchanges |

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 X NO

Indicate by check mark if disclosure of delinquent filings 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, 1994 was 24,570,972. The aggregate market value of voting stock held by non-affiliates of the Registrant was \$3,210,737,213 as of March 1, 1994.

Part III information shall be incorporated by reference from the Registrant's definitive proxy statement for its 1994 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 executive offices 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. ("United"), which is wholly-owned. United accounted for virtually all of the Company's revenues and expenses in 1993. United is a major commercial air transportation company. Mileage Plus, Inc., which is also wholly-owned by the Company, administers frequent flyer bonus programs for United. During 1993, the Company transferred substantially all of the operating assets of Air Wisconsin, Inc., a regional airline indirectly owned by the Company through another wholly-owned subsidiary, Air Wis Services, Inc. (see Item 2, Properties, "Transfers of Assets").

Proposed Employee Investment Transaction

On December 22, 1993, the Board of Directors of the Company approved an agreement in principle (as amended, the "Agreement in Principle") with the Air Line Pilots Association ("ALPA") and the International Association of Machinists ("IAM") concerning a proposed transaction (the "Employee Investment Transaction") that would provide a majority equity interest in the Company to certain of the employees of United in exchange for wage and benefit concessions and work-rule changes. In January 1994, ALPA and the IAM ratified the Agreement in Principle. The Employee Investment Transaction is subject to, among other conditions, execution of definitive documentation and approval by the Company's stockholders.

The proposed Employee Investment Transaction is intended to put in place a lower cost structure that allows United to compete effectively in domestic markets and improve its long-term financial competitiveness. The concessions would come from three of United's employee groups: employees represented by ALPA, employees represented by the IAM, and the salaried and management employees. Employees represented by the Association of Flight Attendants ("AFA") have been invited to participate in the transaction, and representatives of the Company have engaged in discussions with AFA representatives concerning such participation but the transaction does not require their participation to proceed.

In the proposed transaction, an employee stock ownership plan ("ESOP") would be created to provide United employees with a minimum of a 53% equity interest in the Company in exchange for wage and benefit concessions and work-rule changes. The employee interest could increase to up to 63%, depending on the average market value of the Company's common stock in the year after the transaction closes. The transaction would not be dependent on external financing.

Pursuant to the terms of the Agreement In Principle, current stockholders of the Company would receive the remaining 37% to 47% of the new common stock and \$88 per share of cash and face amount of debt and preferred stock. The transaction would provide for the creation of a low-cost short-haul operation to compete in domestic markets. For additional information concerning the Agreement in Principle and the proposed Employee Investment Transaction, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation".

Recent Developments

In January 1994, United entered into an agreement with The Boeing Company ("Boeing") to acquire two new B747-400 aircraft in 1994, in place of options for two similar aircraft (see "Flight Equipment" in Item 2, Properties).

In March 1994, United opened a new major aircraft maintenance and overhaul facility ("MOC-II") in Indianapolis. Operating under a lease with the Indianapolis Airport Authority which expires November 30, 2031, when all phases of the construction work are completed United will occupy approximately 300 acres of land and up to three million square feet of space, including 15 aircraft dock positions. MOC-II will be used for maintenance of Boeing 737 aircraft, engine repair, spare parts storage, ground equipment maintenance, technical support and administrative functions.

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 one of the world's largest investor-owned airlines as measured by operating revenues, revenue passengers and revenue passenger miles flown. At the end of 1993, United served 159 airports in the United States and 32 foreign countries. During 1993, United averaged 2,040 departures daily, flew a total of 101 billion revenue passenger miles, and carried an average of 191,000 passengers per day.

United provides service to its domestic and international markets 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 other United hubs. This arrangement permits travelers to fly from point of origin to more destinations without switching carriers. Currently, United flies from four U.S. hubs--Chicago-O'Hare International ("O'Hare"), Denver, San Francisco International, and Dulles International near Washington, D.C. ("Dulles")--and is the principal carrier at each of these hubs. United also has a Pacific hub operation at Tokyo Narita airport, and an Atlantic hub operation at London Heathrow Airport. During the last several years, United has strengthened the revenue-generating capability of the hub airports by: (1) adding new spokes (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 economically itself.

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.

Within North America, United has a marketing program with selected independent regional air carriers, known as the United Express ("UE") program, which allows United to increase the number of destinations served by its hub-and-spoke network. Six regional carriers currently participate in the UE marketing program providing connecting schedules to ten major cities also served by United: Air Wisconsin Airlines Corporation to Chicago and Denver; UFS, Inc. to Chicago; Mesa Airlines, Inc. to Denver and Los Angeles; WestAir Commuter Airlines, Inc. to San Francisco, Los Angeles, Seattle and Portland, Oregon; Great Lakes Aviation to Chicago, Denver and Minneapolis; and Atlantic Coast Airlines, Inc. to Washington-Dulles, Newark and Orlando. Connecting schedules of three of these carriers result in part from separate transfers to them in 1993 of operating assets of Air Wisconsin, Inc. (see Item 2, Properties, "Transfers of Assets").

Within North America, United also has marketing agreements that provide for sharing of the "UA" code on certain routes with two other domestic air carriers, Trans World Express ("TWE") and Aloha Airlines. Code-sharing allows an airline to expand the marketing of its service brand by using its two-letter

designator code to designate in computerized reservations systems a connecting flight operated by another airline on the itinerary. Under these agreements, the UA designator code is reflected on TWE flights between approximately 20 cities in the Northeast U.S. which connect with United's international flights in and out of New York John F. Kennedy International Airport ("Kennedy"), and on Aloha Airlines' flights between and among the Hawaiian Islands in connection with United's flights in and out of Hawaii. Finally, North American traffic is also served by code-sharing agreements United has with two Caribbean air carriers, ALM and Sunair, under which each reflects the United designator code on its flights.

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, beginning in 1993, from Los Angeles to Hong Kong, and from Chicago to Seoul. Effective October 1994, United plans to offer nonstop service between Los Angeles and Osaka and, as soon as government approvals are received, service between Los Angeles and Ho Chi Minh City, Vietnam, via Taipei. South Pacific traffic to Auckland, Melbourne and Sydney is served from Los Angeles. United plans to begin nonstop service between San Francisco and Sydney beginning in June 1994 (subject to the approval of the Australian government), further strengthening United's San Francisco international hub and supplementing United's Los Angeles to Sydney service. United also has code-sharing agreements with two South Pacific air carriers, Ansett Australia and Ansett New Zealand. Based on reports filed with the Department of Transportation, United was the leading U.S. carrier in the Pacific in 1993 in terms of revenue passenger miles. During 1993, United's Pacific Division accounted for 25% of United's revenues.

Service between the U.S. and Europe is provided by: flights from six U.S. cities to the London hub, with connecting service at London to several European cities; flights from four U.S. cities to Paris, with connecting service to two European cities; and nonstop service from Dulles to Brussels, Frankfurt, Madrid, Milan/Rome and, beginning in 1993, to Amsterdam, Glasgow and Zurich; and from Chicago to Frankfurt. European traffic is also served by United's code-sharing agreements with British Midland and Emirates. In addition, in 1993 a comprehensive marketing agreement was signed with Germany's flag carrier, Lufthansa, and is awaiting governmental approvals. If approved, this worldwide alliance would, among other things, allow code-sharing between the two airlines on Transatlantic route segments, and would permit United to code-share on Lufthansa flights to eight cities in Germany beyond Frankfurt (Berlin, Cologne, Dusseldorf, Hanover, Hamburg, Munich, Nuremberg and Stuttgart), as well as Vienna. Similarly, the agreement would permit Lufthansa to code-share on United flights to eleven cities in the U.S.--five beyond Chicago, five beyond Washington, D.C., and one beyond San Francisco. A 1993 agreement to acquire USAir's Philadelphia-London route was terminated due to the transaction's failure to receive the requisite governmental approvals.

Service between the U.S. and Latin America is provided by flights to 14 Latin American cities in 11 countries from a number of cities in the U.S. Ten Latin American cities are served nonstop from Miami, three nonstop from Los Angeles and four from New York-Kennedy. United also has a code-sharing agreement with Transbrasil.

Operating revenues attributed to United's foreign operations were approximately \$5.6 billion in 1993, \$4.9 billion in 1992 and \$3.9 billion in 1991.

Selected Operating Statistics

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

| | YEAR ENDED DECEMBER 31 | | | | |
|---|------------------------|----------|----------|----------|----------|
| | 1993 | 1992 | 1991 | 1990 | 1989 |
| Revenue Aircraft Miles (millions)(a)..... | 756 | 695 | 635 | 597 | 552 |
| Revenue Aircraft Departures..... | 746,665 | 721,504 | 691,402 | 654,555 | 621,113 |
| Available Seat Miles (millions)(b)..... | 150,728 | 137,491 | 124,100 | 114,995 | 104,547 |
| Revenue Passenger Miles (millions)(c)..... | 101,258 | 92,690 | 82,290 | 76,137 | 69,639 |
| Revenue Passengers (thousands).... | 69,814 | 66,692 | 62,003 | 57,598 | 54,859 |
| Average Passenger Journey (miles).... | 1,450 | 1,390 | 1,327 | 1,322 | 1,269 |
| Average Flight Length (miles)..... | 1,013 | 964 | 918 | 912 | 888 |
| Passenger Load Factor(d)..... | 67.2% | 67.4% | 66.3% | 66.2% | 66.6% |
| Break-even Load Factor(e)..... | 65.6% | 70.4% | 69.5% | 66.5% | 63.0% |
| Average Yield Per Revenue Passenger Mile (in cents)(f)..... | 12.5 | 12.2 | 12.5 | 12.6 | 12.2 |
| Cost Per Available Seat Mile (in cents)(g)..... | 9.3 | 9.6 | 9.8 | 9.6 | 8.9 |
| Average Fare Per Revenue Passenger | \$181.65 | \$169.87 | \$166.05 | \$167.26 | \$155.60 |
| Average Daily Utilization of each Aircraft (hours:minutes)(h)..... | 8:30 | 8:19 | 8:13 | 8:14 | 8:09 |

- (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 1993 and 1992 incorporated by reference therein.

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 with lower operating costs than United's 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 (particularly during peak demand periods), high quality service, frequent flyer programs designed to reward customer loyalty, and competitive pricing.

During 1993, certain domestic carriers, both in and out of bankruptcy proceedings, reorganized their operating cost structures. These carriers, together with more recent entrants to the airline business, and a select number of established domestic carriers, currently have cost structures significantly lower than United's, and therefore may be able to operate profitably at lower fare levels. Furthermore, certain carriers in the short-to-medium distance 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. The success of these carriers and such strategies has led certain major carriers, including United, to consider ways in which to reorganize their short-haul operations to allow them to compete more effectively in domestic markets.

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 order to improve its ability to compete effectively in the markets that it serves, United has taken several steps to reduce its costs and capital expenditures. In January 1993, United announced a cost reduction program, which included the layoff of 2,800 employees in February 1993. In 1993 United reached agreement with Boeing to convert 49 Boeing aircraft orders into options and delay delivery of certain of the Boeing aircraft. United also reached agreement with Airbus Industrie ("Airbus") to delay delivery of 14 A320s originally scheduled for delivery after 1994. In addition, United announced in 1993 that it would accelerate the retirement of 25 widebody aircraft. United also negotiated over \$100 million in annual savings from suppliers. Finally, 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 in a series of phased closings which are expected to be completed by mid-1994.

The Employee Investment Transaction, if consummated, contemplates the creation of a low-cost, short-haul operation within United to compete more effectively in domestic markets and improve its long-term financial competitive position.

In its international markets, United competes with major U.S. carriers as well as investor-owned 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. 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 signed in 1993 with Germany's flag carrier, Lufthansa, if approved, is also expected to enhance the Company's competitive position in international markets.

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, 1993, United held 753 domestic air carrier slots at O'Hare, 43 at National, 65 at LaGuardia and 11 at Kennedy. In addition, Air Wisconsin, Inc. 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' historical 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. 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.

During 1993, Congress amended the U.S. Department of Transportation ("DOT") appropriations bill for fiscal year 1994. This legislation capped for that fiscal year the number of slots that could be withdrawn from U.S. carriers for allocation to international operations. Also, in November 1991, United petitioned the FAA for a repeal of the international slot withdrawal provisions of the regulations. This petition has not, however, been acted upon by the agency. United believes that the number and distribution of slots it holds at the airports subject to the high density rule are sufficient 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. There is also no assurance that the current slot regulations will remain in effect. 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 believes that, at present, it 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.

At Los Angeles and elsewhere, United and other airlines face continuing disputes as to the level of landing fee rates and other charges for airport operations. Recently, some of these rates and charges have escalated rapidly.

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. 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.

When an award level is attained, United records a liability 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.

In 1993 United announced that the mileage levels for Mileage Plus domestic award travel would be increased on a prospective basis. As revised in January 1994, the Mileage Plus rules will require 25,000 miles, instead of the 20,000 miles now required, for award tickets issued for economy class travel within the continental United States. Other mileage award level changes were also announced, as was a change to a bank-account type of system to track mileage; all changes are scheduled to take effect February 1, 1995.

Lawsuits challenging these changes and changes to American Airlines' frequent flyer program are pending in Illinois. While United believes that it has the right to make the aforementioned changes to its program, and is defending itself vigorously in the pending litigation, an adverse court decision could restrict United's ability to alter award levels now or in the future.

At December 31, 1993 and 1992, United estimated that the total number of outstanding awards was approximately 7.7 million and 7.4 million, respectively. United estimated that 5.8 million and 5.5 million, respectively, of such awards could be expected to be redeemed and, accordingly, had recorded a liability amounting to \$205 million and \$207 million, respectively, at December 31, 1993 and 1992. 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 1.6 million, 1.4 million and 1.6 million for the years 1993, 1992 and 1991, respectively. Such awards represented 7.5%, 6.7% and 6.7% of United's total revenue passenger miles for each period, respectively. With these low percentages, seat availability and restrictions on the use of free travel awards, United believes that 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. United believes that the use of such systems has been a key factor in the marketing and distribution of airlines' products.

Before September 1993, United had an ownership interest in two general partnerships 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 is held 50% by European carriers and 50% by North American carriers. It owns the Apollo and Galileo CRSs and markets CRS services worldwide through a system of national distribution companies located in countries in which Galileo operates and which are usually owned by the Galileo partner airline resident in a particular country, or if there is none, by Galileo or a local contractor. Galileo is used by approximately 30% of the travel agent locations outside North America, where it has over 42,000 terminals at more than 14,000 locations.

ATS, which is held solely by the North American carriers, is responsible for marketing, sales and support of Apollo CRS products and services in the United States, Mexico and the Caribbean. A third entity, Galileo Japan Partnership, a 50%-owned affiliate of United, was also formed in September 1993 for the purpose of distributing CRS services in Japan.

In Canada, Apollo is distributed as the "Apollo by Gemini" product sold by the Gemini Group Limited Partnership ("Gemini"), in which Galileo owned a one-third interest. Gemini is under a court order to dissolve by November 1994, and Air Canada has agreed to acquire Galileo's interest in Gemini. Galileo is in discussions concerning an alternative distribution of its CRS products and services in Canada.

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

Government Regulation

General. All carriers engaged in air transportation in the United States, including United, are subject to regulation by the DOT and the FAA under the Federal Aviation Act of 1958, as amended (the "Aviation Act"). 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 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, 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 investor-owned and national flag carriers 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 addition, United's operating authorities in international markets are governed by the aviation agreements between the United States and foreign countries.

In certain cases, fares, rates and schedules require the approval of the DOT and the relevant foreign governments. United has recommended to the U.S. Congress that it consider developing an international aviation policy that seeks enhanced access to international markets for U.S. carriers in return for access to U.S. markets by foreign carriers. 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 routes. For example, in 1993 the DOT determined that the Government of Japan violated its aviation agreement with the U.S. when it prevented United from implementing service between Tokyo and Sydney as part of United's New York-Tokyo-Sydney schedule. The DOT is considering various actions against Japan. While such disputes 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.

Legislation enacted by the U.S. Congress required the installation, in all types of aircraft operated by United, of a traffic collision avoidance system (TCAS) by November 30, 1993, and a windshear detection system by December 30, 1993. United completed the installations of both systems prior to their respective mandated deadline dates on all aircraft operated by it.

Both the DOT and the FAA have authority to institute administrative and judicial proceedings to enforce the Aviation Act and their own regulations, rules and orders. Both civil and criminal sanctions may be assessed for violations. The Aviation Act provides for the assessment of civil penalties in amounts of up to \$10,000 per violation which are applicable to most cases involving the safety of commercial aircraft operations, including the airport security responsibilities of air carriers.

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, 1993, United operated 371 Stage 3 aircraft representing 70% of United's total 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 interstate 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, Kennedy, Seattle Tacoma International Airport, Spokane International Airport, and Stapleton International Airport in Denver (which is expected to close in the Spring of 1994 due to the opening of a new airport for Denver). 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 mail). In connection with its service to cities in other countries, United is subject to varying degrees of regulation by foreign governments. United has no existing obligation to the Civil Reserve Air Fleet.

Fuel

United's results of operations are significantly affected by the price and availability of jet fuel. Based on 1993 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 1989 through 1993:

| | 1993 | 1992 | 1991 | 1990 | 1989 |
|--|---------|---------|---------|---------|---------|
| Fuel expense, including tax (in millions)..... | \$1,718 | \$1,679 | \$1,674 | \$1,811 | \$1,353 |
| Gallons consumed (in millions)..... | 2,699 | 2,529 | 2,338 | 2,253 | 2,128 |
| Average cost per gallon (in cents)..... | 63.6 | 66.4 | 71.6 | 80.4 | 63.6 |
| % of total operating expenses..... | 12% | 13% | 14% | 16% | 15% |

United's average fuel cost per gallon in 1993 was 4.2% lower than in 1992. 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 continues to ship fuel on major pipelines, maintains fuel storage facilities, and trades fuel to locations where it is needed. In 1993, 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 either party 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. 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.

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, and B737-500s, and \$500,000 for all other aircraft except commuter aircraft, for which the deductible is \$100,000.

Employees--Labor Matters

On December 31, 1993, the Company and its subsidiaries had approximately 83,400 employees, of which 81,511 were employed by United (approximately ten percent of whom are part-time employees). Approximately 64% 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, 1993 are as follows:

| EMPLOYEE GROUP ----- | NUMBER OF EMPLOYEES* | UNION | CONTRACT OPEN FOR AMENDMENT ----- |
|--|-------------------------|-------|---|
| Mechanics, ramp servicemen & other ground employees..... | 26,984 | IAM | December 1, 1994** |
| Flight attendants..... | 17,330 | AFA | April 1, 1996 |
| Pilots..... | 8,022 | ALPA | December 1, 1994** |

* The flight kitchen sales (see Item 2, Properties, "Transfers of Assets") occurring in 1994 are expected to reduce United's number of total employees by more than 4,000 from December 31, 1993 levels.

** If the proposed Employee Investment Transaction is consummated, the IAM and the ALPA contracts each will not be open for amendment until the year 1999 or 2000, depending on when the transaction closes and whether the AFA participates in the transaction.

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.

United's wage and related costs accounted for 33% of its total operating expenses for the twelve months ended December 31, 1993. In order to enhance its competitive position, United has taken various steps to reduce its unit costs, including the layoffs of 2,800 employees in February 1993, the reduction in force which is resulting from the flight kitchen sales, reductions in non-personnel expenses and the redeployment of certain aircraft to more profitable airports.

The long-term competitiveness of United's labor costs, and the long-term financial stability and profitability of the Company, is expected to be improved if the proposed Employee Investment Transaction is consummated.

ITEM 2. PROPERTIES

Flight Equipment

As of December 31, 1993, United's aircraft fleet totaled 544 jet aircraft, of which 246 were owned and 298 were leased. These aircraft are listed below:

| AIRCRAFT TYPE | AVERAGE NO. OF SEATS | OWNED | LEASED* | TOTAL | AVERAGE AGE (YEARS) |
|----------------------------|-------------------------|-------|---------|-------|------------------------|
| B727-222A..... | 147 | 50 | 25 | 75 | 15 |
| B737-200..... | 109 | 45 | -- | 45 | 25 |
| B737-200A..... | 109 | -- | 24 | 24 | 14 |
| B737-300..... | 128 | 14 | 87 | 101 | 5 |
| B737-500..... | 108 | 28 | 29 | 57 | 2 |
| B747-100..... | 393 | 18 | -- | 18 | 22 |
| B747-SP..... | 244 | 2 | 7 | 9 | 17 |
| B747-200..... | 369 | 2 | 7 | 9 | 15 |
| B747-400..... | 398 | 3 | 19 | 22 | 2 |
| B757-200..... | 188 | 34 | 54 | 88 | 2 |
| B767-200..... | 179 | 19 | -- | 19 | 11 |
| B767-300ER..... | 206 | 3 | 20 | 23 | 1 |
| DC10-10..... | 287 | 28 | 13 | 41 | 19 |
| DC10-30..... | 298 | -- | 8 | 8 | 14 |
| A320-200..... | 144 | -- | 5 | 5 | 1 |
| TOTAL OPERATING FLEET..... | | 246 | 298 | 544 | 10 |
| | | === | === | === | === |

* United's aircraft leases have initial terms of 4 to 26 years, and expiration dates range from 1994 through 2018. Under the terms of leases for 287 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, 1993, 78 of the 246 aircraft owned by United were encumbered under transaction agreements.

In 1993 United took delivery of 43 new aircraft. United acquired ten B737-500s, four B747-400s, 16 B757-200s, eight B767-300ERs, and five A320-200s.

In early 1993, United revised its capital spending plan based on reductions in its capacity requirements for the next several years. Consistent with this reduced capital spending plan, United reached agreement with Boeing to convert 49 firm aircraft orders into options, and to delay delivery of certain aircraft originally scheduled for delivery between 1993 and 1996 into the 1996-1999 period. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft, it will forfeit significant deposits. United also reached agreement with Airbus to delay delivery of 14 A320s originally scheduled for delivery after 1994. In addition, United announced in 1993 that it would accelerate the retirement of 25 widebody aircraft, including 15 DC10-10s and ten B747-SPs, retiring them prior to the end of 1994; six of these 25 widebody aircraft (five DC10-10s and one B747-SP) were retired in 1993.

As a result of these new agreements, as of December 31, 1993, 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. In addition to the B777-200 order, United has arrangements with Airbus and A320 engine manufacturer International Aero Engines to lease an additional 45 A320-200 aircraft, which are scheduled for delivery through 1998. At December 31, 1993, United also had purchase options for 186 B737 aircraft, 54 B757-200 aircraft, 34 B777-200 aircraft, 52 B747-400 aircraft, 8 B767-300ER aircraft and 50 A320-200.

In 1993 the Company entered into three transactions that transferred Air Wisconsin, Inc. flight equipment and certain other operating assets to three of the carriers which are participants in the UE marketing program (see Item 2, Properties, "Transfers of Assets").

In January 1994, United entered into an agreement with Boeing to acquire two new B747-400 aircraft in 1994, in place of options for two similar aircraft. These two aircraft orders fulfill part of United's obligation to Boeing under the 1993 restructuring agreement described above.

The following table sets forth United's firm aircraft orders, options and expected delivery schedules as of December 31, 1993:

| 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**..... | B737*** | 186 | 1996-2002 | 0- 5 per month |
| | B747-400* | 52 | 1996-2003 | 2-10 per year |
| | B757-200 | 54 | 1996-1999 | 0- 2 per month |
| | B767-300ER | 8 | 1997-1999 | 0- 1 per month |
| | B777-200 | 34 | 1998-2000 | 1 per month |
| | A320-200 | 50 | 1996-2001 | 1- 3 per month |
| Total-Options..... | | 384 | | |

* In addition, United has agreed to lease an additional 45 A320-200 aircraft. Deliveries of these aircraft are expected to occur between 1994 and 1998. Also, in January 1994, United entered into an agreement with Boeing to acquire two new B747-400 aircraft in 1994, in place of options for two similar aircraft.

** 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 executive 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 133 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. Virtually all 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, 1993, United employed more than 11,970 mechanics, inspectors, engineers, and maintenance support personnel at the MOC and over 1,660 at the Oakland facility. United also has line aircraft maintenance employees and facilities at 36 domestic and 18 international locations.

In March 1994, United opened a new major aircraft maintenance and overhaul facility ("MOC-II") in Indianapolis. Operating under a lease with the Indianapolis Airport Authority which expires November 30, 2031. When all phases of the construction work are completed, as scheduled, in 2004, United will employ 6,300 people at MOC-II, and will occupy approximately 300 acres of land and up to three million square feet of space, including 15 aircraft dock positions. MOC-II will be used for maintenance of Boeing 737 aircraft,

engine repair, spare parts storage, ground equipment maintenance, technical support and administrative functions.

In Spring 1994 United expects to relocate 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. 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 third quarter of 1993, United reached agreements to sell, lease or otherwise transfer assets related to the operation of 16 of its 17 domestic flight kitchens to Dobbs International services, Inc. and Caterair International Corp. for \$119 million in a series of phased closings that commenced in December 1993 and are expected scheduled to continue through mid-1994. Under the agreements, the purchasers will provide catering services for United at the airports served by the flight kitchens for seven years.

In 1993 the Company, in three separate transactions, leased or transferred substantially all of the flight equipment and other operating assets of Air Wisconsin, Inc. ("AW") to three regional air carriers who participate in the UE marketing program: in April, 1993, AW's twelve DeHavilland DHC-8 aircraft and AW's operating assets at Dulles were transferred to Atlantic Coast Airlines, Inc.; in September, 1993, AW's nine British Aerospace BAe-ATP aircraft and AW's O'Hare operating assets were transferred to UFS, Inc.; and in December, 1993, AW's twelve British Aerospace BAe-146 aircraft and related operating assets in Chicago and Denver were transferred to Air Wisconsin Airlines Corporation in a stock transaction. AW still has an operating certificate from the FAA, but currently AW does not have any flight operations.

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 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. The issues have been joined, and discovery is proceeding.

2. In Re UAL Shareholder Litigation.--In August and September 1989, four purported class action complaints by UAL shareholders against UAL and its Board of Directors in the Circuit Court of Cook County were consolidated. The complaints allege that (1) UAL directors breached their fiduciary duties to the shareholders in connection with the Board's dealings with Marvin Davis, an investor allegedly interested in acquiring UAL, as part of a larger scheme of entrenchment by the Board of Directors; (2) fees paid by UAL in connection with a 1989 attempt by Airline Acquisition Corp. to acquire UAL should be reimbursed to UAL; and (3) the Board's acceptance of a 1990 offer by United Employee Acquisition Corp. to acquire UAL was improper because the offer was unfairly low. The parties have agreed on a proposed settlement which is subject to court approval, and a decision from the court is expected in the near term.

3. Krasner v. UAL Corp. et al.--On August 7, 1989, a purported class action complaint was filed in Delaware Chancery Court against UAL and certain directors and officers. The complaint, as amended, alleges: (i) the individual defendants engaged in a plan and scheme to entrench themselves at the expense of the public shareholders of UAL; (ii) the individual defendants breached their fiduciary duties owed to UAL's shareholders; (iii) the individual defendants failed to shop UAL and cause its sale to a third party; (iv) the individual defendants wasted UAL assets by paying or committing to pay fees and expenses of two potential acquirors of UAL; (v) that UAL should not have proposed a major purchase of aircraft; (vi) and that UAL should not have given United Employees Acquisition Corp. ("UEAC") an extension of the deadline for securing financing for the UEAC buyout without receiving some consideration. This case would be settled as part of the settlement of In Re UAL Shareholder Litigation, above.

4. Stepak v. UAL Corp.--On August 8, 1989, a purported class action complaint was filed by an alleged shareholder against UAL and each member of the Board in the Delaware Chancery Court. The complaint alleges that the Board breached its fiduciary duties to the shareholders by amending UAL's Shareholder Rights Agreement on July 27, 1989 in a manner unreasonable in light of the interest expressed by Marvin Davis in acquiring UAL. The complaint seeks declaratory relief, unspecified damages, costs and disbursements, including counsel fees. This case would be settled as part of the settlement of In Re UAL Shareholder Litigation, above.

5. Berger v. UAL Corp.--On August 8, 1989, a purported class action complaint was filed by an alleged shareholder against UAL and each member of the Board in the Delaware Chancery Court. The complaint alleges that the Directors breached their fiduciary duties to the shareholders by taking actions which preclude any third party bid for UAL, including allegedly failing to negotiate with Mr. Davis or other prospective purchasers. The complaint seeks an order requiring the Board to carry out its fiduciary duties by announcing their intention to (1) cooperate fully with Marvin Davis or any other person or entity having a bona fide interest in proposing any transaction which would maximize shareholder value; (2) undertake an appropriate evaluation of UAL's value as a merger/acquisition candidate; (3) take all appropriate steps to enhance UAL's value as a merger/acquisition candidate; (4) take all appropriate steps to expose UAL to the market in an effort to create value for the shareholders; (5) "act independently" to protect the interests of UAL's shareholders; and (6) ensure that no conflict of interest existed between the directors and the shareholders of UAL. The complaint seeks to void or redeem the Rights Plan, and to enjoin UAL and the Board from taking any action which would deprive the shareholders of the opportunity to freely consider and accept any offer to purchase UAL. The complaint also seeks unspecified damages and costs and disbursements, including attorneys' and experts' fees. This case would be settled in March 1994 as part of the settlement of In Re UAL Shareholder Litigation, above.

6. Berger and Lewis v. UAL Corporation, et al.--A purported class action complaint filed in the Delaware Chancery Court on May 23, 1990 on behalf of all UAL shareholders who owned stock on October 13, 1989. The complaint alleges that executive officer and director defendants willfully and knowingly participated in and/or aided and abetted a plan and scheme to protect their positions of management and control of the company and/or financial benefits and perquisites derived from their positions while the pilots, machinists and flight attendants, represented by their respective unions, utilized their collective position of employment to gain control and ownership of the Company. The complaint demands that three new independent directors be appointed "to represent the shareholders only"; an independent financial advisor be retained to represent the "shareholders only"; seeks to enjoin the new deal pending the appointment of such directors and seeks unspecified damages for recklessly accepting the \$300 bid and having failed to accept Davis' \$275 proposal. This case would be settled in March 1994 as part of the settlement of In Re UAL Shareholder Litigation, above.

7. Kaufman v. UAL Corporation and Krasner, et al. v. UAL--These actions were filed in early 1994 in the Delaware Court of Chancery challenging the employee investment transaction recently agreed to among UAL, ALPA and IAM. The complaints, which purport to be brought on behalf of all similarly situated shareholders, name as defendants UAL and some or all of the current and former directors of UAL and allege that the proposed Employee Investment Transaction fails to deliver sufficient value to shareholders. In Kaufman, UAL and the other defendants have been served; in Krasner, however, no service has been effected.

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.

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 1993.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers of the Company is as follows:

| NAME | AGE | OFFICE HELD SINCE | POSITION AND OFFICE |
|-----------------------------|-----|-------------------|---|
| ---- | --- | ----- | ----- |
| Stephen M. Wolf..... | 52 | 1992 | Chairman and Chief Executive Officer |
| John C. Pope..... | 45 | 1992 | President and Chief Operating Officer |
| Joseph R. O'Gorman, Jr..... | 50 | 1991 | Executive Vice President |
| James M. Guyette..... | 49 | 1988 | Executive Vice President |
| Lawrence M. Nagin..... | 53 | 1992 | Executive Vice President-- Corporate Affairs and General Counsel |
| Paul G. George..... | 42 | 1988 | Senior Vice President--Human Resources of United Air Lines, Inc. ("United") |

PART II

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

The Company's common stock is listed and traded, under the symbol UAL, on the following exchanges: New York Stock Exchange; Chicago Stock Exchange; and Pacific Stock Exchange. The high and low sales prices per share for its common stock for each quarterly period during the past two fiscal years are as follows:

| | 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 |
| 1992: | | |
| 1st quarter..... | \$159 | \$140 |
| 2nd quarter..... | 143 3/4 | 111 |
| 3rd quarter..... | 119 3/4 | 103 |
| 4th quarter..... | 128 1/8 | 108 3/8 |

No dividends have been declared on the Corporation's common stock since 1987. At March 1, 1994, based on reports by the Company's transfer agent for the Company's common stock, there were 18,871 common stock shareholders of record.

ITEM 6. SELECTED FINANCIAL DATA

| | YEAR ENDED DECEMBER 31 | | | | |
|--|---------------------------------|----------|----------|----------|---------|
| | ----- | ----- | ----- | ----- | ----- |
| | 1993 | 1992 | 1991 | 1990 | 1989 |
| | ----- | | | | |
| | (IN MILLIONS, EXCEPT PER SHARE) | | | | |
| Operating revenues..... | \$14,511 | \$12,890 | \$11,663 | \$11,037 | \$9,794 |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes..... | (31) | (417) | (332) | 94 | 324 |
| Extraordinary loss on early extinguishment of debt, net of tax.. | (19) | -- | -- | -- | -- |
| Cumulative effect of accounting changes..... | -- | (540) | -- | -- | -- |
| Net earnings (loss)..... | (50) | (957) | (332) | 94 | 324 |
| Per share amounts: | | | | | |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes..... | (2.64) | (17.34) | (14.31) | 4.33 | 14.96 |
| Extraordinary loss on early extinguishment of debt..... | (0.76) | -- | -- | -- | -- |
| Cumulative effect of accounting changes..... | -- | (22.41) | -- | -- | -- |
| Net earnings (loss)..... | (3.40) | (39.75) | (14.31) | 4.33 | 14.96 |
| Total assets at year end..... | 12,840 | 12,257 | 9,876 | 7,983 | 7,194 |
| Long-term debt and capital lease obligations, including current portion, and redeemable preferred stock at year end..... | 3,735 | 3,783 | 2,533 | 1,329 | 1,407 |

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

PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On December 22, 1993, the Board of Directors of UAL Corporation ("UAL") approved a non-binding agreement in principle that would provide a majority equity interest in the corporation to the employees of

United Air Lines, Inc. ("United") in exchange for wage concessions and work-rule changes. In January 1994, the agreement was ratified by the Air Line Pilots Association ("ALPA") and the International Association of Machinists ("IAM"). The transaction is subject to, among other things, approval by UAL stockholders.

The employee investment plan is intended to put in place a lower cost structure that allows United to compete effectively in the aviation marketplace and address its long-term financial viability. The concessions will come from three of United's employee groups: employees represented by ALPA, employees represented by the IAM and the salaried and management employees. Employees represented by the Association of Flight Attendants ("AFA") have been invited to participate in the plan and UAL has engaged in discussions with the AFA concerning such participation.

In the transaction, an Employee Stock Ownership Plan will be created to provide United employees with a minimum of a 53% equity interest in UAL in exchange for wage concessions and work-rule changes. 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 closes. The transaction is not dependent on external financing.

Pursuant to the terms of the agreement in principle, current UAL stockholders would receive the remaining 37 to 47% of the common stock and \$88 per share in cash and face amount of debt and preferred stock. The non-common stock consideration is expected to aggregate approximately \$743 million of cash, \$900 million face amount of senior unsecured debentures and \$900 million face amount of preferred stock depending on the number of common shares on which the distribution is made.

The agreement includes terms for the creation of a low-cost short-haul operation to compete in domestic markets. This short-haul operation, in combination with the other wage and work-rule concessions, is expected to increase UAL's cash flows from operating activities.

UAL agreed that if the transaction closes prior to August 31, 1994, severance payments and employee benefits coverage approximating \$50 million would be provided to IAM employees being terminated from United as a result of the recent sale of flight kitchens (see Sale of Flight Kitchens), in addition to payments required under United's labor contracts. Certain of the severance payments, which are to be made on a monthly basis, became payable in January 1994 after the unions ratified the agreement; however, these monthly payments terminate but are not refunded if the transaction does not close before August 31, 1994 or certain other conditions are not met. Other lump-sum severance amounts are only payable if the transaction closes prior to the required date. UAL has also agreed to pay up to \$45 million of transaction fees and expenses incurred by ALPA and the IAM if the transaction is closed by August 31, 1994. If the transaction does not close by the required date but certain conditions are met, UAL will pay up to \$12.5 million of ALPA and IAM transaction expenses. In addition, under the terms of UAL's outstanding incentive compensation arrangements, if the transaction closes, additional stock options will become exercisable and unvested restricted shares will vest.

Under the terms of the agreement in principle, UAL has agreed not to issue or redeem equity securities, incur incremental debt or other obligations, or sell certain assets, other than in the ordinary course of business, prior to the consummation of the transaction. In addition, after consummation of the transaction, certain activities, including the issuance of equity or equity equivalent securities and certain asset dispositions, may require a different approval process by the UAL Board of Directors, and in some cases the shareholders, than is currently required.

LIQUIDITY AND CAPITAL RESOURCES

During 1993, UAL's total cash, cash equivalents and short-term investments increased \$345 million to a balance of \$1.828 billion at December 31, 1993. Operating activities generated \$858 million and the issuance of convertible preferred stock provided \$591 million. Cash was used primarily to repay long-term debt, reduce short-term borrowings and to fund net additions to property and equipment.

The issuance of six million shares of 6.25% cumulative convertible preferred stock in February 1993 resulted in net proceeds of \$591 million. Repayments of long-term debt amounted to \$695 million, including the early extinguishment of \$500 million of senior subordinated notes in June 1993. In addition, \$55 million was used for capital lease payments during the period. Long-term debt and capital lease obligations incurred in connection with aircraft financings during 1993 amounted to \$557 million. As a result of the year's financing activities, UAL's debt:equity ratio improved from 86:14 at December 31, 1992 to 77:23 at December 31, 1993.

During 1993, United placed 43 new aircraft in service. These aircraft were financed primarily with long-term debt, capital leases and operating leases. United acquired 10 B737-500 aircraft, 16 B757-200 aircraft, four B747-400 aircraft, eight B767-300ER aircraft and five A320-200 aircraft during 1993. Of these, 16 aircraft were purchased, 18 were purchased and then sold and leased back, seven were acquired under operating leases and two were acquired in capital lease transactions. Aircraft purchases and other property additions, including aircraft modification projects and aircraft spare parts, amounted to \$1.496 billion. Property dispositions, which included sale and leaseback transactions and the sales of five B727 aircraft, provided \$1.165 billion.

In early 1993, United revised its capital spending plan based on reductions in its capacity requirements for the next several years. United reached agreement with The Boeing Company ("Boeing") to convert certain aircraft orders into options. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft before 1998, it will forfeit significant deposits. United also announced an agreement with Airbus Industrie ("Airbus") to delay from 1995 and 1996 to 1997 and 1998 delivery of 14 leased A320 aircraft. In addition, United announced that it would accelerate the retirement of 25 widebody aircraft, including 15 DC10-10s and ten B747-SPs, retiring them prior to the end of 1994. In 1993, United recorded a \$59 million charge to reduce the net book value of the DC-10 aircraft to estimated net realizable value.

As a result of these new agreements, as of December 31, 1993, United had taken delivery of all aircraft on order, with the exception of 34 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 45 A320 aircraft, which are scheduled for delivery through 1998. At December 31, 1993, United also had options for 186 B737 aircraft, 54 B757 aircraft, 34 B777 aircraft, 52 B747 aircraft, eight B767 aircraft and 50 A320 aircraft. In January 1994, United entered into an agreement with Boeing to acquire two B747-400 aircraft in 1994 in place of options for two similar aircraft. 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.

Commitments for the purchase of aircraft and other property at December 31, 1993 approximated \$4.3 billion, after deducting advance payments. An estimated \$0.6 billion will be spent in 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. These amounts do not include the two B747-400 aircraft to be acquired under the January 1994 agreement referred to above.

Funds necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds, irrevocable external financing arrangements or other external sources. In 1993, UAL and United filed a shelf registration statement with the Securities and Exchange Commission for up to \$1.5 billion of securities, including secured and unsecured debt, equipment trust certificates, equity or a combination of both. Under the terms of this shelf registration statement, a 1992 shelf and a 1991 shelf were combined with the 1993 shelf statement. In December 1993, United issued \$100.0 million of debentures under the shelf registration statement. In May and November 1993, United issued \$176 million and \$118 million, respectively, of pass through certificates under the shelf registration to refinance aircraft under operating leases. On a combined basis, up to \$1.776 billion of additional securities may be offered at December 31, 1993. The shelf registration statement may be utilized for purposes of registering securities to be issued in the employee investment transaction.

United's senior unsecured debt is rated BB by Standard & Poor's Corporation ("S & P") and Baa3 by Moody's Investors Service Inc. ("Moody's"). UAL's convertible preferred stock is rated B+ by S & P and ba3 by Moody's. These ratings reflect an October 1993 downgrade by Moody's. On December 17, 1993, Moody's announced that it was placing United's and UAL's securities under review for possible downgrade citing reports about the potential for the employee investment transaction. On December 20, 1993, S & P announced that it was placing the securities on CreditWatch with developing implications, meaning the ratings may be raised or lowered.

United is in the process of constructing a maintenance facility in Indianapolis, which begins operation in 1994. The facility is being financed primarily with tax-exempt bonds and other capital sources.

As of December 31, 1993, UAL had a working capital deficit of \$1.183 billion. 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.

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 the year, \$2.519 billion was spent on property additions, principally aircraft. United acquired 25 B737-500 aircraft, 25 B757-200 aircraft, 10 B767-300ER aircraft and six B747-400 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. ("Pan Am").

During 1991, operating property additions amounted to \$2.122 billion and included the acquisition of 23 B757-200 aircraft, 18 B737-500 aircraft, five B767-300ER aircraft, four B747-400 aircraft and seven used B747-200 aircraft. Dispositions of property, including the sale and leaseback of 15 aircraft and the sales of two DC8-71 aircraft and four B727-100 aircraft, provided \$1.281 billion. United also acquired international route authorities and other assets from Pan Am, which was the primary cause of a \$358 million increase in intangibles. However, cash provided by operating activities of \$338 million and financing activities of \$841 million allowed UAL to maintain a relatively stable balance of cash, cash equivalents and short-term investments, which amounted to \$1.176 billion at December 31, 1991.

RESULTS OF OPERATIONS

UAL's results of operations in 1993 improved considerably as compared to 1992. In 1993, UAL recorded a net loss of \$50 million, \$3.40 per share, compared to a 1992 net loss of \$957 million, \$39.75 per share. The 1993 results include an extraordinary loss of \$19 million on the early extinguishment of debt. The 1992 results include a \$540 million cumulative effect of adopting Statement of Financial Accounting Standard ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 109, "Accounting for Income Taxes." The 1993 loss before extraordinary item was \$31 million, \$2.64 per share, compared to a 1992 loss before cumulative effect of accounting changes of \$417 million, \$17.34 per share.

UAL recorded operating earnings in 1993 of \$263 million compared to an operating loss in 1992 of \$538 million. The improved performance in 1993 was benefitted by the cost reduction program implemented in 1993, the realignment of domestic schedules to eliminate unprofitable routes in an effort to enhance revenue performance and the impact of a labor union strike on a competing air carrier. UAL's 1992 losses were significantly affected by uneconomic fare actions initiated by other carriers that increased traffic and load factors to unprecedented levels, but resulted in substantially reduced yield (passenger revenue per revenue passenger mile).

While UAL's results showed improvement in 1993, the results of operations in the airline business can fluctuate significantly in response to general economic conditions. This is because small fluctuations in yield

and cost per available seat mile can have a significant effect on operating results. Thus, UAL believes that industrywide fare levels, increasing low-cost competition, prolonged operations of carriers under bankruptcy protection, general economic conditions, fuel costs, international governmental policies and other factors over which it has limited control, will continue to affect its operating results.

In addition, United expects its 1994 operating results to be impacted by increases in operating expenses of approximately \$100 million related to operations at the new Denver International Airport, and approximately \$70 million related to employee pension costs as a result of lowering the assumed discount rate from 8.75% to 7.5%.

1993 Compared with 1992

Operating Revenues. Operating revenues increased \$1.621 billion (13%). Passenger revenues increased \$1.317 billion (11%) due to a 9% increase in United's revenue passenger miles and a 2% increase in yield to 12.48 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 \$166 million (21%), due to increases of \$143 million in freight revenues and \$23 million in mail revenues. The freight revenue increase reflects both volume and unit revenue increases largely attributable to increased international operations. Contract services and other revenues increased \$138 million (24%) primarily as a result of revenues generated by Apollo Travel Services Partnership ("ATS"), a consolidated general partnership 77% owned by United, that was formed by the 1993 merger of two affiliates of United. (see Note 3 of the Notes to Consolidated Financial Statements)

Operating Expenses. Operating expenses increased \$820 million (6%). United's cost per available seat mile decreased 3% to 9.33 cents. The decrease in unit cost was largely due to the implementation of a cost reduction program in early 1993. Commissions increased \$285 million (13%) due to increased revenues and slightly higher cargo commission rates. 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. 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 Partnership ("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 the Galileo Company. 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.

1992 Compared with 1991

In 1992, UAL recorded a net loss of \$957 million, compared to the 1991 net loss of \$332 million. The 1992 loss before the cumulative effect of adoption of SFAS No. 106 and SFAS No. 109 was \$417 million.

Operating Revenues. Operating revenues increased \$1.227 billion (11%). Passenger revenues increased \$1.228 billion (12%) due to a 13% increase in United's revenue passenger miles partially offset by a 2% decrease in yield to 12.19 cents. The increase in passenger traffic was largely attributable to United's international operations. European operations increased significantly with the April 1991 acquisition of route authorities from Pan Am. Latin American operations began in January 1992 as United started serving certain former Pan Am destinations. Pacific air travel demand also improved compared to 1991, which was adversely impacted by the Gulf war. Domestic traffic increased primarily as a result of fare reductions initiated by other carriers. United's domestic revenue passenger miles increased 5% and available seat miles increased 2%, resulting in a 2.0 point increase in domestic load factor to 66.2%. On a system basis, United's revenue passenger miles increased 13% and available seat miles increased 11%, resulting in a 1.1 point increase in passenger load factor to 67.4%.

Cargo revenues increased \$92 million (13%), primarily due to increased freight revenues, reflecting both volume and unit revenue increases as a result of expanded international operations. Contract services and other revenues decreased \$93 million (14%) primarily as a result of a decrease in fuel sales.

Operating Expenses. Operating expenses increased \$1.271 billion (10%). United's cost per available seat mile decreased 2% to 9.6 cents. Salaries and related costs increased \$505 million (12%) primarily due to increased flight crew and customer service personnel, higher average wage rates and higher costs associated with pensions and health insurance. The increase in salaries and related costs included \$75 million related to SFAS No. 106, which was adopted effective January 1, 1992. Rentals and landing fees increased \$257 million (24%) reflecting rent associated with an increasing number of aircraft on operating leases and higher airport facilities rent and landing fees, primarily related to international operations. Commissions increased \$185 million (9%) due to increased revenues, as average commission rates remained relatively unchanged. Purchased services increased \$152 million (19%) 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 \$122 million (20%) due principally to newly acquired aircraft. Food and beverages increased \$50 million (17%) due to a higher per passenger cost, reflecting a passenger mix more heavily weighted by international passengers. Aircraft fuel expense increased \$25 million, as an 8% increase United's in fuel consumption was partially offset by a 7% decrease in the average price per gallon of fuel to 66.4 cents. Aircraft maintenance decreased \$33 million (9%) due principally to lower outside maintenance costs and the retirement of the B727-100 fleet. Other operating expenses decreased \$31 million due to selling less fuel to third parties.

Other Income and Expense. Other expense amounted to \$118 million in 1992 compared to \$14 million in 1991. Interest expense increased \$118 million due primarily to increased debt and capital lease obligations incurred in connection with 1991 and 1992 aircraft financings. Interest income decreased \$16 million due to lower interest rates. Equity in the earnings of affiliates increased \$35 million as a result of higher Covia booking revenues and the settlement of certain partner accounts in 1991. "Other income (expense)--Miscellaneous, net" included foreign exchange gains of \$2 million in 1992 compared to losses of \$20 million

in 1991. Also included in 1992 was 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 gains of \$32 million on the disposition of property, primarily one B747-SP aircraft, seventeen B727 aircraft and four B737-200 aircraft. In 1991, gains on the disposition of property amounted to \$49 million, which reflected sales of two DC8-71s and four B727-100s.

OTHER INFORMATION

Deferred Tax Asset

UAL's consolidated balance sheet at December 31, 1993 includes a net cumulative deferred tax asset of \$714 million. The net deferred tax asset is composed of approximately \$2.0 billion of deferred tax assets and approximately \$1.3 billion of deferred tax liabilities. The deferred tax assets include, among other things, \$599 million related to obligations for postretirement and other employee benefits, \$480 million related to gains on sales and leasebacks, \$195 million related to alternative minimum tax ("AMT") credit carryforwards and \$42 million of Air Wisconsin, Inc. federal net operating loss ("NOL") carryforwards. The AMT credit carryforwards do not expire; the federal NOL carryforwards begin to expire in 2007 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 \$1.3 billion in future taxable income. Based on the expectations for future taxable income, 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 the deferred tax assets will be realized.

Although United has experienced both book and tax losses in the past three years, in the ten years prior to these losses, UAL reported cumulative taxable income of \$3.8 billion (including \$1.8 billion of gains on dispositions of businesses). Following is a summary of UAL's pretax book income and taxable income for the last five years:

| | 1993 | 1992 | 1991 | 1990 | 1989 |
|--------------------------------|---------------|---------|---------|-------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| | (IN MILLIONS) | | | | |
| Pretax book income (loss)..... | \$ (47) | \$(656) | \$(508) | \$164 | \$539 |
| Taxable income (loss)..... | \$(219) | \$(551) | \$(785) | \$280 | \$496 |

The losses in the past three years were largely attributable to certain events beyond management control, including the Gulf war, 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 resulting in severe competition in the airline industry. While the economic outlook in Japan and Europe could continue to negatively affect United's operating results, management believes that these economies will begin to improve, and when combined with certain cost containment strategies, UAL's financial results should improve.

Management has already taken several steps to reduce costs and capital expenditures. UAL's improved operating results in 1993 versus 1992 are principally attributable to these actions, as highlighted below:

- . Implemented a program in January 1993 to reduce planned 1993 operating expenses by \$400 million, including the furlough of 2,800 employees in February 1993.
- . Reached agreement with Boeing, its principal supplier, to convert 49 aircraft orders into options and defer their scheduled delivery dates.
- . Reduced 1993 to 1996 capital spending by \$6 billion.
- . Agreed to sell flight kitchens which will result in the avoidance of an estimated \$70 million of capital expenditures and estimated cost savings of more than \$320 million over the seven year catering

contract with the purchaser, before taking into account the severance payments resulting from the employee investment transaction.

- . Accelerated the retirement of 25 older aircraft to reduce costs and improve operating efficiencies.
- . Negotiated over \$100 million in annual savings from suppliers.
- . Reduced domestic capacity by eliminating certain unprofitable routes and reducing capacity in certain markets to better match demand.
- . Increased the use of cooperative arrangements with domestic and international carriers resulting in increased revenue opportunities through code-sharing.

The long-term financial stability and profitability of the company is expected to be further enhanced through the proposed employee investment transaction. However, in the event the proposed employee investment transaction does not occur, UAL is prepared to make additional structural changes to return to profitability.

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. In the event that future taxable income is inadequate to realize the benefits of the remaining deferred tax assets, UAL has identified certain tax planning strategies that would significantly contribute to the utilization of these assets. These strategies include, among other things, eliminating the prefunding of certain employee benefits and the sale of unused route authorities.

There can be no assurances that UAL will meet its expectation of future taxable income. However, based on the above factors, 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, 1993.

CONTINGENCIES

During 1992, United recorded a \$13 million charge representing its share of the cash component of a settlement of certain class action claims. Under the settlement, which has been approved by the U.S. District Court, six airlines paid approximately \$45 million in cash and will issue \$397 million in face amount of certificates affording discounts of up to approximately 10% on future air travel on any of the six carriers.

No liability was established for the certificate portion of the settlement since United expects that in the aggregate, future revenues associated with certificate redemption will exceed the cost of providing the related air service. United anticipates that the portion of the total issued certificates that may be redeemed on United will approximate United's 22% market share among the six carriers, but actual redemption may be greater or lesser.

The ultimate impact of the settlement on United's future revenues, operating margins and earnings is not reasonably estimable since neither the portion of the certificates to be redeemed on United nor the generative or dilutive revenue effect of certificate redemption is known.

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.

UAL has certain other contingencies resulting from litigation and claims incident to the ordinary course of business. Although the ultimate outcome of these matters could have a material effect on UAL's financial condition, operating results or liquidity, 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.

NEW ACCOUNTING STANDARDS

In November 1992, the Financial Accounting Standards Board ("FASB") issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which 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. UAL will adopt the new standard in the first quarter of 1994. Based on preliminary estimates, UAL currently expects to record a transition obligation, which will result in a cumulative charge of \$26 million, net of tax. Prior years' financial statements will not be restated. Ongoing expenses will vary based on actual claims experience.

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires fair value accounting for certain investments. UAL is required to adopt the new standard in 1994 and the standard is not to be applied retroactively. Upon adoption, UAL will record a periodic charge or credit to adjust the carrying value of certain investments to fair value. The adjustment will be recorded in earnings or as a separate component of equity, depending on the type of investment. UAL does not expect a material impact on either earnings or equity as a result of adopting SFAS No. 115.

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 will become effective October 1, 1995, and is scheduled to continue until October 1, 1998. Based on United's 1993 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.

FOREIGN CURRENCY TRANSACTIONS

United generates revenues and incurs expenses in numerous foreign currencies; however, United has limited exposure to foreign exchange rate fluctuations due to its ability to convert 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 in recent years, including losses recorded in early 1993, were primarily the result of the impact of exchange rate changes on unhedged Japanese yen-denominated long-term debt, lease obligations and current liabilities, since the aggregate balance of such liabilities exceeded United's yen-denominated assets. During 1993, United increased the amount of its yen-denominated assets to minimize the impact of foreign exchange rate changes on reported financial results.

SALE OF FLIGHT KITCHENS

In the third quarter of 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. Under the agreements, the purchasers will provide catering services for United at the airports served by the flight kitchens for seven years. United expects the catering agreement to result in savings of approximately \$320 million over its term, before taking into account the severance payments resulting from the employee investment transaction. The asset sales for most, if not all, of the flight kitchens are expected to be completed in the second quarter of 1994. The asset sales result in an insignificant gain.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Reference is made to Item 14(a)(2), page 75, for the Financial Statements Schedules included in this report.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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, 1993 and 1992, 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, 1993. These financial statements and the schedules 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, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in notes 6 and 15 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 schedules referenced in Item 14(a)(2) herein are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen & Co.

Chicago, Illinois
February 23, 1994

UAL CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE)

| | YEAR ENDED DECEMBER 31 | | |
|--|------------------------|------------|------------|
| | 1993 | 1992 | 1991 |
| Operating revenues: | | | |
| Passenger..... | \$12,841 | \$11,524 | \$10,296 |
| Cargo..... | 962 | 796 | 704 |
| Contract services and other..... | 708 | 570 | 663 |
| | ----- | ----- | ----- |
| | 14,511 | 12,890 | 11,663 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Salaries and related costs..... | 4,760 | 4,562 | 4,057 |
| Commissions..... | 2,516 | 2,231 | 2,046 |
| Aircraft fuel..... | 1,733 | 1,699 | 1,674 |
| Rentals and landing fees..... | 1,505 | 1,342 | 1,085 |
| Purchased services..... | 983 | 936 | 784 |
| Depreciation and amortization..... | 764 | 726 | 604 |
| Aircraft maintenance..... | 385 | 330 | 363 |
| Food and beverages..... | 317 | 342 | 292 |
| Personnel expenses..... | 263 | 271 | 239 |
| Advertising and promotion..... | 163 | 215 | 208 |
| Other..... | 859 | 774 | 805 |
| | ----- | ----- | ----- |
| | 14,248 | 13,428 | 12,157 |
| | ----- | ----- | ----- |
| Earnings (loss) from operations..... | 263 | (538) | (494) |
| Other income (expense): | | | |
| Interest expense..... | (358) | (328) | (210) |
| Interest capitalized..... | 51 | 92 | 91 |
| Interest income..... | 98 | 69 | 85 |
| Equity in earnings (loss) of affiliates..... | (30) | 42 | 7 |
| Miscellaneous, net..... | (71) | 7 | 13 |
| | ----- | ----- | ----- |
| | (310) | (118) | (14) |
| | ----- | ----- | ----- |
| Loss before extraordinary item, income taxes and cumulative effect of accounting changes..... | (47) | (656) | (508) |
| Provision (credit) for income taxes..... | (16) | (239) | (176) |
| | ----- | ----- | ----- |
| Loss before extraordinary item and cumulative effect of accounting changes..... | (31) | (417) | (332) |
| Extraordinary loss on early extinguishment of debt, net of tax..... | (19) | -- | -- |
| Cumulative effect of accounting changes: | | | |
| Accounting for postretirement benefits, net of tax..... | -- | (580) | -- |
| Accounting for income taxes..... | -- | 40 | -- |
| | ----- | ----- | ----- |
| Net loss..... | \$ (50) | \$ (957) | \$ (332) |
| | ===== | ===== | ===== |
| Per share: | | | |
| Loss before extraordinary item and cumulative ef- fect of accounting changes..... | \$ (2.64) | \$ (17.34) | \$ (14.31) |
| Extraordinary loss on early extinguishment of debt, net of tax..... | (0.76) | -- | -- |
| Cumulative effect of accounting changes..... | -- | (22.41) | -- |
| | ----- | ----- | ----- |
| Net loss..... | \$ (3.40) | \$ (39.75) | \$ (14.31) |
| | ===== | ===== | ===== |

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

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UAL CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(IN MILLIONS)

| | DECEMBER 31 | |
|--|-------------|----------|
| | 1993 | 1992 |
| ASSETS | | |
| ----- | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 437 | \$ 522 |
| Short-term investments..... | 1,391 | 961 |
| Receivables, less allowance for doubtful accounts (1993--\$22; 1992--\$12)..... | 1,095 | 1,066 |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (1993--\$70; 1992--\$46)..... | 278 | 324 |
| Refundable income taxes..... | 26 | 64 |
| Deferred income taxes..... | 124 | 33 |
| Prepaid expenses..... | 362 | 328 |
| | ----- | ----- |
| | 3,713 | 3,298 |
| | ----- | ----- |
| Operating property and equipment: | | |
| Owned-- | | |
| Flight equipment..... | 7,899 | 7,790 |
| Advances on flight equipment..... | 589 | 710 |
| Other property and equipment..... | 2,673 | 2,100 |
| | ----- | ----- |
| | 11,161 | 10,600 |
| Less--Accumulated depreciation and amortization..... | 4,691 | 4,205 |
| | ----- | ----- |
| | 6,470 | 6,395 |
| | ----- | ----- |
| Capital leases-- | | |
| Flight equipment..... | 1,027 | 959 |
| Other property and equipment..... | 104 | 101 |
| | ----- | ----- |
| | 1,131 | 1,060 |
| Less--Accumulated amortization..... | 395 | 344 |
| | ----- | ----- |
| | 736 | 716 |
| | ----- | ----- |
| | 7,206 | 7,111 |
| | ----- | ----- |
| Other assets: | | |
| Intangibles, less accumulated amortization (1993--\$213; 1992--\$146)..... | 866 | 907 |
| Deferred income taxes..... | 590 | 589 |
| Other..... | 465 | 352 |
| | ----- | ----- |
| | 1,921 | 1,848 |
| | ----- | ----- |
| | \$12,840 | \$12,257 |
| | ===== | ===== |

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 | |
|---|-------------|----------|
| | 1993 | 1992 |
| ----- | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| ----- | | |
| Current liabilities: | | |
| Short-term borrowings..... | \$ 315 | \$ 450 |
| Long-term debt maturing within one year..... | 144 | 116 |
| Current obligations under capital leases..... | 62 | 54 |
| Advance ticket sales..... | 1,036 | 1,068 |
| Accounts payable..... | 599 | 646 |
| Accrued salaries, wages and benefits..... | 943 | 911 |
| Accrued aircraft rent..... | 893 | 715 |
| Other accrued liabilities..... | 904 | 885 |
| | ----- | ----- |
| | 4,896 | 4,845 |
| | ----- | ----- |
| Long-term debt..... | 2,702 | 2,801 |
| | ----- | ----- |
| Long-term obligations under capital leases..... | 827 | 812 |
| | ----- | ----- |
| Other liabilities and deferred credits: | | |
| Deferred pension liability..... | 571 | 576 |
| Postretirement benefit liability..... | 1,058 | 960 |
| Deferred gains..... | 1,400 | 1,430 |
| Other..... | 148 | 127 |
| | ----- | ----- |
| | 3,177 | 3,093 |
| | ----- | ----- |
| Minority interest..... | 35 | -- |
| | ----- | ----- |
| Shareholders' equity: | | |
| Preferred stock, authorized, 16,000,000 shares--Convertible preferred stock, \$5 stated value; issued, 6,000,000 shares; \$600 million aggregate liquidation value..... | 30 | -- |
| Common stock, \$5 par value; authorized, 125,000,000 shares; issued, 25,489,745 shares in 1993 and 25,284,670 shares in 1992..... | 127 | 126 |
| Additional capital invested..... | 932 | 340 |
| Retained earnings..... | 249 | 332 |
| Unearned compensation..... | (17) | (11) |
| Pension liability adjustment..... | (53) | (8) |
| Common stock held in treasury, 920,808 shares in 1993 and 1,046,188 shares in 1992..... | (65) | (74) |
| | ----- | ----- |
| | 1,203 | 706 |
| | ----- | ----- |
| Commitments and contingent liabilities (Note 16)..... | \$12,840 | \$12,257 |
| | ===== | ===== |

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 | | |
|---|------------------------|---------|---------|
| | 1993 | 1992 | 1991 |
| Cash and cash equivalents at beginning of year..... | \$ 522 | \$ 449 | \$ 221 |
| Cash flows from operating activities: | | | |
| Net loss..... | (50) | (957) | (332) |
| Adjustments to reconcile to net cash provided by operating activities-- | | | |
| Extraordinary loss on early extinguishment of debt..... | 19 | -- | -- |
| Cumulative effect of accounting change..... | -- | 540 | -- |
| Deferred pension expense..... | 242 | 165 | 75 |
| Deferred postretirement benefit expense..... | 89 | 75 | -- |
| Depreciation and amortization..... | 764 | 726 | 604 |
| Foreign exchange (gains) losses..... | 20 | (2) | 20 |
| Gains on disposition of property..... | (3) | (32) | (49) |
| Provision (credit) for deferred income taxes.... | (67) | (146) | 22 |
| Undistributed (earnings) losses of affiliates... | 42 | (27) | (4) |
| Decrease (increase) in receivables..... | 11 | (133) | 1 |
| Decrease (increase) in other current assets.... | 24 | (67) | (91) |
| Increase (decrease) in advance ticket sales.... | (31) | 183 | 40 |
| Increase (decrease) in accrued income taxes.... | 8 | 164 | (254) |
| Increase (decrease) in accounts payable and accrued liabilities..... | (163) | 142 | 353 |
| Amortization of deferred gains..... | (83) | (82) | (82) |
| Other, net..... | 36 | 26 | 35 |
| | 858 | 575 | 338 |
| Cash flows from investing activities: | | | |
| Additions to property and equipment..... | (1,496) | (2,519) | (2,122) |
| Proceeds on disposition of property and equipment. | 1,165 | 2,367 | 1,281 |
| Decrease (increase) in short-term investments.... | (414) | (238) | 248 |
| Acquisition of intangibles..... | -- | (150) | (358) |
| Other, net..... | 5 | 3 | -- |
| | (740) | (537) | (951) |
| Cash flows from financing activities: | | | |
| Issuance of convertible preferred stock..... | 591 | -- | -- |
| Proceeds from issuance of long-term debt..... | 99 | 198 | 687 |
| Repayment of long-term debt..... | (695) | (115) | (67) |
| Principal payments under capital leases..... | (55) | (50) | (31) |
| Proceeds from issuance of common stock..... | -- | -- | 247 |
| Increase (decrease) in short-term borrowings.... | (135) | 1 | 1 |
| Cash dividends..... | (27) | -- | -- |
| Other, net..... | 19 | 1 | 4 |
| | (203) | 35 | 841 |
| Increase (decrease) in cash and cash equivalents during the year..... | (85) | 73 | 228 |
| Cash and cash equivalents at end of year..... | \$ 437 | \$ 522 | \$ 449 |

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)

| | CONVERTIBLE PREFERRED STOCK | COMMON STOCK | ADDITIONAL CAPITAL INVESTED | RETAINED EARNINGS | UNEARNED COMPENSATION | PENSION LIABILITY ADJUSTMENT | TREASURY STOCK | TOTAL |
|---|-----------------------------------|-----------------|-----------------------------------|----------------------|--------------------------|------------------------------------|-------------------|---------|
| Balance at December 31, 1990..... | \$-- | \$117 | \$ 53 | \$1,621 | \$ (8) | \$-- | \$(112) | \$1,671 |
| Year ended December 31, 1991: | | | | | | | | |
| Net loss..... | -- | -- | -- | (332) | -- | -- | -- | (332) |
| Issuance of common stock..... | -- | 9 | 238 | -- | -- | -- | -- | 247 |
| Exercises of stock options..... | -- | -- | 5 | -- | -- | -- | -- | 5 |
| Issuance of treasury stock under restricted stock plan..... | -- | -- | 8 | -- | (15) | -- | 7 | -- |
| Amortization of unearned compensation under restricted stock plan..... | -- | -- | -- | -- | 6 | -- | -- | 6 |
| Balance at December 31, 1991..... | -- | 126 | 304 | 1,289 | (17) | -- | (105) | 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 |
| Forfeiture of restricted stock..... | -- | -- | (1) | -- | 1 | -- | -- | -- |
| Adjustment required to recognize minimum pension liability..... | -- | -- | -- | -- | -- | (8) | -- | (8) |
| Amortization of unearned compensation under restricted stock plan..... | -- | -- | -- | -- | 5 | -- | -- | 5 |
| Balance at December 31, 1992..... | -- | 126 | 341 | 332 | (11) | (8) | (74) | 706 |
| Year ended December 31, 1993: | | | | | | | | |
| Net loss..... | -- | -- | -- | (50) | -- | -- | -- | (50) |
| Cash dividends declared on preferred stock (\$5.54 per share)..... | -- | -- | -- | (33) | -- | -- | -- | (33) |
| Issuance of preferred stock..... | 30 | -- | 561 | -- | -- | -- | -- | 591 |
| Exercises of stock options..... | -- | 1 | 25 | -- | -- | -- | -- | 26 |
| Issuance of treasury stock under restricted stock plan..... | -- | -- | 6 | -- | (16) | -- | 10 | -- |
| Adjustment required to recognize minimum pension liability..... | -- | -- | -- | -- | -- | (45) | -- | (45) |
| Amortization of unearned compensation under restricted stock plan..... | -- | -- | -- | -- | 9 | -- | -- | 9 |
| Other treasury stock activity..... | -- | -- | (1) | -- | 1 | -- | (1) | (1) |
| Balance at December 31, 1993..... | \$ 30 | \$127 | \$932 | \$ 249 | \$(17) | \$(53) | \$ (65) | \$1,203 |

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

UAL CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation--

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. All significant intercompany transactions are eliminated. Investments in affiliates are carried on the equity basis.

(b) Accounting Changes--

Effective January 1, 1992, UAL adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (see Note 15) and SFAS No. 109, "Accounting for Income Taxes" (see Note 6).

(c) 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.

(d) 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, and gains and losses on foreign currency call options used to hedge foreign currency obligations, are charged or credited directly to income.

(e) 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. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. Due to the short maturity of these instruments, their carrying amount is a reasonable estimate of fair value.

(f) 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.

(g) 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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

flight simulators and 25 years to 40 years for buildings. Amortization of capital leases is included in depreciation and amortization expense.

Gains or losses on dispositions of individual units of owned property and equipment are reflected in earnings. 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.

(h) Intangibles--

Intangibles consist primarily of route acquisition costs, slots and intangible pension assets (see Note 14). Route acquisition costs and slots are amortized over 40 years and 5 years, respectively.

(i) 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.

(j) 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.

(k) Interest Rate Swap Agreements--

United enters into interest rate swap agreements to hedge certain interest rate exposure. The differential to be paid or received under the swap agreements is accrued and included in interest expense or rental expense.

(2) PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On December 22, 1993, the Board of Directors of UAL approved a non-binding agreement in principle that would provide a majority equity interest in the corporation to the employees of United in exchange for wage concessions and work-rule changes. In January 1994, the agreement was ratified by the Air Line Pilots Association ("ALPA") and the International Association of Machinists ("IAM"). The transaction is subject to, among other things, approval by UAL stockholders.

In the transaction, an Employee Stock Ownership Plan will be created to provide United employees with a minimum of a 53% equity interest in UAL in exchange for wage concessions and work-rule changes. 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 closes. The transaction is not dependent on external financing.

Pursuant to the terms of the agreement in principle, current UAL stockholders would receive the remaining 37 to 47% of the common stock and \$88 per share in cash and face amount of debt and preferred stock. The non-common stock consideration is expected to aggregate approximately \$743 million of cash, \$900 million face amount of senior unsecured debentures and \$900 million face amount of preferred stock depending on the number of common shares on which the distribution is made.

UAL agreed that if the transaction closes prior to August 31, 1994, severance payments and employee benefits coverage approximating \$50 million would be provided to IAM employees being terminated from

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

United as a result of the recent sale of flight kitchens (see Note 19) in addition to payments required under United's labor contracts. Certain of the severance payments, which are to be made on a monthly basis, became payable in January 1994 after the unions ratified the agreement; however, these monthly payments terminate but are not refunded if the transaction does not close before August 31, 1994 or certain other conditions are not met. Other lump-sum severance amounts are payable only if the transaction closes prior to the required date. UAL has also agreed to pay up to \$45 million of transaction fees and expenses incurred by ALPA and the IAM if the transaction is closed by August 31, 1994. If the transaction does not close by the required date but certain conditions are met, UAL will pay up to \$12.5 million of ALPA and IAM transaction expenses.

(3) MERGER OF AFFILIATES

In September 1993, the Covia Partnership ("Covia"), a 50% owned affiliate of United, and The Galileo Company Limited, a 25.9% owned affiliate of United, merged. The merger resulted in the formation of the Apollo Travel Services Partnership ("ATS") and the Galileo International Partnership ("Galileo"), two general partnerships that are owned 77% and 38%, respectively, by United through a wholly-owned subsidiary. Galileo owns the Apollo and Galileo computer reservations systems. ATS is responsible for marketing, sales and support of Apollo in the United States, Mexico and the Caribbean.

Prior to the merger, United's investments in these companies were carried on the equity basis. As a result of the merger and United's majority ownership of ATS, the accounts of ATS are consolidated resulting 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. United's investment in Galileo is carried on the equity basis. The accounting for the merger resulted in no change in the book value of the assets and liabilities of the companies combined. During the fourth quarter, Galileo recorded a charge for the cost of eliminating duplicate facilities and operations. United's share of this charge was recorded in "Equity in earnings (loss) of affiliates." The merger is expected to create operating efficiencies by eliminating duplication.

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, \$22 million and \$31 million in 1993, 1992 and 1991, respectively. The cost to United of services purchased from the Covia Partnership amounted to approximately \$168 million, \$219 million, and \$191 million in 1993, 1992 and 1991, respectively. Under operating agreements with Galileo subsequent to the merger, United purchases computer reservation services from Galileo and ATS provides marketing, sales and communication services for Galileo. Revenues derived from the sale of services to Galileo amounted to approximately \$58 million and the cost of services purchased from Galileo amounted to approximately \$47 million in 1993.

Summarized financial information for the significant entities accounted for on the equity basis, follows.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Covia--Summarized financial information as of September 15, 1993 and December 31, 1992 and for the period from January 1, 1993 through September 15, 1993 and the years ended December 31, 1992 and 1991 (in millions):

| | SEPTEMBER 15, 1993 | DECEMBER 31, 1992 | |
|--|-----------------------|----------------------|----------------|
| | ----- | ----- | |
| Current assets..... | \$168 | \$132 | |
| Non-current assets..... | 312 | 322 | |
| | ---- | ---- | |
| Total assets..... | 480 | 454 | |
| | ---- | ---- | |
| Current liabilities..... | 83 | 98 | |
| Long-term liabilities..... | 44 | 13 | |
| | ---- | ---- | |
| Total liabilities..... | 127 | 111 | |
| | ---- | ---- | |
| Net assets..... | \$353 | \$343 | |
| | ==== | ==== | |
| | | | 1993 1992 1991 |
| | | | ----- |
| Net services revenues..... | \$398 | \$527 | \$451 |
| Costs and expenses..... | 334 | 444 | 436 |
| Income before cumulative effect of change in accounting..... | 64 | 83 | 15 |
| Net income..... | 47 | 83 | 15 |

Effective January 1, 1993, Covia adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" which resulted in a cumulative charge of \$17 million.

Galileo--Summarized financial information as of December 31, 1993 and for the period from September 16, 1993 through December 31, 1993 (in millions):

| | DECEMBER 31, 1993 |
|----------------------------|----------------------|
| | ----- |
| Current assets..... | \$ 141 |
| Non-current assets..... | 467 |
| | ---- |
| Total assets..... | 608 |
| | ---- |
| Current liabilities..... | 173 |
| Long-term liabilities..... | 440 |
| | ---- |
| Total liabilities..... | 613 |
| | ---- |
| Net assets..... | \$ (5) |
| | ==== |
| | 1993 |
| | ----- |
| Services revenues..... | \$ 186 |
| Costs and expenses..... | 327 |
| Net loss..... | (141) |

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(4) OTHER INCOME (EXPENSE)--MISCELLANEOUS

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

| | 1993 | 1992 | 1991 |
|---|---------------|-------|---------|
| | ---- | ---- | ---- |
| | (IN MILLIONS) | | |
| Foreign exchange gains or losses..... | \$ (20) | \$ 2 | \$ (20) |
| Amortization of hedge transaction costs..... | (6) | (5) | (8) |
| Write down of aircraft to net realizable value..... | (59) | -- | -- |
| Gain on settlement of 1985 annuity purchases..... | 17 | -- | -- |
| Net gains on disposition of property..... | 3 | 32 | 49 |
| Gain on sale of certain property rights..... | -- | 9 | 15 |
| Settlement of class action claims regarding airline fare data..... | -- | (13) | -- |
| Other..... | (6) | (18) | (23) |
| | ----- | ----- | ----- |
| | \$ (71) | \$ 7 | \$ 13 |
| | ===== | ===== | ===== |

(5) NET LOSS PER SHARE

Net loss per share amounts are based on weighted average common shares outstanding--24,345,857 in 1993, 24,069,786 in 1992, and 23,201,605 in 1991. Per share amounts were calculated after providing for preferred stock dividends of \$33,229,000 in 1993, \$42,000 in 1992 and \$91,000 in 1991.

(6) INCOME TAXES

In 1993, UAL incurred a regular tax loss but had an alternative minimum tax ("AMT") liability. The regular tax loss will be carried back to reduce taxable income generated in previous years resulting in federal and state refunds and additional AMT credits. Certain preferences, mainly depreciation adjustments, have caused alternative minimum taxable income to exceed regular taxable income, resulting in the AMT liability.

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

| | 1993 | 1992 | 1991 |
|--------------|---------------|----------|----------|
| | ---- | ---- | ---- |
| | (IN MILLIONS) | | |
| Current-- | | | |
| Federal..... | \$ 52 | \$ (90) | \$ (199) |
| State..... | (1) | (3) | 1 |
| | ----- | ----- | ----- |
| | 51 | (93) | (198) |
| | ----- | ----- | ----- |
| Deferred-- | | | |
| Federal..... | (75) | (129) | 28 |
| State..... | 8 | (17) | 6 |
| | ----- | ----- | ----- |
| | (67) | (146) | 22 |
| | ----- | ----- | ----- |
| | \$ (16) | \$ (239) | \$ (176) |
| | ===== | ===== | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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

| | 1993 | 1992 | 1991 |
|--|---------------|---------|---------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |
| Income tax provision (credit) at statutory rate..... | \$ (17) | \$(223) | \$(173) |
| State income taxes, net of federal income tax benefit... | 5 | (13) | (3) |
| Nondeductible employee meals..... | 8 | 8 | 6 |
| Foreign sales corporation benefit..... | (1) | (6) | (6) |
| Rate change effect..... | (9) | -- | -- |
| Foreign tax credits..... | (3) | (2) | (2) |
| Losses of foreign affiliate..... | -- | -- | 1 |
| Other, net..... | 1 | (3) | 1 |
| | ----- | ----- | ----- |
| Income tax provision (credit) as reported..... | \$ (16) | \$(239) | \$(176) |
| | ===== | ===== | ===== |

UAL 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. UAL recognized a tax benefit of \$40 million for the cumulative effect of adopting SFAS No. 109. Deferred income taxes (credit) for 1993 and 1992 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.

During 1991, deferred income taxes were provided for significant timing differences in the recognition of revenue and expenses for tax and financial statement purposes. Principally, these items consisted of the following: \$81 million for depreciation and capitalized interest, \$(62) million for gains on sale and leaseback transactions, \$32 million for gains on asset dispositions, \$(24) million for rent expense, \$(31) for pension expense, \$16 million for other employee benefits and \$12 million for prepaid commissions.

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities for 1993 and 1992 are as follows:

| | 1993 | | 1992 | |
|---|---------------------------|--------------------------------|---------------------------|--------------------------------|
| | ----- | ----- | ----- | ----- |
| | DEFERRED TAX ASSETS | DEFERRED TAX LIABILITIES | DEFERRED TAX ASSETS | DEFERRED TAX LIABILITIES |
| | ----- | | | |
| | (IN MILLIONS) | | | |
| Employee benefits, including postretirement medical..... | \$ 599 | \$ 31 | \$ 662 | \$ 119 |
| Prepaid commissions..... | -- | 49 | -- | 51 |
| Depreciation, capitalized interest and transfers of tax benefits.... | -- | 1,119 | -- | 1,007 |
| Gains on sale and leasebacks..... | 480 | -- | 479 | -- |
| Rent expense..... | 207 | -- | 169 | -- |
| AMT credit carryforward..... | 195 | -- | 132 | -- |
| Foreign exchange gains and losses. | 84 | -- | 102 | -- |
| Frequent flyer accrual..... | 72 | -- | 72 | -- |
| Net operating loss carryforwards.. | 74 | -- | 49 | -- |
| Other..... | 272 | 70 | 417 | 283 |
| | ----- | ----- | ----- | ----- |
| | \$1,983 | \$1,269 | \$2,082 | \$1,460 |
| | ===== | ===== | ===== | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

UAL has determined, based on its history of operating earnings, available carrybacks, expectations for the future and potential tax planning strategies, that it is more likely than not that the deferred tax assets at December 31, 1993 will be realized before expiration.

The significant differences between pretax book losses and taxable losses for the last three years were as follows (in millions):

| | 1993 | 1992 | 1991 |
|---|---------|---------|---------|
| | ----- | ----- | ----- |
| Pretax book loss..... | \$ (47) | \$(656) | \$(508) |
| Gains on sale and leasebacks..... | 17 | 304 | 171 |
| Depreciation, capitalized interest and transfers of tax benefits..... | (397) | (319) | (234) |
| Rent expense..... | 139 | 127 | 93 |
| Pension expense..... | (3) | (95) | (194) |
| Other employee benefits..... | 47 | 36 | (67) |
| Gains on asset dispositions..... | (41) | (3) | (110) |
| Other, net..... | 66 | 55 | 64 |
| | ----- | ----- | ----- |
| Taxable loss..... | \$(219) | \$(551) | \$(785) |
| | ===== | ===== | ===== |

At December 31, 1993, UAL and its subsidiaries had \$195 million of federal AMT credit carryforwards available for an indefinite period, \$4 million of general business credit carryforwards which expire between 2007 and 2009, \$32 million of state tax benefit from net operating loss carryforwards expiring between 1997 and 2009 and \$42 million of federal tax benefit from net operating loss carryforwards expiring between 2007 and 2009.

(7) SHORT-TERM BORROWINGS

At December 31, 1993, United had outstanding \$315 million in short-term borrowings, bearing an average interest rate of 3.34%. Receivables amounting to \$367 million were pledged by United to secure repayment of such outstanding borrowings. Due to the short maturity of these borrowings, their carrying amount is a reasonable estimate of fair value. In February 1993, United entered agreements to increase the maximum available amount of borrowings under this arrangement from \$450 million to \$500 million. Pursuant to the terms of this agreement, in the event of a change in control of United or UAL, such as the proposed employee investment transaction, the lenders under this agreement may decline to make new loans to United.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(8) 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, 1993):

| | 1993 | 1992 |
|--|---------------|---------|
| | ----- | ----- |
| | (IN MILLIONS) | |
| Secured notes, 4.2125% to 11.54%, averaging 7.41%, due 1994 to 2014..... | \$1,462 | \$1,127 |
| Deferred purchase certificates, Japanese yen-denominated, 7.75%, due 1994 to 1998..... | 178 | 183 |
| Debentures, 6.75% to 10.25%, averaging 9.36%, due 1997 to 2021..... | 1,000 | 900 |
| Convertible debentures, 7.75% and 8.5%, due 1995 and 2000 through 2010..... | 36 | 36 |
| Promissory notes, 3.72% to 4.38%, averaging 4.07%, due 1994 through 1998..... | 41 | 76 |
| Senior subordinated notes..... | -- | 500 |
| Other..... | -- | 1 |
| | ----- | ----- |
| | 2,717 | 2,823 |
| Unamortized discount on debt..... | (15) | (22) |
| | ----- | ----- |
| | \$2,702 | \$2,801 |
| | ===== | ===== |

The fair value of long-term debt, including current maturities, at December 31, 1993 and 1992 were estimated to be \$3.041 billion and \$3.044 billion, respectively, based on the quoted market prices for the same or similar issues or on the then current rates offered for debt of the same remaining maturities.

In the second quarter of 1993, United retired \$500 million of senior subordinated notes. The notes, bearing interest at 12.5% and 13%, were scheduled to mature in 1995 and 1998 for \$150 and \$350 million, respectively. 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 May 1993, United issued \$176 million of pass through certificates under a 1992 shelf registration to refinance aircraft under operating leases. In June 1993, a new shelf registration filed by UAL and United for up to \$1.5 billion of securities, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof, was declared effective. Under the terms of the 1993 shelf registration statement, the 1992 shelf and a 1991 shelf, under which \$394 million and \$100 million, respectively, of securities remained, were combined with the 1993 shelf. In November 1993, United issued \$118 million of pass through certificates under the shelf registration to refinance aircraft under operating leases. In December 1993, United issued \$100 million of 6.75% debentures due 1997 under the shelf. On a combined basis, up to \$1.776 billion of additional securities may be offered at December 31, 1993.

The convertible debentures, which are obligations of Air Wis Services, Inc. ("Air Wis"), are convertible into shares of UAL common stock, at the conversion price of \$259.08 for \$33 million and \$198.02 for \$3 million in principal amount.

In connection with 1993 aircraft financings, United issued \$470 million of secured notes due through 2013. Interest rates were fixed between 7.53% and 8.99% on \$270 million of principal amount. Initial interest rates on the remaining notes were 166 and 176 basis points over the London interbank offered rate

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

("LIBOR") and will be 650 basis points over LIBOR after nine months. In addition, during 1993, United retired \$74 million of principal amount of secured notes in connection with sale and leaseback transactions.

At December 31, 1993, United had outstanding a total of \$544 million of long-term debt bearing interest at rates 85 to 176 basis points over LIBOR. In connection with certain of these debt financings, United has entered interest rate swap agreements to effectively fix interest rates at December 31, 1993 between 8.554% and 8.6% on \$73 million of notional amount. The swap agreements have terms of 18.5 years, corresponding to the terms of the related debt obligations. Under the agreements, United makes payments to counterparties at fixed rates and in return receives payments based on LIBOR. In the event of default by the counterparties, United is exposed to credit risk for periodic settlements due under the swap agreements; however, United does not anticipate such default. The fair values of these swap agreements at December 31, 1993 and 1992 were \$8 million and \$3 million, respectively, representing the estimated amount that United would pay to terminate the swap agreements, based on interest rates in effect at the time.

Maturities of long-term debt for each of the four years after 1994 are: 1995--\$114 million; 1996--\$117 million; 1997--\$119 million; and 1998--\$181 million.

Various assets, principally aircraft, having an aggregate book value of \$1.713 billion at December 31, 1993, were pledged under various loan agreements.

(9) LEASE OBLIGATIONS

UAL leases aircraft, airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, flight kitchens, real estate, office and computer equipment and vehicles.

Future minimum lease payments as of December 31, 1993, 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-- | | |
| 1994..... | \$ 1,275 | \$ 144 |
| 1995..... | 1,288 | 145 |
| 1996..... | 1,269 | 147 |
| 1997..... | 1,251 | 141 |
| 1998..... | 1,294 | 145 |
| After 1998..... | 19,824 | 552 |
| | ----- | ----- |
| Total minimum lease payments..... | \$26,201 | 1,274 |
| | ===== | ===== |
| Imputed interest (at rates of 5.3% to 12.2%)..... | | (385) |
| | | ----- |
| Present value of minimum lease payments..... | | 889 |
| Current portion..... | | (62) |
| | | ----- |
| Long-term obligations under capital leases..... | \$ 827 | |
| | ===== | |

As of December 31, 1993, United leased 298 aircraft, 45 of which were under capital leases. These leases have terms of four to 26 years, and expiration dates range from 1994 through 2017. Under the terms of leases for 287 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 five

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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 \$1.211 billion in 1993, \$1.060 billion in 1992, and \$855 million in 1991. Included in rent expense for 1993 and 1992 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, with terms similar to those discussed in Note 8--Long-Term Debt. At December 31, 1993, a notional amount of \$415 million of interest rate swap agreements effectively fixed interest rates between 8.02% and 8.65% on such leases. The fair values of these swap agreements at December 31, 1993 and 1992 were \$34 million and \$8 million, respectively.

(10) FOREIGN OPERATIONS

United conducts operations in various foreign countries, principally in the Pacific, Europe and Latin America. Operating revenues from foreign operations were approximately \$5.560 billion in 1993, \$4.863 billion in 1992 and \$3.870 billion in 1991.

(11) PREFERRED STOCK

UAL issued six million shares of cumulative 6.25% convertible preferred stock in February 1993, resulting in net proceeds of \$591 million. The convertible preferred stock is convertible into UAL common stock at a conversion price of \$156.50 per share. 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 amount payable in the event of liquidation is \$100 per share, plus accrued dividends. UAL's retained earnings and additional capital invested are restricted to the extent that the \$600 million aggregate liquidation value exceeds the stated value of the preferred stock.

The preferred stock has 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 stock ranking senior to the preferred stock. Additionally, if dividends are not paid for six cumulative quarters, the preferred shareholders are entitled to elect two additional members to the UAL Board of Directors until all dividends are paid in full.

(12) COMMON SHAREHOLDERS' EQUITY

At December 31, 1993 and 1992, there were 24,568,937 and 24,238,482 shares, respectively, of UAL common stock outstanding. In February 1992, UAL issued 443,593 shares of common stock out of treasury in connection with the Air Wis acquisition. The number of shares outstanding increased by 205,075 in 1993 and 40,464 in 1992 on exercises of stock options. In addition, 3,503 and 3,165 shares were issued out of treasury in 1993 and 1992, respectively, under other compensation arrangements and 7,623 and 346 shares were acquired for treasury in 1993 and 1992, respectively.

There is a preferred share purchase right associated with each share of outstanding UAL common stock. 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, each right will entitle its holder (except the acquiring party) to buy common stock of UAL having a market value of three

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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, 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 proposed employee investment transaction is not expected to trigger the exercise rights in part because the rights plan provides an exception for transactions like the proposed employee investment transaction.

(13) STOCK OPTIONS AND AWARDS

UAL's 1981 Incentive Stock Option Program, as amended, (the "1981 Plan"), permits the issuance of up to 4,300,000 shares of common stock pursuant to grants of "incentive stock options" under the Internal Revenue Code and to grants of nonstatutory stock options. 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.

Prior to 1992, stock appreciation rights ("SARs") were granted in tandem with certain nonstatutory 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. At December 31, 1993, 13,927 SARs were outstanding with an average option price per share of \$76.25. The expense (credit) recorded for SARs was \$1 million in 1993, \$(1) million in 1992 and \$18 million in 1991. In February 1994, UAL reinstated the use of SARs and 818,370 SARs were authorized in tandem with existing options with an outstanding average option price of \$128.50. The SARs are not exercisable until September 1, 1994, and will expire if the employee investment transaction is consummated.

Stock option activity under the 1981 Plan was as follows:

| | 1993 | 1992 | 1991 |
|---|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Options outstanding at beginning of year..... | 1,864,555 | 1,318,603 | 1,034,873 |
| Options granted..... | 65,750 | 686,500 | 370,500 |
| Options exercised..... | (205,075) | (40,464) | (53,226) |
| Options surrendered upon exercise of SARs.... | (16,198) | (8,334) | (15,751) |
| Options terminated..... | (35,250) | (91,750) | (17,793) |
| | ----- | ----- | ----- |
| Options outstanding at end of year..... | 1,673,782 | 1,864,555 | 1,318,603 |
| | ===== | ===== | ===== |
| Options exercisable at end of year..... | 733,782 | 603,180 | 488,394 |
| | ===== | ===== | ===== |
| Options available for future grants at end of year..... | 300,111 | 330,611 | 925,361 |
| | ===== | ===== | ===== |
| Average option price per share: | | | |
| Options exercised..... | \$ 87.61 | \$ 88.16 | \$ 80.07 |
| Options outstanding at end of year..... | \$120.21 | \$116.11 | \$113.65 |

The expiration dates for options outstanding as of December 31, 1993 ranged from October 24, 1994 to October 28, 2003. At December 31, 1993, options granted under the 1981 Plan were held by 126 officers and key employees.

The 1988 Restricted Stock Plan (the "1988 Plan") permits the award of up to 500,000 shares of common stock to key officers and employees. During 1993 and 1991, 138,500 and 101,750 shares, respectively, were issued from treasury stock and awarded under the 1988 Plan. No shares were issued under this plan during

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

1992. These restricted shares generally vest over a five-year period. Unvested shares are subject to certain transfer restrictions and forfeiture under certain circumstances. In 1993 and 1992, 9,000 and 6,500 shares, respectively, were forfeited and returned to treasury stock. Unearned compensation, representing the fair market value of the stock on the date of award, is being amortized to salaries and related costs over the vesting period. As of December 31, 1993, 367,300 shares were outstanding under the 1988 Plan, of which 116,200 were vested and 132,700 shares remained available for award.

In the event the proposed employee investment transaction discussed in Note 2 is consummated, additional stock options will become exercisable and unvested restricted shares will vest. An amendment to the 1981 Plan includes terms which will allow the cashless exercise of stock options in the event the employee investment transaction is consummated.

(14) RETIREMENT PLANS

United 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:

| | 1993 | 1992 | |
|---|---|---|---|
| | ACCUMULATED BENEFITS EXCEED ASSETS | ASSETS EXCEED ACCUMULATED BENEFITS | ACCUMULATED BENEFITS EXCEED ASSETS |
| ----- (IN MILLIONS) ----- | | | |
| Actuarial present value of accumulated benefit obligation..... | \$4,200 ===== | \$2,179 ===== | \$1,088 ===== |
| Actuarial present value of projected benefit obligation..... | \$5,025 | \$2,705 | \$1,356 |
| Plan assets at fair value..... | 3,589 ----- | 2,290 ----- | 762 ----- |
| Projected benefit obligation in excess of plan assets..... | 1,436 | 415 | 594 |
| Prior service cost not yet recognized in net periodic pension cost..... | (455) | (122) | (435) |
| Remaining unrecognized net asset..... | 16 | 70 | 3 |
| Adjustment required to recognize minimum liability..... | 346 ----- | -- ----- | 255 ----- |
| Pension liability recognized in the statement of consolidated financial position... | \$ 719 ===== | \$ 336 ===== | \$ 389 ===== |

For the valuation of pension obligations as of December 31, 1993 and 1992, the weighted average discount rates used were 7.5% and 8.75%, respectively, and the rates of increase in compensation were 4.0% and 4.3%, respectively. Substantially all of the accumulated benefit obligation is vested.

Total pension expense for all retirement plans (including defined contribution plans) was \$346 million in 1993, \$324 million in 1992, and \$252 million in 1991.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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 1993, 10.25% for 1992 and 11.25% for 1991.

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

| | 1993 | 1992 | 1991 |
|--|---------------|--------|--------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |
| Service cost--benefits earned during the year..... | \$ 186 | \$ 180 | \$ 144 |
| Interest cost on projected benefit obligation..... | 356 | 320 | 257 |
| Actual return on plan assets..... | (310) | (289) | (237) |
| Net amortization and deferral..... | 19 | 24 | 6 |
| | ----- | ----- | ----- |
| Net periodic pension cost..... | \$ 251 | \$ 235 | \$ 170 |
| | ===== | ===== | ===== |

(15) POSTRETIREMENT BENEFITS

United provides certain life insurance and health care benefits for substantially all retired employees. The estimated cost of life insurance benefits is accrued and funded over the years of service of those employees expected to qualify for such benefits. United provides various defined benefit postretirement health care plans which pay stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. United funds this plan as medical claims are paid. Effective January 1, 1992, United 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, United elected to record the transition obligation of \$925 million as a one-time charge against earnings. Prior to 1992, the cost of health care benefits was recognized as expense as claims were paid. The total cost of these postretirement benefits was \$33 million in 1991.

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

| | 1993 | 1992 |
|--|---------|---------|
| | ----- | ----- |
| Accumulated postretirement benefit obligation: | | |
| Retirees..... | \$ 416 | \$ 442 |
| Other fully eligible participants..... | 236 | 277 |
| Other active participants..... | 679 | 416 |
| | ----- | ----- |
| Total accumulated postretirement benefit obligation..... | 1,331 | 1,135 |
| Unrecognized net loss..... | (149) | (49) |
| Fair value of plan assets..... | (91) | (86) |
| | ----- | ----- |
| Accrued postretirement benefit obligation..... | \$1,091 | \$1,000 |
| | ===== | ===== |

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

| | 1993 | 1992 |
|--|--------|--------|
| | ----- | ----- |
| Service cost--benefits attributed to service during the pe- riod..... | \$ 38 | \$ 28 |
| Amortization of unrecognized net loss..... | 3 | -- |
| Interest cost on benefit obligation..... | 92 | 83 |
| | ----- | ----- |
| Net postretirement benefit costs..... | \$ 133 | \$ 111 |
| | ===== | ===== |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

For the valuation of the accumulated postretirement benefit obligation as of December 31, 1993 and 1992, the discount rate was 7.5% and 8.75%, respectively. An 11% and 12% annual rate of increase in the per capita cost of covered health care was assumed for 1993 and 1992, respectively; the rate is assumed to decrease annually to a rate of 4% by the year 2001, 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, 1993, by \$175 million and the aggregate of the service and interest cost components of net postretirement benefit cost for 1993 by \$21 million.

(16) COMMITMENTS AND CONTINGENCIES

UAL 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 UAL 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, 1993, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.3 billion after deducting advance payments. An estimated \$0.6 billion is expected to be expended during 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. The major commitments are for the purchase of thirty-four B777 aircraft, which are expected to be delivered between 1995 and 1999. These amounts reflect United's revised capital spending plan and agreements with The Boeing Company, to convert certain aircraft orders into options. Under the terms of the agreements, if United does not elect to confirm the delivery of these option aircraft before 1998, it will forfeit significant deposits.

In addition to the B777 order, United has arrangements with Airbus and International Aero Engines to lease an additional 45 A320 aircraft, which are scheduled for delivery through 1998. Under the agreement, United is making advance payments through 1996 which are refundable upon delivery of each aircraft.

At December 31, 1993, United also had purchase options for 186 B737 aircraft, 54 B757 aircraft, 34 B777 aircraft, 52 B747 aircraft, eight B767 aircraft and 50 A320 aircraft. Consistent with its revised capital spending plan, United has recently cancelled options on certain aircraft. In January 1994, United entered an agreement with Boeing to acquire two B747-400 aircraft in 1994 and cancelled options for two B747 aircraft. These aircraft are not included in the commitment amounts above.

As of December 31, 1993, United had guaranteed \$97 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, 1993, \$907 million principal amount of such bonds was outstanding. Payment of United's obligations with respect to \$40 million of this amount is secured through standby letters of credit. As of December 31, 1993, UAL and United had jointly guaranteed \$35 million of such bonds and United had guaranteed \$841 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 ("Stapleton"). Denver has agreed to retire the outstanding special facility revenue bonds related to United's Stapleton facilities. The new airport is expected to open in 1994.

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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 \$68 million at December 31, 1993. At that date, United had granted mortgages on aircraft and engines having a total book value of \$252 million as security for indemnity obligations under tax leases and letters of credit.

United is in the process of constructing a maintenance facility in Indianapolis, which begins operation in 1994. The facility is 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 6,300 individuals.

UAL does not believe it is subject to any significant concentration of credit risk. Most of UAL'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.

(17) NEW ACCOUNTING STANDARDS

In November 1992, the Financial Accounting Standards Board ("FASB") issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which 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. UAL will adopt the new standard in the first quarter of 1994. Based on preliminary estimates, UAL currently expects to record a transition obligation which will result in a cumulative charge of \$26 million, net of tax. Prior years' financial statements will not be restated. Ongoing expenses will vary based on actual claims experience.

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires fair value accounting for certain investments. UAL is required to adopt the new standard in 1994 and the standard is not to be applied retroactively. Upon adoption, UAL will record a periodic charge or credit to adjust the carrying value of certain investments to fair value. The adjustment will be recorded in earnings or as a separate component of equity, depending on the type of investment. UAL does not expect a material impact on either earnings or equity as a result of adopting SFAS No. 115.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(18) STATEMENT OF CONSOLIDATED CASH FLOWS--SUPPLEMENTAL DISCLOSURES

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

| | 1993 | 1992 | 1991 |
|--|---------------|-------|-------|
| | ---- | ---- | ---- |
| | (IN MILLIONS) | | |
| Cash paid during the year for: | | | |
| Interest (net of amounts capitalized)..... | \$330 | \$200 | \$ 87 |
| Income taxes..... | \$135 | \$ 30 | \$ 62 |
| Non-cash transactions: | | | |
| Capital lease obligations incurred..... | \$ 70 | \$276 | \$277 |
| Long-term debt incurred in connection with additions to equipment..... | \$487 | \$755 | \$318 |
| Increase in pension intangible..... | \$ 19 | \$ 8 | \$192 |
| Issuance of treasury stock in exchange for Air Wis common stock..... | -- | \$ 64 | -- |

(19) OTHER MATTERS

Air Wis became a wholly-owned subsidiary of UAL in January 1992. Air Wis owns Air Wisconsin, Inc. A combination of cash and UAL common stock, valued at \$80 million, was exchanged for all the outstanding shares of Air Wis. The transaction was accounted for as a purchase and, accordingly, the assets and liabilities of Air Wis were recorded based on fair value estimates which resulted in tangible assets of \$218 million, intangible assets of \$125 million and liabilities of \$246 million, net of \$12 million of intercompany amounts. The UAL consolidated financial statements include the accounts of Air Wis from February 1, 1992. In September 1992, Air Wisconsin, Inc. consummated the \$32 million sale of 12 slots at O'Hare International. The fair value amounts above reflect the sale.

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. These transactions are not expected to have a significant impact on UAL's results of operations.

In the third quarter of 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. Under the agreements, the purchasers will provide catering services for United at the airports served by the flight kitchens for seven years. The asset sales for most, if not all, of the flight kitchens are expected to be finalized in the second quarter of 1994. The asset sales result in an insignificant gain.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(20) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER | YEAR |
|--|----------------|----------------|----------------|----------------|------------|
| | (IN MILLIONS) | | | | |
| 1993: | | | | | |
| Operating revenues..... | \$ 3,332 | \$3,548 | \$3,990 | \$3,641 | \$14,511 |
| Earnings (loss) from operations..... | (121) | 84 | 281 | 19 | 263 |
| Earnings (loss) before extraordinary item..... | (138) | 22 | 149 | (64) | (31) |
| Extraordinary loss on early extin- guishment of debt..... | (19) | -- | -- | -- | (19) |
| Net earnings (loss)..... | \$ (157) | \$ 22 | \$ 149 | \$ (64) | \$ (50) |
| Per share amounts, primary: | | | | | |
| Earnings (loss) before extraordi- nary item..... | \$ (5.92) | \$ 0.54 | \$ 5.74 | \$ (3.02) | \$ (2.64) |
| Extraordinary loss on early extin- guishment of debt..... | (0.77) | -- | -- | -- | (0.76) |
| Net earnings (loss)..... | \$ (6.69) | \$ 0.54 | \$ 5.74 | \$ (3.02) | \$ (3.40) |
| Net earnings per share, fully dilut- ed..... | \$ (6.69) | \$ 0.54 | \$ 5.21 | \$ (3.02) | \$ (3.40) |
| 1992: | | | | | |
| Operating revenues..... | \$ 2,972 | \$3,140 | \$3,576 | \$3,202 | \$12,890 |
| Earnings (loss) from operations..... | (168) | (93) | 49 | (326) | (538) |
| Earnings (loss) before cumulative effect of accounting changes..... | (108) | (91) | 6 | (224) | (417) |
| Cumulative effect of accounting changes..... | (540) | -- | -- | -- | (540) |
| Net earnings (loss)..... | \$ (648) | \$ (91) | \$ 6 | \$ (224) | \$ (957) |
| Per share amounts: | | | | | |
| Earnings (loss) before cumulative effect of accounting changes..... | \$ (4.52) | \$ (3.80) | \$ 0.27 | \$ (9.27) | \$ (17.34) |
| Cumulative effect of accounting changes..... | (22.58) | -- | -- | -- | (22.41) |
| Net earnings (loss)..... | \$ (27.10) | \$ (3.80) | \$ 0.27 | \$ (9.27) | \$ (39.75) |

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, UAL 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.

Effective January 1, 1992, UAL adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 109, "Accounting for Income Taxes." The effect of adopting SFAS No. 106 was a cumulative charge of \$580 million, net of tax benefits of \$345 million. The effect of adopting SFAS No. 109 was a cumulative benefit of \$40 million.

In the 1992 fourth quarter, operating expenses included charges of \$18 million for certain foreign employee benefits and certain taxes. In addition, operating expenses included charges of \$25 million related to the announced cost reduction program. The 1992 second quarter included a \$13 million non-operating charge to record the cash settlement of class action claims resulting from litigation relating to the use of airline fare data.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Primary earnings per share in the 1993 quarters were calculated after preferred dividend requirements of \$6 million in the first quarter and \$9 million in each of the last three quarters. Primary earnings per share are based on the weighted average number of shares of common stock outstanding during the period. Fully diluted earnings per share assume conversion of the preferred stock and elimination of the dividends. Fully diluted earnings per share were anti-dilutive in the 1993 first, second and fourth quarters and year.

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. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No reportable event has occurred.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

DIRECTORS

Following is information concerning the directors of the Company, including their names, ages, principal occupations for the past five years and their directorships with other corporations:

NEIL A. ARMSTRONG, 63, Chairman, AIL Systems, Inc. (electronic systems). Director since 1978. Mr. Armstrong was Chairman of Computing Technologies for Aviation, Inc. (computer systems for aviation applications) from 1982 to 1992. Mr. Armstrong is also a director of Cincinnati Gas & Electric Company, Cincinnati Milacron, Inc., Eaton Corporation, RMI Titanium Co., Thiokol Corporation, and USX Corporation.

ANDREW F. BRIMMER, 67, President, Brimmer & Company, Inc. (economic and financial consulting). Director since 1976. Dr. Brimmer is also a director of American Security Corporation, BankAmerica Corporation, BellSouth Corporation, Blackstone Investment Income Trust, Connecticut Mutual Life Insurance Company, E.I. du Pont de Nemours & Company, Gannett Company, Inc., Mercedes-Benz, N.A., MNC Financial, Inc., Navistar International Corporation and PHH Corporation.

RICHARD P. COOLEY, 70, Retired Chairman, SEAFIRST Corporation (banking and finance). Director since 1970. Mr. Cooley served as Chairman of the Executive Committee of the Board of Directors of SEAFIRST CORPORATION and Seattle First National Bank until his retirement from those positions in 1994, and as Chairman and Chief Executive Officer of SEAFIRST Corporation and Seattle First National Bank from January 1, 1983 until his retirement on December 31, 1990. Mr. Cooley is also a director of Burlington Northern, Inc., Egghead Corporation and PACCAR Inc.

CARLA A. HILLS, 60, Chairman, Hills & Company (international consulting). Director since 1993. Ms. Hills served as United States Trade Representative from February 1989 to January 1993, and as managing partner of the Washington, D.C. office of the law firm of Weil, Gotshal & Manges from January 1988 to January 1989. Ms. Hills is also a director of AT&T, American International Group, Chevron Corporation and Time Warner Corporation.

FUJIO MATSUDA, 69, Executive Director, Research Corporation of the University of Hawaii (university-related research). Director since 1975. Dr. Matsuda is also a director of First Hawaiian, Inc.

JOHN F. MCGILLICUDDY, 63, Retired Chairman and Chief Executive Officer, Chemical Banking Corporation (banking and finance). Director since 1984. Mr. McGillicuddy served as Chairman and Chief Executive Officer of Chemical Banking Corporation and Chemical Bank from January 1, 1992 to December 31, 1992, and as Chairman and Chief Executive Officer of Manufacturers Hanover Corporation and Manufacturers Hanover Trust Company from 1979 until the merger of Manufacturers Hanover Corporation and Chemical Banking Corporation on January 1, 1992. Mr. McGillicuddy is also a director of Chemical Banking Corporation, The Continental Corporation and USX Corporation.

HARRY MULLIKIN, 67, Chairman Emeritus, Westin Hotels & Resorts (hotel management). Director since 1974. Mr. Mullikin served as Chairman and Chief Executive Officer of Westin Hotels & Resorts from 1977 to 1989. Mr. Mullikin is also a director of PENWEST, Ltd. and SEAFIRST Corporation.

JAMES J. O'CONNOR, 57, Chairman and Chief Executive Officer, Commonwealth Edison Company (electric power utility). Director since 1984. Mr. O'Connor is also a director of American National Can Company, Corning Incorporated, First Chicago Corporation, the Chicago Stock Exchange, Scotsman Industries, Inc. and The Tribune Company.

FRANK A. OLSON, 61, Chairman and Chief Executive Officer, The Hertz Corporation (car rental). Director since 1985. Mr. Olson is also a director of Becton, Dickinson and Company, Commonwealth Edison Company, Cooper Industries, Inc. and Foundation Health Corp.

JOHN C. POPE, 45, President and Chief Operating Officer, UAL Corporation and United. Director since 1988. Prior to being elected President and Chief Operating Officer of UAL and United on April 30, 1992, Mr. Pope served in various senior executive positions with UAL and United for the past five years. Mr. Pope is also a director of Federal-Mogul Corporation.

RALPH STRANGIS, 57, Partner, Kaplan, Strangis and Kaplan, P.A. (law firm). Director since 1988. Mr. Strangis is also a director of Damark International, Inc., Life USA Holding, Inc., National Presto Industries, Inc., Payless Cashways, Inc. and TCF Financial Corporation.

PAUL E. TIERNEY, JR., 51, Managing Director, Gollust, Tierney and Oliver, Inc. (investment banking). Director since 1990. Mr. Tierney is also Chairman of the Board of Directors of Technoserve, Inc., a director of the Argentine Investment Fund, the Straits Corporation and the Overseas Development Council and a Governor of the United Nations Association.

STEPHEN M. WOLF, 52, Chairman and Chief Executive Officer, UAL Corporation and United Air Lines, Inc. Director since 1987. Prior to April 30, 1992, he held the additional positions of President of UAL and United. Mr. Wolf is also a director of Philip Morris Companies Inc.

The term of office for all directors will expire at the 1994 Annual Meeting of Stockholders.

EXECUTIVE OFFICERS

Following is information concerning the principal occupations for the past five years for the executive officers of the Company other than Messrs. Wolf and Pope, for whom such information is set forth above under "Directors".

Mr. O'Gorman was elected Executive Vice President of the Company on February 28, 1991. He was elected Executive Vice President--Operations of United on 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 at US Air from August 1990 until February 1991. He served as United's Senior Vice President--Maintenance Operations from March 1988 to August 1990.

Mr. Guyette was elected Executive Vice President of the Company effective January 28, 1988. He was elected Executive Vice President--Marketing and Planning of United on April 30, 1992.

Mr. Nagin was elected Executive Vice President--Corporate Affairs and General Counsel of the Company and United on April 30, 1992. He had served as Senior Vice President--Corporate Affairs and General Counsel of the Company and United since July, 1990. Previously, he was elected Senior Vice President--Corporate and External Affairs of United on September 22, 1988.

Mr. George was elected Senior Vice President--Human Resources of United on April 11, 1988.

There are no family relationships among the executive officers of the Company.

The term of office for all officers will expire at the 1994 Annual Meeting of Stockholders. Pursuant to the Agreement and Plan of Recapitalization dated as of March 25, 1994 (the "Plan"), if the Plan is approved by stockholders of the Company and all other conditions to Closing are satisfied, Messrs. Wolf, Pope and Nagin would retire at or prior to the effective time of the reclassification contemplated by the Plan.

For additional information concerning the executive officers of the Company, see "Executive Officers of the Registrant" in Part I hereof.

RULE 405 DISCLOSURE

Form 5s for 1993, with respect to one exempt transaction each, were inadvertently filed late for Messrs. O'Gorman and Wolf due to an error in the Company's recordkeeping. The Company, and not the individuals, takes responsibility for effecting these filings.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF DIRECTORS

The directors receive an annual retainer of \$20,000 and are paid \$1,000 for each meeting attended. The Chairmen of the Audit, Compensation, Nominating and Pension and Welfare Plans Oversight Committees each receive an additional retainer of \$3,000 per year. Each member of a committee receives a fee of \$1,000 for each committee meeting attended. In support of a cost reduction effort announced in January 1993, directors' compensation as reported above was reduced 10%. Directors also receive 100 shares of Common Stock, \$5 par value ("Common Stock"), annually. Directors who are officers of the Company or of any subsidiary do not receive any retainer fee, meeting fee or shares for their service on the Board of Directors or any committee.

Non-employee directors are eligible to participate in a retirement income plan (the "Retirement Plan") if they have at least five years of service on the date of retirement and are not otherwise eligible to receive pension benefits from the Company or any of its subsidiaries. If a retiring director has at least ten years of service and is age 70 or over at retirement, he or she is entitled to a life annuity equal to the greater of \$20,000 per year or the annual retainer fee at retirement. Reduced benefits are available if the director has less than ten years of service or if retirement occurs before age 70. For these purposes a director who is a director at the time of a "change in control" of the Company is credited with three additional years of service, is deemed to have satisfied the five-year minimum service requirement and is deemed to be three years older than his or her actual age. Surviving spouse benefits are available in some cases. A trust (the "Trust") has been created to serve as a source of payments of benefits under the Retirement Plan. The Trust becomes irrevocable upon the occurrence of a "change in control."

Under the Company's travel policy for directors (the "Travel Policy"), each director of the Company, his or her spouse and their eligible dependent children are entitled to free transportation on United. The directors are reimbursed by the Company for additional income taxes resulting from the taxation of these benefits. The average cost of supplying these benefits for each director in 1993, including cash payments made in January, 1994 for income tax liability, was \$25,300. The Company also has a policy pursuant to which each director is entitled to free cargo shipment on United. A director (and his or her spouse and eligible dependent children) serving as such at the time of a "change in control" is entitled to continue such benefits thereafter for life.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION | | | LONG-TERM COMPENSATION | | |
|--|------|------------------------|---------------|---|--------------------------------------|-------------------------|--------------------------------------|
| | | SALARY (\$) | BONUS (\$) | OTHER ANNUAL COMPENSATION (\$)(1) | RESTRICTED STOCK AWARDS(\$)(2) | STOCK OPTIONS (#) | ALL OTHER COMPENSATION (\$)(3) |
| Stephen M. Wolf..... | 1993 | 604,134 | 0 | 122,173(4) | 0 | 0 | 29,821 |
| Chairman and Chief Executive Officer | 1992 | 625,000 | 0 | 25,515 | 0 | 0 | 30,985 |
| | 1991 | 575,000 | 0 | -- | 0 | 225,000(5) | -- |
| John C. Pope..... | 1993 | 487,846 | 0 | 17,235 | 1,995,000 | 0 | 16,651 |
| President and Chief Operating Officer | 1992 | 458,333 | 0 | 12,492 | 0 | 110,000(5) | 14,599 |
| | 1991 | 375,000 | 140,000 | -- | 1,848,438 | 0 | -- |
| Joseph R. O'Gorman..... | 1993 | 314,348 | 0 | 7,548 | 855,000 | 0 | 4,024 |
| Executive Vice President | 1992 | 300,000 | 0 | 18,379 | 0 | 30,000 | 7,094 |
| | 1991 | 233,385 | 30,000 | -- | 867,000 | 30,000 | -- |
| James M. Guyette..... | 1993 | 310,749 | 0 | 5,183 | 855,000 | 0 | 10,708 |
| Executive Vice President | 1992 | 300,000 | 0 | 327 | 0 | 30,000 | 7,874 |
| | 1991 | 275,000 | 90,000 | -- | 739,375 | 0 | -- |
| Lawrence M. Nagin..... | 1993 | 306,439 | 0 | 8,482 | 855,000 | 0 | 10,645 |
| Executive Vice President--Corporate Affairs and General Counsel | 1992 | 290,000 | 0 | 21,596 | 0 | 30,000 | 8,187 |
| | 1991 | 265,000 | 80,000 | -- | 1,035,125 | 0 | -- |

- (1) Except as otherwise indicated, amounts specified represent tax gross-ups during the fiscal year associated with travel privileges.
- (2) The restricted stock granted in 1993 vests 20% per year, from the time of grant, over a five year period. All restricted stock granted in 1991 vests 100% after five years, except that the grant to Mr. O'Gorman vests 25% per year, from the time of grant, over a four year period. The number and aggregate value, respectively, of restricted holdings of Common Stock at fiscal year-end is: Wolf 15,000 shares, \$2,190,000; Pope 32,000 shares, \$4,672,000; O'Gorman 10,500 shares, \$1,533,000; Guyette 13,500 shares, \$1,971,000; Nagin 15,300 shares, \$2,233,800. No dividends have been paid on these shares, but officers have a right to retain any dividends paid on restricted shares.
- (3) Amounts represent the total reportable compensation attributable to the split-dollar insurance program. None of the above individuals received other compensation not reported elsewhere on this statement in excess of the lesser of \$50,000 or 10% of salary and bonus.
- (4) Includes \$39,243 attributable to tax gross-ups during the fiscal year associated with travel privileges, \$16,180 attributable to financial planning, travel, certain insurance and automobile benefits, and the balance attributable to club membership costs and dues.
- (5) The 225,000 share option granted to Mr. Wolf in 1991 and the 110,000 share option granted to Mr. Pope in 1992 were granted with exercise prices in excess of the then current market price. In Mr. Wolf's case, 75,000 of the Options are exercisable at \$147.875 on May 29, 1993, 50,000 at \$170.056 on May 29, 1994, 50,000 at \$195.565 on May 29, 1995, and 50,000 at \$224.899 on May 29, 1996. In Mr. Pope's case, 50,000 options are exercisable at \$124.00 on April 29, 1994, 20,000 at \$142.60 on April 29, 1995, 20,000 at \$163.99 on April 29, 1996, and 20,000 at \$188.59 on April 29, 1997.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION/SAR VALUES

| NAME | SHARES ACQUIRED ON EXERCISE (#) | VALUE REALIZED | NUMBER OF UNEXERCISED OPTIONS/SARS AT FY-END(#) | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END (\$)(1) | |
|-------------------------|--|-------------------|---|---------------|--|---------------|
| | | | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| Stephen M. Wolf..... | 0 | N/A | 181,250 | 168,750 | 6,034,766 | 966,797 |
| John C. Pope..... | 0 | N/A | 87,500 | 122,500 | 5,783,594 | 1,812,531 |
| Joseph R. O'Gorman..... | 0 | N/A | 22,500 | 37,500 | 187,500 | 517,500 |
| James M. Guyette..... | 0 | N/A | 52,120 | 30,000 | 2,764,936 | 881,719 |
| Lawrence M. Nagin..... | 0 | N/A | 31,250 | 28,750 | 1,450,000 | 838,750 |

(1) Market value of the Company's Common Stock at December 31, 1993, minus exercise price of options/SARs.

PENSION PLAN TABLE

| REMUNERATION | YEARS OF SERVICE | | | | | |
|--------------|------------------|-----------|-----------|-----------|-----------|-----------|
| | 15 | 20 | 25 | 30 | 35 | 40 |
| \$375,000 | \$ 90,000 | \$120,000 | \$150,000 | \$180,000 | \$210,000 | \$240,000 |
| 425,000 | 102,000 | 136,000 | 170,000 | 204,000 | 238,000 | 272,000 |
| 475,000 | 114,000 | 152,000 | 190,000 | 228,000 | 266,000 | 304,000 |
| 525,000 | 126,000 | 168,000 | 210,000 | 252,000 | 294,000 | 336,000 |
| 575,000 | 138,000 | 184,000 | 230,000 | 276,000 | 322,000 | 368,000 |
| 625,000 | 150,000 | 200,000 | 250,000 | 300,000 | 350,000 | 400,000 |
| 675,000 | 162,000 | 216,000 | 270,000 | 324,000 | 378,000 | 432,000 |
| 725,000 | 174,000 | 232,000 | 290,000 | 348,000 | 406,000 | 464,000 |
| 775,000 | 186,000 | 248,000 | 310,000 | 372,000 | 434,000 | 496,000 |
| 825,000 | 198,000 | 264,000 | 330,000 | 396,000 | 462,000 | 528,000 |

The above illustration is based on retirement at age 65 and selection of a straight life annuity (other annuity options are available, which would reduce the amounts shown above). The amount of the normal retirement benefit under the plan is the product of 1.6% times years of credited participation in the plan times final average compensation (highest five of last ten years of covered compensation). The retirement benefit amount is not offset by the participant's Social Security benefit. Compensation covered by the plan includes salary and cash bonuses. Credited years of participation with the Company and United for persons named in the cash compensation table are as follows: Mr. Wolf--5 years; Mr. Pope--5 years; Mr. Guyette--25 years; Mr. O'Gorman--21 years; and Mr. Nagin--4 years. The amounts shown do not reflect limitations imposed by Internal Revenue Code on retirement benefits which may be paid under plans qualified under the Internal Revenue Code. United has agreed to provide under non-qualified plans the portion of the retirement benefits earned under the pension plan which would otherwise be subject to Internal Revenue Code limitations.

The Company has agreed to supplement Messrs. Wolf's and Pope's benefits under the qualified pension plan and United has agreed to supplement Messrs. Nagin's and O'Gorman's benefits under the qualified pension plan, in each case by granting them credit for their prior airline service--22 years for Mr. Wolf, 10 years for Mr. Pope, 6 years for Mr. O'Gorman, and 8 years for Mr. Nagin. Mr. Wolf's benefit will be offset by retirement benefits he is entitled to under any of the plans of his prior employers except Tiger International, Inc.

EMPLOYMENT CONTRACTS AND CHANGE IN CONTROL ARRANGEMENTS

The Company and United originally entered into employment agreements with Mr. Wolf and Mr. Pope when they joined the Company in 1987 and 1988, respectively (as subsequently amended and restated, the "Employment Agreements").

In the event of a change in control of the Company or United followed by the termination of his employment, Mr. Wolf would be entitled to a payment equal to from one to three times his salary and anticipated bonus deemed equal to his salary, depending upon the circumstances of his termination, together with certain other amounts. In the event of a change in control of the Company or United followed by a termination of his employment, Mr. Pope would be entitled to a payment equal to from one to three times his salary and anticipated bonus of not less than \$100,000, depending upon the circumstances of his termination, together with certain other amounts.

The Employment Agreements also provide for the continuance of certain specified employee benefits for a period of years equal to the number of years of compensation included in the severance payment and, depending on the circumstances applicable to an executive, possibly beyond that time.

Each other named executive officer is a party to a severance agreement (the "Severance Agreements") with United that provides certain benefits if the executive's employment with United is terminated (1) by the Company without "cause" (as defined in the Severance Agreements) or (2) by the executive for "good reason" (as defined in the Severance Agreements) in either case, within three years following a "change in control" (as defined in the Severance Agreements). Upon such a termination of employment, the executive officer will be entitled to receive (1) a cash payment equal to 3 times the sum of (a) the greater of the executive's base salary as in effect on the date of the change in control or as in effect on the date his or her employment terminates plus (b) the average of the greater of the bonuses paid to the executive with respect to the three years preceding the change in control or the bonuses paid to the executive with respect to the three years preceding his or her termination of employment, (2) continuation of travel privileges (and partial tax reimbursement) on United for the executive and his or her spouse and other dependents for three years following termination of employment (and for life thereafter if the executive would have qualified for retiree travel privileges has his or her employment continued during such three-year period), (3) coverage under United's medical and other welfare benefits for a period of three years following the date of termination (and for life thereafter if the executive would have qualified for retiree medical benefits had his or her employment continued during such three-year period), (4) a lump sum payment equal to the value of the pension benefits (including any early retirement benefits) that the executive officer would have earned under United's pension plans and arrangements had the officer continued to be employed for an additional three years and (5) a lump sum payment equal to the amounts that United would have paid on behalf of the executive officer with respect to split dollar life insurance policies in effect for the executive.

During 1993 the Company amended stock option and restricted stock agreements with each of the named executive officers to provide for the automatic vesting of outstanding stock options, and for confirmation of such treatment for restricted stock awards, upon a change in control.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

FIVE PERCENT BENEFICIAL OWNERS

The following table shows the number of shares of the Company's voting securities beneficially owned by any person or group known to the Company to be the beneficial owner of more than five percent of the Company's voting securities. Number and percent of shares beneficially owned may include shares of Common Stock issuable upon conversion of securities convertible into Common Stock, even if not so indicated.

| TITLE OF CLASS | NAME AND ADDRESS OF BENEFICIAL OWNER | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS |
|-------------------|--|---|------------------|
| Common Stock..... | Sanford C. Bernstein & Co., Inc. One State Street Plaza New York, NY 10004 | 1,632,736(1) | 6.70% |
| Common Stock..... | FMR Corp. Edward C. Johnson 3rd 82 Devonshire Street Boston, MA 02109 | 2,301,068(2) | 9.28% |
| Common Stock..... | Wellington Management Co. 75 State Street Boston, MA 02109 | 2,719,750(3) | 10.99% |
| Common Stock..... | Vanguard/Windsor Funds, Inc. P.O. Box 823 Valley Forge, PA 19482 | 2,359,200(4) | 9.65% |
| Common Stock..... | AXA Assurances I.A.R.D. Mutuelle AXA Assurances Vie Mutuelle La Grande Arche Pardi Nord 92044 Paris La Defense France Alpha Assurances I.A.R.D. Mutuelle Alpha Assurances Vie Mutuelle 101-100 Terrasse Boieldieu 92042 Paris La Defense France Uni Europe Assurance Mutuelle 24, Rue Drouot 75009 Paris France AXA 23, Avenue Matignon 75008 Paris France The Equitable Companies Incorporated 787 Seventh Avenue New York, New York 10019 | 3,005,010(5) | 12.2% |

- (1) Based on Schedule 13G dated February 14, 1994, in which the beneficial owner reported that as of December 31, 1993, it had sole dispositive power over 1,632,736 shares of Common Stock and sole voting power over 882,770 of such shares.
- (2) Based on an Amendment to Schedule 13G dated April 8, 1994, in which FMR Corp. reported that as of March 31, 1994, it had sole voting power for 58,682 shares and sole dispositive power for all shares of Common Stock beneficially owned, and Mr. Edward C. Johnson 3rd reported that as of March 31, 1994, he had sole voting and sole dispositive power for all shares of Common Stock beneficially owned. Includes beneficial ownership of 284,355 shares of Common Stock issuable upon conversion of the Company's Series Preferred Stock.
- (3) Based on Schedule 13G dated February 10, 1994, in which the beneficial owner reported that as of December 31, 1993, it had shared dispositive power over 2,719,750 shares of Common Stock and shared voting power over 188,716 of such shares. Beneficial ownership of certain of these shares was also reported by another entity. See footnote (4) below.
- (4) Based on Schedule 13G dated February 10, 1994, in which the beneficial owner reported that as of December 31, 1993, it had sole voting power and shared dispositive power over 2,359,200 shares of

Common Stock. Beneficial ownership of some or all of these shares was also reported by another entity. See footnote (3) above.

- (5) Based on Schedule 13G dated April 8, 1994 in which each of AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, Alpha Assurances I.A.R.D. Mutuelle, Alpha Assurances Vie Mutuelle, Uni Europe Assurance Mutuelle, AXA and The Equitable Companies Incorporated reported that as of March 31, 1994 it had sole voting power for 1,738,465 shares of Common Stock and sole dispositive power for 3,005,009 shares of Common Stock. Such amounts include 11,182 shares of Common Stock issuable upon conversion of the Company's Series A Preferred Stock.

SECURITIES BENEFICIALLY OWNED BY DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the number of shares of Common Stock beneficially owned as of April 1, 1994, by each director and executive officer included in the Summary Compensation Table, and by all directors and executive officers of the Company, as a group. Unless indicated otherwise by footnote, the owner exercises sole voting and investment power over the securities (other than unissued securities, the ownership of which has been imputed to such owner).

| NAME OF DIRECTOR OR EXECUTIVE OFFICER AND GROUP ----- | NUMBER OF SHARES BENEFICIALLY OWNED ----- | PERCENT OF CLASS ----- |
|--|---|------------------------------|
| Neil Armstrong..... | 1,021(1) | * |
| Andrew F. Brimmer..... | 450(2) | * |
| Richard P. Cooley..... | 1,300 | * |
| Carla A. Hills..... | 300 | * |
| Fujio Matsuda..... | 422 | * |
| John F. McGillicuddy..... | 1,300 | * |
| Harry Mullikin..... | 1,300 | * |
| James J. O'Connor..... | 700 | * |
| Frank A. Olson..... | 800 | * |
| John C. Pope..... | 189,348(3) | * |
| Ralph Strangis..... | 500 | * |
| Paul E. Tierney, Jr..... | 168,559(4) | * |
| Stephen M. Wolf..... | 339,985(5) | 1.4% |
| Joseph R. O'Gorman..... | 50,690(6) | * |
| James M. Guyette..... | 83,911(7) | * |
| Lawrence M. Nagin..... | 62,440(8) | * |
| Directors and Executive Officers as a Group (17 persons)..... | 959,133(9) | 3.7% |

- - - - -
* Less than 1%

- (1) Includes 721 shares of Common Stock held by Lorian, Inc. Pension Trust in which Mr. Armstrong is beneficiary.
- (2) Includes 30 shares of Common Stock owned by Dr. Brimmer's wife.
- (3) Includes 150,000 shares of Common Stock which Mr. Pope has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (4) Includes 16,600 shares of Common Stock held by a trust in which Mr. Tierney is administrator, co-trustee and beneficiary; 34,109 shares of Common Stock held by a corporation of which he is a director and 50% shareholder and 12,500 shares of Common Stock held by a charitable foundation of which he is a director.
- (5) Includes 250,000 shares of Common Stock which Mr. Wolf has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (6) Includes 37,500 shares of Common Stock which Mr. O'Gorman has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (7) Includes 67,120 shares of Common Stock which Mr. Guyette has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.

- (8) Includes 45,000 shares of Common Stock which Mr. Nagin has the right to acquire within 60 days of April 1, 1994 by the exercise of stock options.
- (9) Includes 572,970 shares of Common Stock which persons in the group have the right to acquire within 60 days of April 1, 1994, by the exercise of stock options and the 30 shares of Common Stock referred to in note (2) above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Strangis is a member of the law firm of Kaplan, Strangis & Kaplan, P.A., which has represented, and may continue to represent, the Company and its affiliates in connection with various legal matters.

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" on page 43 herein.
- 2. The financial statements schedules required by this item are listed below:

| FINANCIAL STATEMENT SCHEDULES: ----- | PAGE NUMBER ----- |
|--|-------------------------|
| Schedules-- | |
| As of December 31, 1993: | |
| I-- Marketable securities..... | 88 |
| VII-- Guarantees of securities of other issuers..... | 95 |
| For the years ended December 31, 1993, 1992 and 1991: | |
| V-- Property, plant and equipment..... | 89-91 |
| VI-- Accumulated depreciation, depletion and amortization of property, plant and equipment..... | 92-94 |
| VIII-- Valuation and qualifying accounts..... | 96-98 |
| IX-- Short-term borrowing..... | 99 |
| X-- Supplementary income statement information..... | 100 |

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. Columns omitted from schedules filed have been omitted because the information is not applicable.

- 3. The exhibits required by this item are listed in "Index to Exhibits" on pages 101 through 108 herein. The financial statements of the Covia Partnership and the Galileo International Partnership are included herein as exhibits.

(b) Reports on Form 8-K

On December 23, 1993, the Company filed a report on Form 8-K to report the execution of an agreement in principle dated December 22, 1993 among the Company, ALPA and the IAM concerning the proposed Employee Investment Transaction.

On February 4, 1994, the Company filed a report on Form 8-K to report the execution of an amendment, dated February 3, 1994, among the Company, ALPA and the IAM to the agreement in principle dated December 22, 1993 among the parties concerning the proposed Employee Investment Transaction.

On February 4, 1994, the Company filed a report on Form 8-K to include the text of a speech concerning the proposed Employee Investment Transaction delivered by Stephen M. Wolf, the Chairman and Chief Executive Officer of the Company.

UAL CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE I--MARKETABLE SECURITIES

AS OF DECEMBER 31, 1993

| TITLE OF ISSUE (1) | PRINCIPAL AMOUNT | COST | MARKET VALUE | AMOUNT AT WHICH |
|---|---------------------|---------|-----------------|---|
| | | | | CARRIED ON STATEMENT OF CONSOLIDATED FINANCIAL POSITION |
| (IN MILLIONS) | | | | |
| United States government agencies securities..... | \$ 643 | \$ 647 | \$ 647 | \$ 647 |
| Commercial paper..... | 415 | 413 | 413 | 413 |
| Time deposits..... | 409 | 409 | 409 | 409 |
| Corporate bonds and notes..... | 159 | 162 | 162 | 162 |
| Yankee certificates of deposit... | 54 | 54 | 54 | 54 |
| Variable rate certificates of deposit..... | 49 | 49 | 49 | 49 |
| Eurodollar certificates of deposit..... | 25 | 25 | 25 | 25 |
| Other..... | 62 | 63 | 63 | 63 |
| | ----- | ----- | ----- | ----- |
| Total marketable securities.. | \$1,816 | \$1,822 | \$1,822 | 1,822 |
| | ===== | ===== | ===== | |
| Reconciliation with statement of consolidated financial position: | | | | |
| Cash..... | | | | 6 |
| | | | | ----- |
| Total..... | | | | \$1,828 |
| | | | | ===== |
| Amount classified as cash and cash equivalents..... | | | | \$ 437 |
| Amount classified as short-term investments..... | | | | 1,391 |
| | | | | ----- |
| Total..... | | | | \$1,828 |
| | | | | ===== |

(1) No individual security issue exceeds 2% of total assets.

UAL CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1993

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS, AT COST | RETIREMENTS | OTHER CHANGES- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|-----------------------------------|------------------------------------|-----------------------|-------------|--------------------------------------|------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | (IN MILLIONS) | | | | |
| Operating property and equipment: | | | | | |
| Owned-- | | | | | |
| Flight equipment..... | \$ 7,790 | \$1,521(1) | \$ 1,230(2) | \$ (516)(3) 334(5) | \$ 7,899 |
| Advances on flight equipment..... | 710 | 213(4) | -- | (334)(5) | 589 |
| Other property and equipment..... | 2,100 | 233 | 44 | 384(6) | 2,673 |
| | ----- | ----- | ----- | ----- | ----- |
| | 10,600 | 1,967 | 1,274 | (132) | 11,161 |
| | ----- | ----- | ----- | ----- | ----- |
| Capital leases-- | | | | | |
| Flight equipment..... | 959 | 69(7) | -- | (1) | 1,027 |
| Other property and equipment..... | 101 | 1 | -- | 2 | 104 |
| | ----- | ----- | ----- | ----- | ----- |
| | 1,060 | 70 | -- | 1 | 1,131 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$11,660 | \$2,037 | \$ 1,274 | \$ (131) | \$12,292 |
| | ===== | ===== | ===== | ===== | ===== |
| Non-operating property.. | \$ 35 | \$ -- | \$ 8 | \$ 469 | \$ 496 |
| | ===== | ===== | ===== | ===== | ===== |

-
- (1) Includes the cost of 9 B737-500 aircraft, 3 B747-400 aircraft, 15 B757-200 aircraft, and 7 B767-300ER aircraft purchased.
 - (2) Includes the cost of aircraft sold and leased back (6 B737-500, 3 B747-400, 2 B757-200 and 7 B767-300ER aircraft) and aircraft sold (3 B727-100 and 2 B727-200 aircraft).
 - (3) Includes the cost of 24 B727-100 aircraft, 5 DC10-10 aircraft, 1 B747SP aircraft, spare parts and Air Wisconsin, Inc. assets transferred to non-operating property.
 - (4) Represents principally advance payments on B737, B747, B757, B767, B777 and A320 aircraft on order.
 - (5) Represents the transfer of prior advances to flight equipment upon delivery of the aircraft.
 - (6) Includes the cost of assets held by Apollo Travel Services Partnership at the time of consolidation.
 - (7) Includes the capitalized lease amount of 1 B737-500 aircraft and 1 B757-200 aircraft acquired under capital leases.

UAL CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1992

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS, AT COST | RETIREMENTS | OTHER CHANGES-- ADD (DEDUCT)(1) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|-----------------------|-------------|--|------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | (IN MILLIONS) | | | | |
| Operating property and equipment: | | | | | |
| Owned-- | | | | | |
| Flight equipment..... | \$ 6,710 | \$2,507(2) | \$2,140(3) | \$ 104(4) 609(6) | \$ 7,790 |
| Advances on flight equipment..... | 785 | 531(5) | -- | 3 (609)(6) | 710 |
| Other property and equipment..... | 1,907 | 223 | 39 | 9 | 2,100 |
| | ----- | ----- | ----- | ----- | ----- |
| | 9,402 | 3,261 | 2,179 | 116 | 10,600 |
| | ----- | ----- | ----- | ----- | ----- |
| Capital leases-- | | | | | |
| Flight equipment..... | 682 | 276(7) | -- | 1 | 959 |
| Other property and equipment..... | 100 | -- | -- | 1 | 101 |
| | ----- | ----- | ----- | ----- | ----- |
| | 782 | 276 | -- | 2 | 1,060 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$10,184 | \$3,537 | \$2,179 | \$ 118 | \$11,660 |
| | ===== | ===== | ===== | ===== | ===== |
| Non-operating property.. | \$ 43 | \$ 14 | \$ 49(8) | \$ 27(4) | \$ 35 |
| | ===== | ===== | ===== | ===== | ===== |

-
- (1) Includes the cost of assets held by Air Wis at the time of acquisition.
 - (2) Includes the cost of 16 B737-500 aircraft, 6 B747-400 aircraft, 25 B757-200 aircraft, and 9 B767-300ER aircraft purchased.
 - (3) Includes the cost of aircraft sold and leased back (3 B737-500, 4 B747-400, 27 B757-200 and 6 B767-300ER aircraft) and aircraft sold (8 B727-100, 2 B727-200, 1 B737-200 and 1 B747SP aircraft).
 - (4) Includes the cost of 1 B727-100 aircraft, 3 B737-200 aircraft and spare parts transferred to non-operating property.
 - (5) Represents principally advance payments on B737, B747, B757, B767, B777 and A320 aircraft on order.
 - (6) Represents the transfer of prior advances to flight equipment upon delivery of the aircraft.
 - (7) Includes the capitalized lease amount of 9 B737-500 aircraft and 1 B767-300ER aircraft acquired under capital leases.
 - (8) Includes principally the cost of 3 B727-100 aircraft and 3 B737-200 aircraft sold and 4 B727-100 aircraft donated.

UAL CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1991

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS, AT COST | RETIREMENTS | OTHER CHANGES- ADD (DEDUCT)(1) | BALANCE AT END OF YEAR |
|-----------------------------------|------------------------------------|-----------------------|-------------|---|------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | (IN MILLIONS) | | | | |
| Operating property and equipment: | | | | | |
| Owned-- | | | | | |
| Flight equipment.... | \$5,677 | \$1,694(1) | \$1,013(2) | \$ (36)(3) 388 (5) | \$ 6,710 |
| Advances on flight equipment..... | 641 | 532(4) | -- | (388)(5) | 785 |
| Other property and equipment..... | 1,748 | 199 | 22 | (18) | 1,907 |
| | ----- | ----- | ----- | ----- | ----- |
| | 8,066 | 2,425 | 1,035 | (54) | 9,402 |
| | ----- | ----- | ----- | ----- | ----- |
| Capital leases-- | | | | | |
| Flight equipment.... | 421 | 261(6) | -- | -- | 682 |
| Other property and equipment..... | 100 | -- | -- | -- | 100 |
| | ----- | ----- | ----- | ----- | ----- |
| | 521 | 261 | -- | -- | 782 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$8,587 | \$2,686 | \$1,035 | \$ (54) | \$10,184 |
| | ===== | ===== | ===== | ===== | ===== |
| Non-operating property.. | \$ 84 | \$ -- | \$ 67(4) | \$ 23(3) | \$ 43 |
| | ===== | ===== | ===== | ===== | ===== |

-
- (1) Includes the cost of 11 B737-500 aircraft, 4 B747-400 aircraft, 16 B757-200 aircraft and 5 B767-300ER aircraft purchased.
 - (2) Includes the cost of aircraft sold and leased back (2 B737-500, 3 B747-400, 5 B767-300ER and 5 B757-200 aircraft) and aircraft sold (4 B727-100 and 2 DC8-71 aircraft).
 - (3) Includes principally the cost of 8 B727 aircraft transferred to non-operating property.
 - (4) Represents principally advance payments on B737, B757, B767 and B747 aircraft on order.
 - (5) Represents the transfer of prior advances to flight equipment upon delivery of the aircraft.
 - (6) Includes the capitalized lease amount of 5 B737-500 aircraft and 4 B757-200 aircraft acquired under capital leases.
 - (7) Represents principally the cost of 2 B747-200 aircraft sold.

UAL CORPORATION INC. AND SUBSIDIARY COMPANIES

SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1993

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COSTS AND EXPENSES | | | OTHER CHANGES-- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|-----------------------------------|------------------------------|---|----------------|-------------|------------------------------|------------------------|
| | | DEPRECIATION AND AMORTIZATION | OTHER ACCOUNTS | RETIREMENTS | | |
| (IN MILLIONS) | | | | | | |
| Operating property and equipment: | | | | | | |
| Owned-- | | | | | | |
| Flight equipment.... | \$3,090 | \$ 482 | \$-- | \$139 | \$(244) | \$3,189 |
| Other property and equipment..... | 1,115 | 141 | 15 | 29 | 260 | 1,502 |
| | 4,205 | 623 | 15 | 168 | 16 | 4,691 |
| Capital leases-- | | | | | | |
| Flight equipment.... | 290 | 42 | 1 | -- | 5 | 338 |
| Other property and equipment..... | 54 | 3 | -- | -- | -- | 57 |
| | 344 | 45 | 1 | -- | 5 | 395 |
| | \$4,549 | \$ 668 | \$ 16 | \$168 | \$ 21 | \$5,086 |
| Non-operating property.. | \$ 26 | \$ -- | \$ 26 | \$ 8 | \$ 242 | \$ 286 |

UAL CORPORATION INC. AND SUBSIDIARY COMPANIES

SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1992

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COSTS AND EXPENSES | | | OTHER CHANGES-- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|-----------------------------------|------------------------------|---|----------------|-------------|------------------------------|------------------------|
| | | DEPRECIATION AND AMORTIZATION | OTHER ACCOUNTS | RETIREMENTS | | |
| (IN MILLIONS) | | | | | | |
| Operating property and equipment: | | | | | | |
| Owned-- | | | | | | |
| Flight equipment.... | \$2,884 | \$473 | \$-- | \$226 | \$(41) | \$3,090 |
| Other property and equipment..... | 1,004 | 140 | 5 | 33 | (1) | 1,115 |
| | 3,888 | 613 | 5 | 259 | (42) | 4,205 |
| Capital leases-- | | | | | | |
| Flight equipment.... | 250 | 35 | -- | -- | 5 | 290 |
| Other property and equipment..... | 51 | 3 | -- | -- | -- | 54 |
| | 301 | 38 | -- | -- | 5 | 344 |
| | \$4,189 | \$651 | \$ 5 | \$259 | \$(37) | \$4,549 |
| Non-operating property.. | \$ 46 | \$-- | \$-- | \$ 44 | \$ 24 | \$ 26 |

UAL CORPORATION AND SUBSIDIARY COMPANIES
SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1991

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COSTS AND EXPENSES | | | OTHER CHANGES-- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|--|-------------------|-------------|---------------------------------------|------------------------------|
| | | DEPRECIATION AND AMORTIZATION | OTHER ACCOUNTS | RETIREMENTS | | |
| ----- (IN MILLIONS) ----- | | | | | | |
| Operating property and equipment: | | | | | | |
| Owned-- | | | | | | |
| Flight equipment.... | \$2,666 | \$399 | \$-- | \$148 | \$(33) | \$2,884 |
| Other property and equipment..... | 900 | 116 | 6 | 18 | -- | 1,004 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 3,566 | 515 | 6 | 166 | (33) | 3,888 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Capital leases-- | | | | | | |
| Flight equipment.... | 225 | 25 | -- | -- | -- | 250 |
| Other property and equipment..... | 47 | 3 | -- | -- | 1 | 51 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 272 | 28 | -- | -- | 1 | 301 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$3,838 | \$543 | \$ 6 | \$166 | \$(32) | \$4,189 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Non-operating property.. | \$ 4 | \$-- | \$ 5 | \$ 1 | \$ 38 | \$ 46 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE VII--GUARANTEES OF SECURITIES OF OTHER ISSUERS

AS OF DECEMBER 31, 1993

| NAME OF ISSUER OF SECURITIES GUARANTEED BY PERSON FOR WHICH STATEMENT IS FILED | TITLE OF ISSUE OF EACH CLASS OF SECURITIES GUARANTEED | TOTAL AMOUNT GUARANTEED AND OUTSTANDING | NATURE OF GUARANTEE |
|--|---|---|------------------------|
| ----- | | | |
| (IN MILLIONS) | | | |
| Guaranteed by UAL Corporation and United Air Lines, Inc.: | | | |
| Regional Airports Improvement Corporation..... | Facilities Lease Refunding Revenue Bonds, 6.875% | \$ 35 | Principal and interest |
| Guaranteed by United Air Lines, Inc.: | | | |
| Regional Airports Improvement Corporation..... | Adjustable-Rate Facilities Lease Refunding Revenue Bonds, 8.80% | 25 | Principal and interest |
| City of Chicago..... | Chicago-O'Hare International Airport Special Facility Revenue Bonds--Series 1984A, 8.85% | 87 | Principal and interest |
| | Series 1984B, 8.85% | 87 | Principal and interest |
| | Series 1984C, 8.20% | 135 | Principal and interest |
| | Series 1988A, 8.40% | 75 | Principal and interest |
| | Series 1988B, 8.95% | 64 | Principal and interest |
| | Series 1990, 8.25% to 8.50% | 101 | Principal and interest |
| City and County of Denver, Colorado..... | Special Facilities Airport Revenue Bonds, 6.875% | 266 | Principal and interest |
| Galileo International Partnership..... | Unsecured borrowings under revolving credit facilities | 97 | Principal and interest |
| | | ----- | |
| | | \$972 | |
| | | ===== | |

UAL CORPORATION AND SUBSIDIARY COMPANIES
 SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1993

| DESCRIPTION ----- | BALANCE AT BEGINNING OF YEAR ----- | ADDITIONS CHARGED TO ----- | | | BALANCE AT END OF YEAR ----- |
|--|---|--------------------------------|----------------------------|---------------------|---------------------------------------|
| | | COSTS AND EXPENSES ----- | OTHER ACCOUNTS ----- | DEDUCTIONS ----- | |
| | | (IN MILLIONS) | | | |
| 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.

UAL CORPORATION AND SUBSIDIARY COMPANIES
 SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1992

| DESCRIPTION ----- | BALANCE AT BEGINNING OF YEAR ----- | ADDITIONS CHARGED TO | | | BALANCE AT END OF YEAR ----- |
|--|---|--------------------------------|----------------------------|---------------------|---------------------------------------|
| | | COSTS AND EXPENSES ----- | OTHER ACCOUNTS ----- | DEDUCTIONS ----- | |
| (IN MILLIONS) | | | | | |
| 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.

UAL CORPORATION AND SUBSIDIARY COMPANIES
 SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1991

| DESCRIPTION ----- | BALANCE AT BEGINNING OF YEAR ----- | ADDITIONS CHARGED TO | | | BALANCE AT END OF YEAR ----- |
|--|---|--------------------------------|----------------------------|---------------------|---------------------------------------|
| | | COSTS AND EXPENSES ----- | OTHER ACCOUNTS ----- | DEDUCTIONS ----- | |
| (IN MILLIONS) | | | | | |
| Reserve deducted from asset to which it applies: | | | | | |
| Allowance for doubtful accounts..... | \$13 | \$14 | \$-- | \$14(1) | \$13 |
| | === | === | === | === | === |
| Obsolescence allowance-- | | | | | |
| Flight equipment spare parts..... | \$57 | \$13 | \$ 2 | \$ 5(1) | \$67 |
| | === | === | === | === | === |

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE IX--SHORT-TERM BORROWINGS

FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

| CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS | BALANCE AT END OF YEAR | WEIGHTED AVERAGE INTEREST RATE | MAXIMUM AMOUNT OUTSTANDING DURING THE YEAR | AVERAGE AMOUNT OUTSTANDING DURING THE YEAR (1) | WEIGHTED AVERAGE INTEREST RATE DURING THE YEAR (2) |
|---|------------------------------|---|--|--|--|
| ----- (DOLLARS IN MILLIONS) ----- | | | | | |
| Notes payable to others, net of unamortized discount: | | | | | |
| 1993..... | \$315 | 3.3% | \$488 | \$421 | 3.1% |
| | ==== | === | ==== | ==== | === |
| 1992..... | \$450 | 4.2% | \$450 | \$449 | 4.0% |
| | ==== | === | ==== | ==== | === |
| 1991..... | \$449 | 5.0% | \$449 | \$448 | 6.1% |
| | ==== | === | ==== | ==== | === |

(1) Computed by dividing the sum of the beginning of the year balance and the 12 month-end balances by 13.

(2) Computed by dividing total annual interest expense by the average amount outstanding during the year.

UAL CORPORATION AND SUBSIDIARY COMPANIES
 SCHEDULE X--SUPPLEMENTARY INCOME STATEMENT INFORMATION
 FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

| ITEM ----- | CHARGED TO COSTS AND EXPENSES | | |
|--|-------------------------------|----------|----------|
| | 1993 | 1992 | 1991 |
| | (IN MILLIONS) | | |
| Maintenance and repairs..... | \$ 1,552 | \$ 1,443 | \$ 1,423 |
| Taxes other than payroll and income taxes..... | \$ 200 | \$ 180 | \$ 139 |
| Amortization of intangibles..... | \$ 84 | \$ 63 | \$ 48 |

INDEX TO EXHIBITS

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| 3.1 | Registrant's Restated Certificate of Incorporation as filed in Delaware on November 1, 1993 (filed as Exhibit 3.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference). |
| 3.2 | Registrant's By-laws, as amended on October 28, 1993 (filed as Exhibit 3.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference). |
| 4.1 | Rights Agreement dated as of December 11, 1986 between Registrant and Morgan Shareholder Services Trust Company, as Rights Agent (filed as Exhibit 4.1 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1992 and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 thereto filed, respectively, as (i) Exhibit 2 to Registrant's Form 8 dated February 26, 1988, (ii) Exhibit 3 to Registrant's Form 8 dated July 28, 1989, (iii) Exhibit 4 to Registrant's Form 8 dated September 26, 1989, and (iv) exhibit to Registrant's Form 8 dated February 3, 1993, and each incorporated herein by reference). |
| 4.2 | Registrant's Registration Statement Form S-3 (No. 33-57192) filed on January 21, 1993, relating to the offer of up to \$1,500,000,000 Convertible Debt Securities, Preferred Stock and Common Stock and United Air Lines, Inc. Debt Securities, Warrants to Purchase Debt Securities, Equipment Trust Certificates and/or Pass-Through Certificates, and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 to Registrant's Registration Statement Form S-3 (No. 33-57192) filed on January 21, March 19, May 7 and May 28, 1993, respectively, and each incorporated herein by reference. Registrant's indebtedness under any single instrument, or any potential indebtedness under any instruments except as described in Exhibit 4.2, does not exceed 10% of Registrant's total assets on a consolidated basis. Copies of such instruments will be furnished to the Commission upon request. |
| 10.1 | Letter Agreement, dated December 22, 1993, among UAL Corporation, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.1 to UAL Corporation's Form 8-K dated December 22, 1993 and incorporated herein by reference; amendment thereto filed as Exhibit 10.1 to Registrant's Form 8-K dated February 4, 1994 and incorporated herein by reference). |
| 10.2 | Letter Agreement No. 6-1162-DLJ-1193 dated January 25, 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 Exhibits 10.1, 10.2 and 10.22 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference)). (Exhibit 10.2 hereto is filed with a request for confidential treatment of certain portions.) |
| 10.3 | Supplemental Agreement No. 5 dated January 17, 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 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 and (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 and incorporated herein by reference)). (Exhibit 10.3 hereto is filed with a request for confidential treatment of certain portions.) |

EXHIBIT
NUMBER

DESCRIPTION

- 10.4 Amendment No. 1 dated as of November 24, 1993 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)). (Exhibit 10.4 hereto is filed with a request for confidential treatment of certain portions.)
- 10.5 Amendment No. 1 dated as of November 24, 1993 to Letter Agreement No. 8 dated as of August 10, 1992 to A320-200 Purchase Agreement. (Exhibit 10.5 hereto is filed with a request for confidential treatment of certain portions.)
- 10.6 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, and (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 incorporated herein by reference).
- 10.7 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, and (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 incorporated herein by reference).
- 10.8 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 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 incorporated herein by reference).
- 10.9 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated June 15, 1992, amending the Agreement dated November 21, 1991, concerning United's aircraft maintenance facility ("MOC II Agreement" (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)).
- 10.10 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated December 23, 1993, amending the MOC II Agreement.
- 10.11 Employees' Stock Purchase Plan of UAL Corporation, as amended February 1, 1993 (filed as Exhibit 10.25 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.12 Registrant's 1981 Incentive Stock Program (filed as Exhibit 10.26 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.13 Registrant's 1988 Restricted Stock Plan, as amended July 1, 1993 (filed as Exhibit 10.23 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).

EXHIBIT
NUMBER

DESCRIPTION

- 10.14 Form of Option Agreement Amendment dated as of February 24, 1994 for UAL Corporation's Section 16 officers.
- 10.15 Form of Option Agreement between UAL Corporation and officers and certain other key employees of United (filed as Exhibit 10.28 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.16 Registrant's Incentive Compensation Plan, as amended June 30, 1988 (filed as Exhibit (10)C to Registrant's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated herein by reference).
- 10.17 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).
- 10.18 UAL Corporation Retirement Plan for Outside Directors (filed as Exhibit 10.43 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; as amended by Exhibit 10.30 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.19 UAL Corporation 1992 Stock Plan for Outside Directors (filed as Exhibit 10.44 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.20 Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors.
- 10.21 Split Dollar Insurance Program (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.22 Composite Employment Agreement between Registrant, United Air Lines, Inc. and John C. Pope, dated as of July 1, 1993 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference; and incorporating herein by reference paragraph 4.C. of Employment Agreement between Registrant and Pope dated January 11, 1988 and filed as Exhibit (10)I to Registrant's Annual Report on Form 10-K for the year ended December 31, 1988).
- 10.23 Composite Employment Agreement between Registrant, United Air Lines, Inc. and Stephen M. Wolf, dated as of July 1, 1993 (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended September 30, 1993, and incorporated herein by reference; and incorporating by reference herein Appendix 3 to Employment Agreement between Registrant, United Air Lines, Inc. and Stephen M. Wolf, dated December 9, 1987 (filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992).
- 10.24 Accidental Death and Dismemberment Insurance Program (filed as Exhibit 10.47 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.25 Financial Advisory Services Program (filed as Exhibit 10.48 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.26 Social Club Membership Program.
- 10.27 Arrangement for Supplemental Long Term Disability (filed as Exhibit 10.50 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.28 Arrangement for use of United Cars (filed as Exhibit 10.51 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.29 Arrangement for UAL and United Officers' Travel Benefits (filed as Exhibit 10.52 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| 10.30 | From of Restricted Stock Deposit Agreement between UAL Corporation and officers and certain other key employees of United (filed as Exhibit 10.29 to Registrant's Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference); |
| 10.31 | Form of Severance Agreement between United Air Lines, Inc. and officers of United Air Lines, Inc. other than Messrs. Stephen M. Wolf and John C. Pope (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. |
| 22 | List of Registrant's subsidiaries. |
| 24.1 | Consent of Independent Public Accountants. |
| 24.2 | Consent of Independent Public Accountants. |
| 24.3 | Consent of Independent Public Accountants. |
| 24.4 | Consent of Independent Public Accountants. |
| 25.1 | Powers of Attorney dated March 11, 1994 for each of the Directors of the Registrant other than Messrs. Wolf and Pope signing this Form 10-K pursuant to a 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, 1993, and incorporated herein by reference). |
| 25.2 | Powers of Attorney dated March 11, 1994 or March 15, 1994 for each of the Directors of the Registrant other than Messrs. Wolf and Pope signing this Form 10-K pursuant to a 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, 1993, either as originally filed or as amended, and incorporated herein by reference). |
| 99.1 | Financial Statements of the Covia Partnership. |
| 99.2 | Financial Statements of the Galileo International Partnership together with the report of its independent public accountants. |
| 99.3 | 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

/s/ Stephen M. Wolf

By: _____
STEPHEN M. WOLF
CHAIRMAN AND CHIEF EXECUTIVE
OFFICER AND A DIRECTOR (PRINCIPAL
EXECUTIVE OFFICER)

/s/ John C. Pope

By: _____
JOHN C. POPE
PRESIDENT AND CHIEF OPERATING
OFFICER AND A DIRECTOR (PRINCIPAL
FINANCIAL OFFICER AND ACCOUNTING
OFFICER)

March 11, 1994

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 11, 1994. EACH PERSON WHOSE SIGNATURE APPEARS BELOW CONSTITUTES AND APPOINTS STEPHEN M. WOLF AND JOHN C. POPE, AND EACH OF THEM, HIS OR HER TRUE AND LAWFUL ATTORNEY-IN-FACT AND AGENT WITH FULL POWER OF SUBSTITUTION AND RESUBSTITUTION, FOR HIM OR HER AND IN HIS OR HER NAME, PLACE AND STEAD, IN HIS OR HER CAPACITY AS A DIRECTOR OF THE REGISTRANT, TO SIGN ANY OR ALL AMENDMENTS TO THIS REPORT, AND TO FILE THE SAME, WITH ANY AND ALL EXHIBITS THERETO, AND OTHER DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION, GRANTING UNTO SAID ATTORNEYS-IN-FACT AND AGENTS FULL POWER OF AUTHORITY TO DO AND PERFORM EACH AND EVERY ACT AND THING REQUISITE AND NECESSARY TO BE DONE IN AND ABOUT THE PREMISES, AS FULLY TO ALL INTENTS AND PURPOSES AS HE OR SHE MIGHT OR COULD DO IN PERSON, THEREBY RATIFYING AND CONFIRMING ALL THAT SAID ATTORNEYS-IN-FACT AND AGENTS, OR THEIR SUBSTITUTES, MAY LAWFULLY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

/s/ Neil A. Armstrong

NEIL A. ARMSTRONG

/s/ Andrew F. Brimmer

ANDREW F. BRIMMER

/s/ Richard P. Cooley

RICHARD P. COOLEY

/s/ Carla A. Hills

CARLA A. HILLS

/s/ Fujio Matsuda

FUJIO MATSUDA

/s/ John F. McGillicuddy

JOHN F. MCGILLICUDY

/s/ Harry Mullikin

HARRY MULLIKIN

/s/ James J. O'Connor

JAMES J. O'CONNOR

/s/ Frank A. Olson

FRANK A. OLSON

/s/ Ralph Strangis

RALPH STRANGIS

/s/ Paul E. Tierney, Jr.

PAUL E. TIERNEY, JR.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)
[X]

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, 1993 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. 33-21220

UNITED AIRLINES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

36-2675206

(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

LOCATION: 1200 ALGONQUIN ROAD, ELK GROVE TOWNSHIP, ILLINOIS

MAILING ADDRESS: P. O. BOX 66100, CHICAGO, ILLINOIS 60007
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) 60666 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (708) 952-4000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

NONE

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 X No

Indicate by check mark if disclosure of delinquent filings 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.

Yes [X] No []

The number of shares of common stock outstanding as of March 1, 1994 was 200. Registrant is a wholly-owned subsidiary of UAL Corporation, and there is no market for Registrant's common stock.

The Registrant meets the conditions set for the in General Instructions J(1)(a) and J(1)(b) of Form 10-K and is omitting herein information in response to Items 4, 10, 11, 12 and 13.

PART I

ITEM 1. BUSINESS

Introduction

United Air Lines, Inc. ("United" or the "Company") was incorporated under the laws of the State of Delaware on December 30, 1968. The executive offices of the Company are located at 1200 Algonquin Road, Elk Grove Township, Illinois 60007. The Company's mailing address is P.O. Box 66100, Chicago, Illinois 60666. The telephone number for the Company is (708) 952-4000.

United is the principal subsidiary of UAL Corporation ("UAL"), and is wholly-owned by UAL. United accounted for virtually all of UAL's revenues and expenses in 1993. United is a major commercial air transportation company.

Proposed Employee Investment Transaction

On December 22, 1993, the Board of Directors of UAL approved an agreement in principle (as amended, the "Agreement in Principle") with the Air Line Pilots Association ("ALPA") and the International Association of Machinists ("IAM") concerning a proposed transaction (the "Employee Investment Transaction") that would provide a majority equity interest in UAL to certain of the employees of United in exchange for wage and benefit concessions and work-rule changes. In January 1994, ALPA and the IAM ratified the Agreement in Principle. The Employee Investment Transaction is subject to, among other conditions, execution of definitive documentation and approval by UAL's stockholders.

The proposed Employee Investment Transaction is intended to put in place a lower cost structure that allows United to compete effectively in domestic markets and improve its long-term financial competitiveness. The concessions would come from three of United's employee groups: employees represented by ALPA, employees represented by the IAM, and the salaried and management employees. Employees represented by the Association of Flight Attendants ("AFA") have been invited to participate in the transaction, and representatives of UAL have engaged in discussions with AFA representatives concerning such participation but the transaction does not require their participation to proceed.

In the proposed transaction, an employee stock ownership plan ("ESOP") would be created to provide United employees with a minimum of a 53% equity interest in UAL in exchange for wage and benefit concessions and work-rule changes. The employee interest could increase to up to 63%, depending on the average market value of UAL's common stock in the year after the transaction closes. The transaction would not be dependent on external financing.

Pursuant to the terms of the Agreement In Principle, current stockholders of UAL would receive the remaining 37% to 47% of the new common stock and \$88 per share of cash and face amount of debt and preferred stock. The transaction would provide for the creation of a low-cost short-haul operation to compete in domestic markets. For additional information concerning the Agreement in Principle and the proposed Employee Investment Transaction, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation".

Recent Developments

In January 1994, United entered into an agreement with The Boeing Company ("Boeing") to acquire two new B747-400 aircraft in 1994, in place of options for two similar aircraft (see "Flight Equipment" in Item 2, Properties).

In March 1994, United opened a new major aircraft maintenance and overhaul facility ("MOC-II") in Indianapolis. Operating under a lease with the Indianapolis Airport Authority which expires November 30, 2031, when all phases of the construction work are completed United will occupy approximately 300 acres of

land and up to three million square feet of space, including 15 aircraft dock positions. MOC-II will be used for maintenance of Boeing 737 aircraft, engine repair, spare parts storage, ground equipment maintenance, technical support and administrative functions.

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 one of the world's largest investor-owned airlines as measured by operating revenues, revenue passengers and revenue passenger miles flown. At the end of 1993, United served 159 airports in the United States and 32 foreign countries. During 1993, United averaged 2,040 departures daily, flew a total of 101 billion revenue passenger miles, and carried an average of 191,000 passengers per day.

United provides service to its domestic and international markets 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 other United hubs. This arrangement permits travelers to fly from point of origin to more destinations without switching carriers. Currently, United flies from four U.S. hubs--Chicago-O'Hare International ("O'Hare"), Denver, San Francisco International, and Dulles International near Washington, D.C. ("Dulles")--and is the principal carrier at each of these hubs. United also has a Pacific hub operation at Tokyo Narita airport, and an Atlantic hub operation at London Heathrow Airport. During the last several years, United has strengthened the revenue-generating capability of the hub airports by: (1) adding new spokes (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 economically itself.

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.

Within North America, United has a marketing program with selected independent regional air carriers, known as the United Express ("UE") program, which allows United to increase the number of destinations served by its hub-and-spoke network. Six regional carriers currently participate in the UE marketing program providing connecting schedules to ten major cities also served by United: Air Wisconsin Airlines Corporation to Chicago and Denver; UFS, Inc. to Chicago; Mesa Airlines, Inc. to Denver and Los Angeles; WestAir Commuter Airlines, Inc. to San Francisco, Los Angeles, Seattle and Portland, Oregon; Great Lakes Aviation to Chicago, Denver and Minneapolis; and Atlantic Coast Airlines, Inc. to Washington-Dulles, Newark and Orlando. Connecting schedules of three of these carriers result in part from separate transfers to them in 1993 of operating assets of Air Wisconsin, Inc., which is an indirect subsidiary of UAL Corporation.

Within North America, United also has marketing agreements that provide for sharing of the "UA" code on certain routes with two other domestic air carriers, Trans World Express ("TWE") and Aloha Airlines. Code-sharing allows an airline to expand the marketing of its service brand by using its two-letter designator code to designate in computerized reservations systems a connecting flight operated by another airline on the itinerary. Under these agreements, the UA designator code is reflected on TWE flights between approximately 20 cities in the Northeast U.S. which connect with United's international flights in and out of New York John F. Kennedy International Airport ("Kennedy"), and on Aloha Airlines' flights between and among the Hawaiian Islands in connection with United's flights in and out of Hawaii. Finally, North American traffic is also served by code-sharing agreements United has with two Caribbean air carriers, ALM and Sunair, under which each reflects the United designator code on its flights.

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, beginning in 1993, from Los Angeles

to Hong Kong, and from Chicago to Seoul. Effective October 1994, United plans to offer nonstop service between Los Angeles and Osaka and, as soon as government approvals are received, service between Los Angeles and Ho Chi Minh City, Vietnam, via Taipei. South Pacific traffic to Auckland, Melbourne and Sydney is served from Los Angeles. United plans to begin nonstop service between San Francisco and Sydney beginning in June 1994 (subject to the approval of the Australian government), further strengthening United's San Francisco international hub and supplementing United's Los Angeles to Sydney service. United also has code-sharing agreements with two South Pacific air carriers, Ansett Australia and Ansett New Zealand. Based on reports filed with the Department of Transportation, United was the leading U.S. carrier in the Pacific in 1993 in terms of revenue passenger miles. During 1993, United's Pacific Division accounted for 25% of United's revenues.

Service between the U.S. and Europe is provided by: flights from six U.S. cities to the London hub, with connecting service at London to several European cities; flights from four U.S. cities to Paris, with connecting service to two European cities; and nonstop service from Dulles to Brussels, Frankfurt, Madrid, Milan/Rome and, beginning in 1993, to Amsterdam, Glasgow and Zurich; and from Chicago to Frankfurt. European traffic is also served by United's code-sharing agreements with British Midland and Emirates. In addition, in 1993 a comprehensive marketing agreement was signed with Germany's flag carrier, Lufthansa, and is awaiting governmental approvals. If approved, this worldwide alliance would, among other things, allow code-sharing between the two airlines on Transatlantic route segments, and would permit United to code-share on Lufthansa flights to eight cities in Germany beyond Frankfurt (Berlin, Cologne, Dusseldorf, Hanover, Hamburg, Munich, Nuremberg and Stuttgart), as well as Vienna. Similarly, the agreement would permit Lufthansa to code-share on United flights to eleven cities in the U.S.--five beyond Chicago, five beyond Washington, D.C., and one beyond San Francisco. A 1993 agreement to acquire USAir's Philadelphia-London route was terminated due to the transaction's failure to receive the requisite governmental approvals.

Service between the U.S. and Latin America is provided by flights to 14 Latin American cities in 11 countries from a number of cities in the U.S. Ten Latin American cities are served nonstop from Miami, three nonstop from Los Angeles and four from New York-Kennedy. United also has a code-sharing agreement with Transbrasil.

Operating revenues attributed to United's foreign operations were approximately \$5.6 billion in 1993, \$4.9 billion in 1992 and \$3.9 billion in 1991.

Selected Operating Statistics

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

| | YEAR ENDED DECEMBER 31 | | | | |
|--|------------------------|-----------|-----------|-----------|-----------|
| | 1993 | 1992 | 1991 | 1990 | 1989 |
| Revenue Aircraft Miles (millions)(a)..... | 756 | 695 | 635 | 597 | 552 |
| Revenue Aircraft Departures.. | 746,665 | 721,504 | 691,402 | 654,555 | 621,113 |
| Available Seat Miles (millions)(b)..... | 150,728 | 137,491 | 124,100 | 114,995 | 104,547 |
| Revenue Passenger Miles (millions)(c)..... | 101,258 | 92,690 | 82,290 | 76,137 | 69,639 |
| Revenue Passengers (thou- sands)..... | 69,814 | 66,692 | 62,003 | 57,598 | 54,859 |
| Average Passenger Journey (miles)..... | 1,450 | 1,390 | 1,327 | 1,322 | 1,269 |
| Average Flight Length (miles)..... | 1,013 | 964 | 918 | 912 | 888 |
| Passenger Load Factor(d).... | 67.2% | 67.4% | 66.3% | 66.2% | 66.6% |
| Break-even Load Factor(e).... | 65.6% | 70.4% | 69.5% | 66.5% | 63.0% |
| Average Yield Per Revenue Passenger Mile (in cents)(f)..... | 12.5 | 12.2 | 12.5 | 12.6 | 12.2 |
| Cost Per Available Seat Mile (in cents)(g)..... | 9.3 | 9.6 | 9.8 | 9.6 | 8.9 |
| Average Fare Per Revenue Passenger..... | \$ 181.65 | \$ 169.87 | \$ 166.05 | \$ 167.26 | \$ 155.60 |
| Average Daily Utilization of each Aircraft (hours:minutes)(h)..... | 8:30 | 8:19 | 8:13 | 8:14 | 8:09 |

- - - - -
- (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. United'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 in the second and third quarters. See Item 8, "Financial Statements and Supplementary Data," for summarized unaudited financial data for the four quarters of 1993 and 1992 incorporated by reference therein.

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 with lower operating costs than United's 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 (particularly during peak demand periods), high quality service, frequent flyer programs designed to reward customer loyalty, and competitive pricing.

During 1993, certain domestic carriers, both in and out of bankruptcy proceedings, reorganized their operating cost structures. These carriers, together with more recent entrants to the airline business, and a select number of established domestic carriers, currently have cost structures significantly lower than United's, and therefore may be able to operate profitably at lower fare levels. Furthermore, certain carriers in the short-to-medium distance 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. The success of these carriers and such strategies has led certain major carriers, including United, to consider ways in which to reorganize their short-haul operations to allow them to compete more effectively in domestic markets.

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 order to improve its ability to compete effectively in the markets that it serves, United has taken several steps to reduce its costs and capital expenditures. In January 1993, United announced a cost reduction program, which included the layoff of 2,800 employees in February 1993. In 1993 United reached agreement with Boeing to convert 49 Boeing aircraft orders into options and delay delivery of certain of the Boeing aircraft. United also reached agreement with Airbus Industrie ("Airbus") to delay delivery of 14 A320s originally scheduled for delivery after 1994. In addition, United announced in 1993 that it would accelerate the retirement of 25 widebody aircraft. United also negotiated over \$100 million in annual savings from suppliers. Finally, 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 in a series of phased closings which are expected to be completed by mid-1994.

The Employee Investment Transaction, if consummated, contemplates the creation of a low-cost, short-haul operation within United to compete more effectively in domestic markets and improve its long-term financial competitive position.

In its international markets, United competes with major U.S. carriers as well as investor-owned 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. 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 signed in 1993 with Germany's flag carrier, Lufthansa, if approved, is also expected to enhance the Company's competitive position in international markets.

No material part of the business of United and its subsidiaries is dependent upon a single customer or very few customers. Consequently, the loss of the few largest customers of United 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, 1993, United held 753 domestic air carrier slots at O'Hare, 43 at National, 65 at LaGuardia and 11 at Kennedy. In addition, Air Wisconsin, Inc. 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' historical 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. 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.

During 1993, Congress amended the U.S. Department of Transportation ("DOT") appropriations bill for fiscal year 1994. This legislation capped for that fiscal year the number of slots that could be withdrawn from U.S. carriers for allocation to international operations. Also, in November 1991, United petitioned the FAA for a repeal of the international slot withdrawal provisions of the regulations. This petition has not, however, been acted upon by the agency. United believes that the number and distribution of slots it holds at the airports subject to the high density rule are sufficient 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. There is also no assurance that the current slot regulations will remain in effect. 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 believes that, at present, it 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.

At Los Angeles and elsewhere, United and other airlines face continuing disputes as to the level of landing fee rates and other charges for airport operations. Recently, some of these rates and charges have escalated rapidly.

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. 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.

When an award level is attained, United records a liability 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.

In 1993 United announced that the mileage levels for Mileage Plus domestic award travel would be increased on a prospective basis. As revised in January 1994, the Mileage Plus rules will require 25,000 miles, instead of the 20,000 miles now required, for award tickets issued for economy class travel within the continental United States. Other mileage award level changes were also announced, as was a change to a bank-account type of system to track mileage; all changes are scheduled to take effect February 1, 1995.

Lawsuits challenging these changes and changes to American Airlines' frequent flyer program are pending in Illinois. While United believes that it has the right to make the aforementioned changes to its program, and is defending itself vigorously in the pending litigation, an adverse court decision could restrict United's ability to alter award levels now or in the future.

At December 31, 1993 and 1992, United estimated that the total number of outstanding awards was approximately 7.7 million and 7.4 million, respectively. United estimated that 5.8 million and 5.5 million,

respectively, of such awards could be expected to be redeemed and, accordingly, had recorded a liability amounting to \$205 million and \$207 million, respectively, at December 31, 1993 and 1992. 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 1.6 million, 1.4 million and 1.6 million for the years 1993, 1992 and 1991, respectively. Such awards represented 7.5%, 6.7% and 6.7% of United's total revenue passenger miles for each period, respectively. With these low percentages, seat availability and restrictions on the use of free travel awards, United believes that 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. United believes that the use of such systems has been a key factor in the marketing and distribution of airlines' products.

Before September 1993, United had an ownership interest in two general partnerships 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 is held 50% by European carriers and 50% by North American carriers. It owns the Apollo and Galileo CRSs and markets CRS services worldwide through a system of national distribution companies located in countries in which Galileo operates and which are usually owned by the Galileo partner airline resident in a particular country, or if there is none, by Galileo or a local contractor. Galileo is used by approximately 30% of the travel agent locations outside North America, where it has over 42,000 terminals at more than 14,000 locations.

ATS, which is held solely by the North American carriers, is responsible for marketing, sales and support of Apollo CRS products and services in the United States, Mexico and the Caribbean. A third entity, Galileo Japan Partnership, a 50%-owned affiliate of United, was also formed in September 1993 for the purpose of distributing CRS services in Japan.

In Canada, Apollo is distributed as the "Apollo by Gemini" product sold by the Gemini Group Limited Partnership ("Gemini"), in which Galileo owned a one-third interest. Gemini is under a court order to dissolve by November 1994, and Air Canada has agreed to acquire Galileo's interest in Gemini. Galileo is in discussions concerning an alternative distribution of its CRS products and services in Canada.

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

Government Regulation

General. All carriers engaged in air transportation in the United States, including United, are subject to regulation by the DOT and the FAA under the Federal Aviation Act of 1958, as amended (the "Aviation

Act"). 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 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, 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 investor-owned and national flag carriers 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 addition, United's operating authorities in international markets are governed by the aviation agreements between the United States and foreign countries.

In certain cases, fares, rates and schedules require the approval of the DOT and the relevant foreign governments. United has recommended to the U.S. Congress that it consider developing an international aviation policy that seeks enhanced access to international markets for U.S. carriers in return for access to U.S. markets by foreign carriers. 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 routes. For example, in 1993 the DOT determined that the Government of Japan violated its aviation agreement with the U.S. when it prevented United from implementing service between Tokyo and Sydney as part of United's New York-Tokyo-Sydney schedule. The DOT is considering various actions against Japan. While such disputes 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.

Legislation enacted by the U.S. Congress required the installation, in all types of aircraft operated by United, of a traffic collision avoidance system (TCAS) by November 30, 1993, and a windshear detection system by December 30, 1993. United completed the installations of both systems prior to their respective mandated deadline dates on all aircraft operated by it.

Both the DOT and the FAA have authority to institute administrative and judicial proceedings to enforce the Aviation Act and their own regulations, rules and orders. Both civil and criminal sanctions may be assessed for violations. The Aviation Act provides for the assessment of civil penalties in amounts of up to \$10,000 per violation which are applicable to most cases involving the safety of commercial aircraft operations, including the airport security responsibilities of air carriers.

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, 1993, United operated 371 Stage 3 aircraft representing 70% of United's total 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 interstate 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/Ekoteck 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, Kennedy, Seattle Tacoma International Airport, Spokane International Airport, and Stapleton International Airport in Denver (which is expected to close in the Spring of 1994 due to the opening of a new airport for Denver). 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 mail). In connection with its service to cities in other countries, United is subject to varying degrees of regulation by foreign governments. United has no existing obligation to the Civil Reserve Air Fleet.

Fuel

United's results of operations are significantly affected by the price and availability of jet fuel. Based on 1993 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 1989 through 1993:

| | 1993 | 1992 | 1991 | 1990 | 1989 |
|--|---------|---------|---------|---------|---------|
| | ----- | ----- | ----- | ----- | ----- |
| Fuel expense, including tax (in millions)..... | \$1,718 | \$1,679 | \$1,674 | \$1,811 | \$1,353 |
| Gallons consumed (in millions)..... | 2,699 | 2,529 | 2,338 | 2,253 | 2,128 |
| Average cost per gallon (in cents)..... | 63.6 | 66.4 | 71.6 | 80.4 | 63.6 |
| % of total operating expenses..... | 12% | 13% | 14% | 16% | 15% |

United's average fuel cost per gallon in 1993 was 4.2% lower than in 1992. 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 continues to ship fuel on major pipelines, maintains fuel storage facilities, and trades fuel to locations where it is needed. In 1993, 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 either party 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. 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.

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, and B737-500s, and \$500,000 for all other aircraft except commuter aircraft, for which the deductible is \$100,000.

Employees--Labor Matters

On December 31, 1993, United had 81,511 employees (approximately ten percent of whom are part-time employees). Approximately 64% 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, 1993 are as follows:

| EMPLOYEE GROUP ----- | NUMBER OF EMPLOYEES* | UNION | CONTRACT OPEN FOR AMENDMENT ----- |
|--|-------------------------|-------|---|
| Mechanics, ramp servicemen & other ground employees..... | 26,984 | IAM | December 1, 1994** |
| Flight attendants..... | 17,330 | AFA | April 1, 1996 |
| Pilots..... | 8,022 | ALPA | December 1, 1994** |

* The flight kitchen sales (see Item 2, Properties, "Transfers of Assets") occurring in 1994 are expected to reduce United's number of total employees by more than 4,000 from December 31, 1993 levels.

** If the proposed Employee Investment Transaction is consummated, the IAM and the ALPA contracts each will not be open for amendment until the year 1999 or 2000, depending on when the transaction closes and whether the AFA participates in the transaction.

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.

United's wage and related costs accounted for 33% of its total operating expenses for the twelve months ended December 31, 1993. In order to enhance its competitive position, United has taken various steps to reduce its unit costs, including the layoffs of 2,800 employees in February 1993, the reduction in force which is resulting from the flight kitchen sales, reductions in non-personnel expenses and the redeployment of certain aircraft to more profitable airports.

The long-term competitiveness of United's labor costs, and the long-term financial stability and profitability of United, is expected to be improved if the proposed Employee Investment Transaction is consummated.

ITEM 2. PROPERTIES

Flight Equipment

As of December 31, 1993, United's aircraft fleet totaled 544 jet aircraft, of which 246 were owned and 298 were leased. These aircraft are listed below:

| AIRCRAFT TYPE | AVERAGE NO. OF SEATS OWNED | LEASED* | TOTAL | AVERAGE AGE (YEARS) |
|----------------------------|-------------------------------|---------|-------|------------------------|
| B727-222A..... | 147 | 50 | 75 | 15 |
| B737-200..... | 109 | -- | 45 | 25 |
| B737-200A..... | 109 | -- | 24 | 14 |
| B737-300..... | 128 | 14 | 87 | 5 |
| B737-500..... | 108 | 28 | 29 | 2 |
| B747-100..... | 393 | 18 | -- | 18 |
| B747-SP..... | 244 | 2 | 7 | 9 |
| B747-200..... | 369 | 2 | 7 | 9 |
| B747-400..... | 398 | 3 | 19 | 22 |
| B757-200..... | 188 | 34 | 54 | 88 |
| B767-200..... | 179 | 19 | -- | 19 |
| B767-300ER..... | 206 | 3 | 20 | 23 |
| DC10-10..... | 287 | 28 | 13 | 41 |
| DC10-30..... | 298 | -- | 8 | 8 |
| A320-200..... | 144 | -- | 5 | 5 |
| | --- | --- | --- | --- |
| TOTAL OPERATING FLEET..... | 246 | 298 | 544 | 10 |
| | === | === | === | === |

* United's aircraft leases have initial terms of 4 to 26 years, and expiration dates range from 1994 through 2018. Under the terms of leases for 287 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, 1993, 78 of the 246 aircraft owned by United were encumbered under transaction agreements.

In 1993 United took delivery of 43 new aircraft. United acquired ten B737-500s, four B747-400s, 16 B757-200s, eight B767-300ERs, and five A320-200s.

In early 1993, United revised its capital spending plan based on reductions in its capacity requirements for the next several years. Consistent with this reduced capital spending plan, United reached agreement with Boeing to convert 49 firm aircraft orders into options, and to delay delivery of certain aircraft originally scheduled for delivery between 1993 and 1996 into the 1996-1999 period. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft, it will forfeit significant deposits. United also reached agreement with Airbus to delay delivery of 14 A320s originally scheduled for delivery after 1994. In addition, United announced in 1993 that it would accelerate the retirement of 25 widebody aircraft, including 15 DC10-10s and ten B747-SPs, retiring them prior to the end of 1994; six of these 25 widebody aircraft (five DC10-10s and one B747-SP) were retired in 1993.

As a result of these new agreements, as of December 31, 1993, 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. In addition to the B777-200 order, United has arrangements with Airbus and A320 engine

manufacturer International Aero Engines to lease an additional 45 A320-200 aircraft, which are scheduled for delivery through 1998. At December 31, 1993, United also had purchase options for 186 B737 aircraft, 54 B757-200 aircraft, 34 B777-200 aircraft, 52 B747-400 aircraft, 8 B767-300ER aircraft and 50 A320-200.

In January 1994, United entered into an agreement with Boeing to acquire two new B747-400 aircraft in 1994, in place of options for two similar aircraft. These two aircraft orders fulfill part of United's obligation to Boeing under the 1993 restructuring agreement described above.

The following table sets forth United's firm aircraft orders, options and expected delivery schedules as of December 31, 1993:

| ORDER STATUS | AIRCRAFT TYPE | NUMBER TO BE DELIVERED | DELIVERY RATE |
|--------------------|---------------|------------------------|--|
| Firm Orders..... | B777-200 | 34 | 1995-1999 |
| Total-Firms..... | | 34* | 0-3 per month |
| Options**..... | B737*** | 186 | 1996-2002 |
| | B747-400* | 52 | 1996-2003 |
| | B757-200 | 54 | 1996-1999 |
| | B767-300ER | 8 | 1997-1999 |
| | B777-200 | 34 | 1998-2000 |
| | A320-200 | 50 | 1996-2001 |
| Total-Options..... | | 384 | 0-5 per month 2-10 per year 0-2 per month 0-1 per month 1 per month 1-3 per month |

* In addition, United has agreed to lease an additional 45 A320-200 aircraft. Deliveries of these aircraft are expected to occur between 1994 and 1998. Also, in January 1994, United entered into an agreement with Boeing to acquire two new B747-400 aircraft in 1994, in place of options for two similar aircraft.

** 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 executive 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 133 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. Virtually all 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, 1993, United employed more than 11,970 mechanics, inspectors, engineers, and maintenance support personnel at the MOC and over 1,660 at the Oakland facility. United also has line aircraft maintenance employees and facilities at 36 domestic and 18 international locations.

In March 1994, United opened a new major aircraft maintenance and overhaul facility ("MOC-II") in Indianapolis. Operating under a lease with the Indianapolis Airport Authority which expires November 30, 2031. When all phases of the construction work are completed, as scheduled, in 2004, United will employ 6,300 people at MOC-II, and will occupy approximately 300 acres of land and up to three million square feet of space, including 15 aircraft dock positions. MOC-II will be used for maintenance of Boeing 737 aircraft, engine repair, spare parts storage, ground equipment maintenance, technical support and administrative functions.

In Spring 1994 United expects to relocate 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. 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 third quarter of 1993, United reached agreements to sell, lease or otherwise transfer assets related to the operation of 16 of its 17 domestic flight kitchens to Dobbs International services, Inc. and Caterair International Corp. for \$119 million in a series of phased closings that commenced in December 1993 and are expected scheduled to continue through mid-1994. Under the agreements, the purchasers will provide catering services for United at the airports served by the flight kitchens for seven years.

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 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.

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.

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

Omitted pursuant to General Instruction J (2) (c) of Form 10-K.

PART II

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

United is a wholly-owned subsidiary of UAL Corporation.

ITEM 6. SELECTED FINANCIAL DATA

| | YEAR ENDED DECEMBER 31 | | | | |
|--|------------------------|----------|----------|----------|---------|
| | 1993 | 1992 | 1991 | 1990 | 1989 |
| | (IN MILLIONS) | | | | |
| Operating revenues..... | \$14,354 | \$12,725 | \$11,660 | \$11,023 | \$9,773 |
| Earnings (loss) before extraordinary item and cumulative effect of accounting changes..... | (17) | (386) | (335) | 96 | 358 |
| Extraordinary loss on early extinguishment of debt, net of tax..... | (19) | -- | -- | -- | -- |
| Cumulative effect of accounting changes..... | -- | (547) | -- | -- | -- |
| Net earnings (loss)..... | (36) | (933) | (335) | 96 | 358 |
| Total assets at year end..... | 12,153 | 12,067 | 9,907 | 8,001 | 7,217 |
| Long-term debt and capital lease obligations, including current portion at year end..... | 3,614 | 3,628 | 2,531 | 1,326 | 1,404 |

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

PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On December 22, 1993, the Board of Directors of UAL Corporation ("UAL"), parent company of United Air Lines, Inc. ("United"), approved a non-binding agreement in principle that would provide a majority equity interest in UAL to the employees of United in exchange for wage concessions and work-rule changes. In January 1994, the agreement was ratified by the Air Line Pilots Association ("ALPA") and the International Association of Machinists ("IAM"). The transaction is subject to, among other things, approval by UAL stockholders.

The employee investment plan is intended to put in place a lower cost structure that allows United to compete effectively in the aviation marketplace and address its long-term financial viability. The concessions will come from three of United's employee groups: employees represented by ALPA, employees represented by the IAM and the salaried and management employees. Employees represented by the Association of Flight Attendants ("AFA") have been invited to participate in the plan and UAL has engaged in discussions with the AFA concerning such participation.

In the transaction, an Employee Stock Ownership Plan will be created to provide United employees with a minimum of a 53% equity interest in UAL in exchange for wage concessions and work-rule changes. 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 closes. The transaction is not dependent on external financing.

Pursuant to the terms of the agreement in principle, current UAL stockholders would receive the remaining 37 to 47% of the common stock and \$88 per share in cash and face amount of debt and preferred stock. The non-common stock consideration is expected to aggregate approximately \$743 million of cash, \$900 million face amount of senior unsecured debentures and \$900 million face amount of preferred stock depending on the number of common shares on which the distribution is made. While the agreement in principle contemplates that the debentures would be issued by UAL, such debentures could be issued by United.

The agreement includes terms for the creation of a low-cost short-haul operation to compete in domestic markets. This short-haul operation, in combination with the other wage and work-rule concessions, is expected to increase United's cash flows from operating activities.

UAL agreed that if the transaction closes prior to August 31, 1994, severance payments and employee benefits coverage approximating \$50 million would be provided by United to IAM employees being terminated from United as a result of the recent sale of flight kitchens (see Sale of Flight Kitchens), in addition

to payments required under United's labor contracts. Certain of the severance payments, which are to be made on a monthly basis, became payable in January 1994 after the unions ratified the agreement; however, these monthly payments terminate but are not refunded if the transaction does not close before August 31, 1994 or certain other conditions are not met. Other lump-sum severance amounts are payable only if the transaction closes prior to the required date. UAL has also agreed to pay up to \$45 million of transaction fees and expenses incurred by ALPA and the IAM if the transaction is closed by August 31, 1994. If the transaction does not close by the required date but certain conditions are met, UAL will pay up to \$12.5 million of ALPA and IAM transaction expenses.

Under the terms of the agreement in principle, United may not, among other things, incur incremental debt or other obligations, or sell certain assets, other than in the ordinary course of business, prior to the consummation of the transaction. In addition, after consummation of the transaction, certain activities, including certain asset dispositions, may require a different approval process by the UAL Board of Directors, and in some cases the shareholders, than is currently required.

LIQUIDITY AND CAPITAL RESOURCES

During 1993, United's total cash, cash equivalents and short-term investments decreased \$266 million to a balance of \$966 million at December 31, 1993. Operating activities generated \$818 million. Cash was used primarily to repay long-term debt, reduce short-term borrowings and to fund net additions to property and equipment.

Repayments of long-term debt amounted to \$664 million, including the early extinguishment of \$500 million of senior subordinated notes in June 1993. In addition, \$55 million was used for capital lease payments during the period. Long-term debt and capital lease obligations incurred in connection with aircraft financings during 1993 amounted to \$557 million. As a result of the year's financing activities, United's debt:equity ratio was 85:15 at December 31, 1993, unchanged from December 31, 1992.

During 1993, United placed 43 new aircraft in service. These aircraft were financed primarily with long-term debt, capital leases and operating leases. United acquired 10 B737-500 aircraft, 16 B757-200 aircraft, four B747-400 aircraft, eight B767-300ER aircraft and five A320-200 aircraft during 1993. Of these, 16 aircraft were purchased, 18 were purchased and then sold and leased back, seven were acquired under operating leases and two were acquired in capital lease transactions. Aircraft purchases and other property additions, including aircraft modification projects and aircraft spare parts, amounted to \$1.484 billion. Property dispositions, which included sale and leaseback transactions and the sales of five B727 aircraft, provided \$1.156 billion.

In early 1993, United revised its capital spending plan based on reductions in its capacity requirements for the next several years. United reached agreement with The Boeing Company ("Boeing") to convert certain aircraft orders into options. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft before 1998, it will forfeit significant deposits. United also announced an agreement with Airbus Industrie ("Airbus") to delay from 1995 and 1996 to 1997 and 1998 delivery of 14 leased A320 aircraft. In addition, United announced that it would accelerate the retirement of 25 widebody aircraft, including 15 DC10-10s and ten B747-SPs, retiring them prior to the end of 1994. In 1993, United recorded a \$59 million charge to reduce the net book value of the DC-10 aircraft to estimated net realizable value.

As a result of these new agreements, as of December 31, 1993, United had taken delivery of all aircraft on order, with the exception of 34 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 45 A320 aircraft, which are scheduled for delivery through 1998. At December 31, 1993, United also had options for 186 B737 aircraft, 54 B757 aircraft, 34 B777 aircraft, 52 B747 aircraft, eight B767 aircraft and 50 A320 aircraft. In January 1994, United entered into an agreement with Boeing to acquire two B747-400 aircraft in 1994 in place of options for two similar aircraft. 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.

Commitments for the purchase of aircraft and other property at December 31, 1993 approximated \$4.3 billion, after deducting advance payments. An estimated \$0.6 billion will be spent in 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. These amounts do not include the two B747-400 aircraft to be acquired under the January 1994 agreement referred to above.

Funds necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds, irrevocable external financing arrangements or other external sources. In 1993, UAL and United filed a shelf registration statement with the Securities and Exchange Commission for up to \$1.5 billion of securities, including secured and unsecured debt, equipment trust certificates, equity or a combination of both. Under the terms of this shelf registration statement, a 1992 shelf and a 1991 shelf were combined with the 1993 shelf statement. In December 1993, United issued \$100 million of debentures under the shelf registration statement. In May and November 1993, United issued \$176 million and \$118 million, respectively, of pass through certificates under the shelf registration to refinance aircraft under operating leases. On a combined basis, up to \$1.776 billion of additional securities may be offered at December 31, 1993. The shelf registration statement may be utilized for purposes of registering securities to be issued in the employee investment transaction.

United's senior unsecured debt is rated BB by Standard & Poor's Corporation ("S & P") and Baa3 by Moody's Investors Service Inc. ("Moody's"). These ratings reflect an October 1993 downgrade by Moody's. On December 17, 1993, Moody's announced that it was placing United's securities under review for possible downgrade citing reports about the potential for the employee investment transaction. On December 20, 1993, S & P announced that it was placing the securities on CreditWatch with developing implications, meaning the ratings may be raised or lowered.

United is in the process of constructing a maintenance facility in Indianapolis, which begins operation in 1994. The facility is being financed primarily with tax-exempt bonds and other capital sources.

As of December 31, 1993, United had a working capital deficit of \$1.608 billion. Historically, United has operated with a working capital deficit and, as in the past, United expects to meet all of its obligations as they become due.

Operating and financing activities in 1992 generated cash flows of \$287 million and \$127 million, respectively, which more than offset cash used for net additions to property, resulting in a \$96 million increase in cash, cash equivalents and short-term investments. During the year, \$2.458 billion was spent on property additions, principally aircraft. United acquired 25 B737-500 aircraft, 25 B757-200 aircraft, 10 B767-300ER aircraft and six B747-400 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 \$2.363 billion. In 1992, United also acquired certain Latin American route authorities and other related assets from Pan American World Airways, Inc. ("Pan Am").

During 1991, operating property additions amounted to \$2.122 billion and included the acquisition of 23 B757-200 aircraft, 18 B737-500 aircraft, five B767-300ER aircraft, four B747-400 aircraft and seven used B747-200 aircraft. Dispositions of property, including the sale and leaseback of 15 aircraft and the sales of two DC8-71 aircraft and four B727-100 aircraft, provided \$1.281 billion. United also acquired international route authorities and other assets from Pan Am, which was the primary cause of a \$358 million increase in intangibles. However, cash provided by operating activities of \$355 million and financing activities of \$827 million allowed United to maintain a relatively stable balance of cash, cash equivalents and short-term investments, which amounted to \$1.136 billion at December 31, 1991.

RESULTS OF OPERATIONS

United's results of operations in 1993 improved considerably as compared to 1992. In 1993, United recorded a net loss of \$36 million, compared to a 1992 net loss of \$933 million. The 1993 results include an

extraordinary loss of \$19 million on the early extinguishment of debt. The 1992 results include a \$547 million cumulative effect of adopting Statement of Financial Accounting Standard ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 109, "Accounting for Income Taxes." The 1993 loss before extraordinary item was \$17 million, compared to a 1992 loss before cumulative effect of accounting changes of \$386 million.

United recorded operating earnings in 1993 of \$295 million compared to an operating loss in 1992 of \$496 million. The improved performance in 1993 was benefitted by the cost reduction program implemented in 1993, the realignment of domestic schedules to eliminate unprofitable routes in an effort to enhance revenue performance and the impact of a labor union strike on a competing air carrier. United's 1992 losses were significantly affected by uneconomic fare actions initiated by other carriers that increased traffic and load factors to unprecedented levels, but resulted in substantially reduced yield (passenger revenue per revenue passenger mile).

While United's results showed improvement in 1993, the results of operations in the airline business can fluctuate significantly in response to general economic conditions. This is because small fluctuations in yield and cost per available seat mile can have a significant effect on operating results. Thus, United believes that industrywide fare levels, increasing low-cost competition, prolonged operations of carriers under bankruptcy protection, general economic conditions, fuel costs, international governmental policies and other factors over which it has limited control, will continue to affect its operating results.

In addition, United expects its 1994 operating results to be impacted by increases in operating expenses of approximately \$100 million related to operations at the new Denver International Airport, and approximately \$70 million related to employee pension costs as a result of lowering the assumed discount rate from 8.75% to 7.5%.

1993 COMPARED WITH 1992

Operating Revenues. Operating revenues increased \$1.629 billion (13%). Passenger revenues increased \$1.353 billion (12%) due to a 9% increase in revenue passenger miles and a 2% increase in yield to 12.48 cents. 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, available seat miles increased 10% and passenger load factor decreased 0.2 points to 67.2%.

Cargo revenues increased \$167 million (21%), due to increases of \$144 million in freight revenues and \$23 million in mail revenues. The freight revenue increase reflects both volume and unit revenue increases largely attributable to increased international operations. Contract services and other revenues increased \$109 million (18%) primarily as a result of revenues generated by Apollo Travel Services Partnership ("ATS"), a consolidated general partnership 77% owned by United, that was formed by the 1993 merger of two affiliates of United. (see Note 3 of the Notes to Consolidated Financial Statements)

Operating Expenses. Operating expenses increased \$838 million (6%). United's cost per available seat mile decreased 3% to 9.33 cents. The decrease in unit cost was largely due to the implementation of a cost reduction program in early 1993. Commissions increased \$288 million (13%) due to increased revenues and slightly higher cargo commission rates. Salaries and related costs increased \$208 million (5%) primarily due to higher average wage rates and higher costs associated with pensions and health insurance. Rentals and landing fees increased \$169 million (13%) primarily reflecting rent associated with a larger number of aircraft on operating leases. Aircraft maintenance increased \$60 million (20%) due principally to higher outside maintenance costs. Purchased services increased \$48 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 \$27 million (4%) due principally to newly acquired aircraft. Aircraft fuel expense increased \$39 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 \$80 million (10%) due principally to the consolidation of ATS after the merger. Advertising and promotion decreased \$51 million (24%) and food and beverages decreased \$24 million (7%) due to cost reduction efforts.

Other Income and Expense. Other expense amounted to \$321 million in 1993 compared to \$106 million in 1992. Interest expense increased \$31 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 Partnership ("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 the Galileo Company. 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 \$11 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.

1992 COMPARED WITH 1991

In 1992, United recorded a net loss of \$933 million, compared to the 1991 net loss of \$335 million. The 1992 loss before the cumulative effect of adoption of SFAS No. 106 and SFAS No. 109 was \$386 million.

Operating Revenues. Operating revenues increased \$1.065 billion (9%). Passenger revenues increased \$1.033 billion (10%) due to a 13% increase in revenue passenger miles partially offset by a 2% decrease in yield to 12.19 cents. The increase in passenger traffic was largely attributable to United's international operations. European operations increased significantly with the April 1991 acquisition of route authorities from Pan Am. Latin American operations began in January 1992 as United started serving certain former Pan Am destinations. Pacific air travel demand also improved compared to 1991, which was adversely impacted by the Gulf war. Domestic traffic increased primarily as a result of fare reductions initiated by other carriers. Domestic revenue passenger miles increased 5% and available seat miles increased 2%, resulting in a 2.0 point increase in domestic load factor to 66.2%. On a system basis, United's revenue passenger miles increased 13% and available seat miles increased 11%, resulting in a 1.1 point increase in passenger load factor to 67.4%.

Cargo revenues increased \$89 million (13%), primarily due to increased freight revenues, reflecting both volume and unit revenue increases as a result of expanded international operations. Contract services and other revenues decreased \$57 million (9%) primarily as a result of a decrease in fuel sales.

Operating Expenses. Operating expenses increased \$1.070 billion (9%). United's cost per available seat mile decreased 2% to 9.6 cents. Salaries and related costs increased \$430 million (11%) primarily due to increased flight crew and customer service personnel, higher average wage rates and higher costs associated with pensions and health insurance. The increase in salaries and related costs included \$75 million related to SFAS No. 106, which was adopted effective January 1, 1992. Rentals and landing fees increased \$212 million (20%) reflecting rent associated with an increasing number of aircraft on operating leases and higher airport facilities rent and landing fees, primarily related to international operations. Commissions increased \$166 million (8%) due to increased revenues, as average commission rates remained relatively unchanged. Purchased services increased \$142 million (18%) 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 \$91 million (15%) due principally to newly acquired aircraft. Food and beverages increased \$49 million (17%) due to a higher per passenger cost, reflecting a passenger mix more heavily weighted by international passengers. Aircraft fuel expense increased \$5 million, as an 8% increase United's in fuel consumption was partially offset by a 7% decrease in the average price per gallon of fuel to 66.4 cents. Aircraft maintenance decreased \$57 million (16%) due principally to lower outside maintenance costs and the retirement of the B727-100 fleet. Other operating expenses decreased \$2 million due to selling less fuel to third parties.

Other Income and Expense. Other expense amounted to \$106 million in 1992 compared to \$22 million in 1991. Interest expense increased \$106 million due primarily to increased debt and capital lease obligations incurred in connection with 1991 and 1992 aircraft financings. Interest income decreased \$19 million due to lower interest rates. Equity in the earnings of affiliates increased \$35 million as a result of higher Covia booking revenues and the settlement of certain partner accounts in 1991. "Other income (expense)-- Miscellaneous, net" included foreign exchange gains of \$2 million in 1992 compared to losses of \$20 million in 1991. Also included in 1992 was 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 gains of \$32 million on the disposition of property, primarily one B747-SP aircraft, seventeen B727 aircraft and four B737-200 aircraft. In 1991, gains on the disposition of property amounted to \$49 million, which reflected sales of two DC8-71s and four B727-100s.

OTHER INFORMATION

Deferred Tax Asset

United's consolidated balance sheet at December 31, 1993 includes a net cumulative deferred tax asset of \$697 million. The net deferred tax asset is composed of approximately \$1.9 billion of deferred tax assets and approximately \$1.2 billion of deferred tax liabilities. The deferred tax assets include, among other things, \$598 million related to obligations for postretirement and other employee benefits, \$480 million related to gains on sales and leasebacks and \$202 million related to alternative minimum tax ("AMT") credit carryforwards which do not expire.

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, United needs to generate approximately \$1.2 billion in future taxable income. Based on the expectations for future taxable income, 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 the deferred tax assets will be realized.

Although United has experienced both book and tax losses in the past three years, in the ten years prior to these losses, United reported cumulative taxable income of \$2.8 billion (including \$400 million of gains on dispositions of businesses). Following is a summary of United's pretax book income and taxable income for the last five years:

| (IN MILLIONS) | 1993 | 1992 | 1991 | 1990 | 1989 |
|--------------------------------|---------|---------|---------|-------|-------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Pretax book income (loss)..... | \$ (26) | \$(602) | \$(513) | \$167 | \$595 |
| Taxable income (loss)..... | \$(156) | \$(502) | \$(784) | \$274 | \$638 |

The losses in the past three years were largely attributable to certain events beyond management control, including the Gulf war, 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 resulting in severe competition in the airline industry. While the economic outlook in Japan and Europe could continue to negatively affect United's operating results, management believes that these economies will begin to improve, and when combined with certain cost containment strategies, United's financial results should improve.

Management has already taken several steps to reduce costs and capital expenditures. United's improved operating results in 1993 versus 1992 are principally attributable to these actions, as highlighted below:

- . Implemented a program in January 1993 to reduce planned 1993 operating expenses by \$400 million, including the furlough of 2,800 employees in February 1993.
- . Reached agreement with Boeing, its principal supplier, to convert 49 aircraft orders into options and defer their scheduled delivery dates.
- . Reduced 1993 to 1996 capital spending by \$6 billion.
- . Agreed to sell flight kitchens which will result in the avoidance of an estimated \$70 million of capital expenditures and estimated cost savings of more than \$320 million over the seven year catering contract with the purchaser, before taking into account the severance payments resulting from the employee investment transaction.
- . Accelerated the retirement of 25 older aircraft to reduce costs and improve operating efficiencies.
- . Negotiated over \$100 million in annual savings from suppliers.
- . Reduced domestic capacity by eliminating certain unprofitable routes and reducing capacity in certain markets to better match demand.
- . Increased the use of cooperative arrangements with domestic and international carriers resulting in increased revenue opportunities through code-sharing.

The long-term financial stability and profitability of the company is expected to be further enhanced through the proposed employee investment transaction. However, in the event the proposed employee investment transaction does not occur, United is prepared to make additional structural changes to return to profitability.

United'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. In the event that future taxable income is inadequate to realize the benefits of the remaining deferred tax assets, United has identified certain tax planning strategies that would significantly contribute to the utilization of these assets. These strategies include, among other things, eliminating the prefunding of certain employee benefits and the sale of unused route authorities.

There can be no assurances that United will meet its expectation of future taxable income. However, based on the above factors, 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, 1993.

CONTINGENCIES

During 1992, United recorded a \$13 million charge representing its share of the cash component of a settlement of certain class action claims. Under the settlement, which has been approved by the U.S. District Court, six airlines paid approximately \$45 million in cash and will issue \$397 million in face amount of certificates affording discounts of up to approximately 10% on future air travel on any of the six carriers.

No liability was established for the certificate portion of the settlement since United expects that in the aggregate, future revenues associated with certificate redemption will exceed the cost of providing the related air service. United anticipates that the portion of the total issued certificates that may be redeemed on United will approximate United's 22% market share among the six carriers, but actual redemption may be greater or lesser.

The ultimate impact of the settlement on United's future revenues, operating margins and earnings is not reasonably estimable since neither the portion of the certificates to be redeemed on United nor the generative or dilutive revenue effect of certificate redemption is known.

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.

United has certain other contingencies resulting from litigation and claims incident to the ordinary course of business. Although the ultimate outcome of these matters could have a material effect on United's financial condition, operating results or liquidity, 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 United's financial condition, operating results or liquidity.

NEW ACCOUNTING STANDARDS

In November 1992, the Financial Accounting Standards Board ("FASB") issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which 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. United will adopt the new standard in the first quarter of 1994. Based on preliminary estimates, United currently expects to record a transition obligation, which will result in a cumulative charge of \$26 million, net of tax. Prior years' financial statements will not be restated. Ongoing expenses will vary based on actual claims experience.

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires fair value accounting for certain investments. United is required to adopt the new standard in 1994 and the standard is not to be applied retroactively. Upon adoption, United will record a periodic charge or credit to adjust the carrying value of certain investments to fair value. The adjustment will be recorded in earnings or as a separate component of equity, depending on the type of investment. United does not expect a material impact on either earnings or equity as a result of adopting SFAS No. 115.

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 will become effective October 1, 1995, and is scheduled to continue until October 1, 1998. Based on United's 1993 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.

FOREIGN CURRENCY TRANSACTIONS

United generates revenues and incurs expenses in numerous foreign currencies; however, United has limited exposure to foreign exchange rate fluctuations due to its ability to convert 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 in recent years, including losses recorded in early 1993, were primarily the result of the impact of exchange rate changes on unhedged Japanese yen-denominated long-term debt, lease obligations and current liabilities, since the aggregate balance of such liabilities exceeded United's yen-denominated assets. During 1993, United increased the amount of its yen-denominated assets to minimize the impact of foreign exchange rate changes on reported financial results.

SALE OF FLIGHT KITCHENS

In the third quarter of 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. Under

the agreements, the purchasers will provide catering services for United at the airports served by the flight kitchens for seven years. United expects the catering agreement to result in savings of approximately \$320 million over its term, before taking into account the severance payments resulting from the employee investment transaction. The asset sales for most, if not all, of the flight kitchens are expected to be completed in the second quarter of 1994. The asset sales result in an insignificant gain.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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NUMBER

Report of independent public accountants.....

Consolidated financial statements--

Statement of consolidated operations for the years ended December 31, 1993, 1992 and 1991.....

Statement of consolidated financial position as of December 31, 1993 and 1992.....

Statement of consolidated cash flows for the years ended December 31, 1993, 1992 and 1991.....

Statement of consolidated shareholder's equity for the years ended December 31, 1993, 1992 and 1991.....

Notes to consolidated financial statements.....

Reference is made to Item 14(a)(2), page 68, for the Financial Statements Schedules included in this report.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors,
United Air Lines, Inc.:

We have audited the accompanying statement of consolidated financial position of United Air Lines, Inc. (a Delaware corporation) and subsidiary companies as of December 31, 1993 and 1992, and the related statements of consolidated operations, consolidated cash flows and consolidated shareholder's equity for each of the three years in the period ended December 31, 1993. These financial statements and the schedules 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 financial statements referred to above present fairly, in all material respects, the financial position of United Air Lines, Inc. and subsidiary companies as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in notes 5 and 11 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 schedules referenced in Item 14(a)(2) herein are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Anderson & Co.

Chicago, Illinois
February 23, 1994

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED OPERATIONS

(IN MILLIONS)

| | YEAR ENDED DECEMBER 31 | | |
|--|------------------------|----------|----------|
| | 1993 | 1992 | 1991 |
| Operating revenues: | | | |
| Passenger..... | \$12,682 | \$11,329 | \$10,296 |
| Cargo..... | 960 | 793 | 704 |
| Contract services and other..... | 712 | 603 | 660 |
| | ----- | ----- | ----- |
| | 14,354 | 12,725 | 11,660 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Salaries and related costs..... | 4,695 | 4,487 | 4,057 |
| Commissions..... | 2,500 | 2,212 | 2,046 |
| Aircraft fuel..... | 1,718 | 1,679 | 1,674 |
| Rentals and landing fees..... | 1,466 | 1,297 | 1,085 |
| Purchased services..... | 974 | 926 | 784 |
| Depreciation and amortization..... | 722 | 695 | 604 |
| Aircraft maintenance..... | 366 | 306 | 363 |
| Food and beverages..... | 317 | 341 | 292 |
| Personnel expenses..... | 260 | 266 | 239 |
| Advertising and promotion..... | 163 | 214 | 207 |
| Other..... | 878 | 798 | 800 |
| | ----- | ----- | ----- |
| | 14,059 | 13,221 | 12,151 |
| | ----- | ----- | ----- |
| Earnings (loss) from operations..... | 295 | (496) | (491) |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest expense..... | (347) | (316) | (210) |
| Interest capitalized..... | 51 | 92 | 91 |
| Interest income..... | 75 | 64 | 83 |
| Equity in earnings (loss) of affiliates..... | (30) | 42 | 7 |
| Miscellaneous, net..... | (70) | 12 | 7 |
| | ----- | ----- | ----- |
| | (321) | (106) | (22) |
| | ----- | ----- | ----- |
| Loss before extraordinary item, income taxes and cumulative effect of accounting changes..... | (26) | (602) | (513) |
| Provision (credit) for income taxes..... | (9) | (216) | (178) |
| | ----- | ----- | ----- |
| Loss before extraordinary item and cumulative effect of accounting changes..... | (17) | (386) | (335) |
| Extraordinary loss on early extinguishment of debt, net of tax..... | (19) | -- | -- |
| Cumulative effect of accounting changes: | | | |
| Accounting for postretirement benefits, net of tax..... | -- | (580) | -- |
| Accounting for income taxes..... | -- | 33 | -- |
| | ----- | ----- | ----- |
| Net loss..... | \$ (36) | \$ (933) | \$ (335) |
| | ===== | ===== | ===== |

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

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(IN MILLIONS)

| A S S E T S | DECEMBER 31 | |
|---|-------------|----------|
| | 1993 | 1992 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents..... | \$ 285 | \$ 454 |
| Short-term investments..... | 681 | 778 |
| Receivables, less allowance for doubtful accounts (1993--\$22; 1992--\$12)..... | 1,092 | 1,064 |
| Related party receivables..... | 397 | 311 |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (1993--\$69; 1992--\$46)..... | 277 | 314 |
| Refundable income taxes..... | 47 | 109 |
| Deferred income taxes..... | 127 | 34 |
| Prepaid expenses..... | 361 | 328 |
| | 3,267 | 3,392 |
| Operating property and equipment: | | |
| Owned-- | | |
| Flight equipment..... | 7,899 | 7,604 |
| Advances on flight equipment..... | 589 | 706 |
| Other property and equipment..... | 2,658 | 2,077 |
| | 11,146 | 10,387 |
| Less--Accumulated depreciation and amortization..... | 4,678 | 4,183 |
| | 6,468 | 6,204 |
| Capital leases-- | | |
| Flight equipment..... | 1,027 | 958 |
| Other property and equipment..... | 104 | 100 |
| | 1,131 | 1,058 |
| Less--Accumulated amortization..... | 395 | 343 |
| | 736 | 715 |
| | 7,204 | 6,919 |
| Other assets: | | |
| Intangibles, less accumulated amortization (1993--\$165; 1992--\$129)..... | 789 | 800 |
| Deferred income taxes..... | 570 | 579 |
| Other..... | 323 | 377 |
| | 1,682 | 1,756 |
| | \$12,153 | \$12,067 |

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

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(IN MILLIONS, EXCEPT SHARE DATA)

| LIABILITIES AND SHAREHOLDER'S EQUITY | DECEMBER 31 | |
|---|-------------|----------|
| | 1993 | 1992 |
| Current liabilities: | | |
| Short-term borrowings..... | \$ 315 | \$ 450 |
| Long-term debt maturing within one year..... | 125 | 73 |
| Current obligations under capital leases..... | 62 | 53 |
| Advance ticket sales..... | 1,036 | 1,066 |
| Accounts payable..... | 632 | 649 |
| Accrued salaries, wages and benefits..... | 941 | 903 |
| Accrued aircraft rent..... | 886 | 708 |
| Other accrued liabilities..... | 878 | 858 |
| | ----- | ----- |
| | 4,875 | 4,760 |
| Long-term debt..... | 2,603 | 2,694 |
| Long-term obligations under capital leases..... | 824 | 808 |
| Other liabilities and deferred credits: | | |
| Deferred pension liability..... | 571 | 576 |
| Postretirement benefit liability..... | 1,058 | 960 |
| Deferred gains..... | 1,400 | 1,430 |
| Other..... | 113 | 101 |
| | ----- | ----- |
| | 3,142 | 3,067 |
| Minority interest..... | 35 | -- |
| Shareholder's equity: | | |
| Common stock, \$5 par value; authorized, 1,000 shares; outstanding 200 shares..... | -- | -- |
| Additional capital invested..... | 839 | 816 |
| Retained earnings (deficit)..... | (95) | (59) |
| Unearned compensation..... | (17) | (11) |
| Pension liability adjustment..... | (53) | (8) |
| | ----- | ----- |
| | 674 | 738 |
| Commitments and contingent liabilities (Note 13)..... | \$12,153 | \$12,067 |
| | ===== | ===== |

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

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED CASH FLOWS

(IN MILLIONS)

| | YEAR ENDED DECEMBER 31 | | |
|---|------------------------|---------|---------|
| | 1993 | 1992 | 1991 |
| Cash and cash equivalents at beginning of year..... | \$ 454 | \$ 437 | \$ 214 |
| Cash flows from operating activities: | | | |
| Net loss..... | (36) | (933) | (335) |
| Adjustments to reconcile to net cash provided by operating activities-- | | | |
| Extraordinary loss on early extinguishment of debt..... | 19 | -- | -- |
| Cumulative effect of accounting change..... | -- | 547 | -- |
| Deferred pension expense..... | 242 | 165 | 75 |
| Deferred postretirement benefit expense..... | 89 | 75 | -- |
| Depreciation and amortization..... | 722 | 695 | 604 |
| Foreign exchange (gains) losses..... | 20 | (2) | 20 |
| Gains on disposition of property..... | (2) | (32) | (49) |
| Provision (credit) for deferred income taxes..... | (59) | (128) | 18 |
| Undistributed (earnings) losses of affiliates..... | 42 | (27) | (4) |
| Decrease (increase) in receivables..... | (20) | (144) | 6 |
| Decrease (increase) in related party receivables.. | (39) | (309) | 18 |
| Decrease (increase) in other current assets..... | 15 | (67) | (89) |
| Increase (decrease) in advance ticket sales..... | (31) | 184 | 40 |
| Increase (decrease) in accrued income taxes..... | 39 | 191 | (279) |
| Increase (decrease) in accounts payable and accrued liabilities..... | (124) | 134 | 378 |
| Amortization of deferred gains..... | (83) | (82) | (82) |
| Other, net..... | 24 | 20 | 34 |
| | 818 | 287 | 355 |
| Cash flows from investing activities: | | | |
| Additions to property and equipment..... | (1,484) | (2,458) | (2,122) |
| Proceeds on disposition of property and equipment.. | 1,156 | 2,363 | 1,281 |
| Decrease (increase) in short-term investments..... | 114 | (84) | 240 |
| Acquisition of intangibles..... | (3) | (146) | (358) |
| Increase in loans to affiliates..... | (22) | (48) | -- |
| Other, net..... | 7 | (24) | -- |
| | (232) | (397) | (959) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt..... | 99 | 197 | 687 |
| Repayment of long-term debt..... | (664) | (83) | (76) |
| Principal payments under capital leases..... | (55) | (50) | (31) |
| Capital contributions from parent company..... | -- | 60 | 192 |
| Decrease in advances to parent company..... | -- | -- | 53 |
| Increase (decrease) in short-term borrowings..... | (135) | 1 | 1 |
| Other, net..... | -- | 2 | 1 |
| | (755) | 127 | 827 |
| Increase (decrease) in cash and cash equivalents during the year..... | (169) | 17 | 223 |
| Cash and cash equivalents at end of year..... | \$ 285 | \$ 454 | \$ 437 |

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

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED SHAREHOLDER'S EQUITY

(IN MILLIONS)

| | COMMON STOCK | ADDITIONAL CAPITAL INVESTED | RETAINED EARNINGS | UNEARNED COMPEN- SATION | PENSION LIABILITY ADJUSTMENT | TOTAL |
|---|-----------------|-----------------------------------|----------------------|-------------------------------|------------------------------------|---------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 1990..... | \$ -- | \$567 | \$1,209 | \$ (8) | \$ -- | \$1,768 |
| Year ended December 31, 1991: | | | | | | |
| Net loss..... | -- | -- | (335) | -- | -- | (335) |
| Capital contributions from parent company-- | | | | | | |
| Cash contribution..... | -- | 192 | -- | -- | -- | 192 |
| United Vacations, Inc..... | -- | (19) | -- | -- | -- | (19) |
| Unearned compensation of parent company restricted stock plan..... | -- | 15 | -- | (15) | -- | -- |
| Amortization of unearned compensation under restricted stock plan..... | -- | -- | -- | 6 | -- | 6 |
| Increase resulting from exercise of parent company stock options. | -- | 1 | -- | -- | -- | 1 |
| Balance at December 31, 1991..... | -- | 756 | 874 | (17) | -- | 1,613 |
| Year ended December 31, 1992: | | | | | | |
| Net loss..... | -- | -- | (933) | -- | -- | (933) |
| Capital contribution from parent company.. | -- | 60 | -- | -- | -- | 60 |
| Adjustment required to recognize minimum pension liability.... | -- | -- | -- | -- | (8) | (8) |
| Amortization of unearned compensation under restricted stock plan..... | -- | -- | -- | 5 | -- | 5 |
| Forfeiture of parent company restricted stock..... | -- | (1) | -- | 1 | -- | -- |
| Increase resulting from exercise of parent company stock options..... | -- | 1 | -- | -- | -- | 1 |
| Balance at December 31, 1992..... | -- | 816 | (59) | (11) | (8) | 738 |
| Year ended December 31, 1993: | | | | | | |
| Net loss..... | -- | -- | (36) | -- | -- | (36) |
| Adjustment required to recognize minimum pension liability.... | -- | -- | -- | -- | (45) | (45) |
| Unearned compensation of parent company restricted stock plan..... | -- | 16 | -- | (16) | -- | -- |
| Amortization of unearned compensation under restricted stock plan..... | -- | -- | -- | 9 | -- | 9 |
| Forfeiture of parent company restricted stock..... | -- | (1) | -- | 1 | -- | -- |
| Increase resulting from exercise of parent company stock options..... | -- | 8 | -- | -- | -- | 8 |
| Balance at December 31, | | | | | | |

| | | | | | | |
|-----------|-------|-------|---------|--------|---------|--------|
| 1993..... | \$ -- | \$839 | \$ (95) | \$(17) | \$ (53) | \$ 674 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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

UAL CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation--

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

(b) Accounting Changes--

Effective January 1, 1992, United adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (see Note 11) and SFAS No. 109, "Accounting for Income Taxes" (see Note 5).

(c) 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.

(d) 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, and gains and losses on foreign currency call options used to hedge foreign currency obligations, are charged or credited directly to income.

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

Cash in excess of operating requirements is pooled with funds from UAL and its subsidiary companies and 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. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. Due to the short maturity of these instruments, their carrying amount is a reasonable estimate of fair value.

(f) 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.

(g) 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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

flight simulators and 25 years to 40 years for buildings. Amortization of capital leases is included in depreciation and amortization expense.

Gains or losses on dispositions of individual units of owned property and equipment are reflected in earnings. 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.

(h) Intangibles--

Intangibles consist primarily of route acquisition costs, slots and intangible pension assets (see Note 10). Route acquisition costs and slots are amortized over 40 years and 5 years, respectively.

(i) 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.

(j) 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.

(k) Interest Rate Swap Agreements--

United enters into interest rate swap agreements to hedge certain interest rate exposure. The differential to be paid or received under the swap agreements is accrued and included in interest expense or rental expense.

(2) PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On December 22, 1993, the Board of Directors of UAL approved a non-binding agreement in principle that would provide a majority equity interest in UAL to the employees of United in exchange for wage concessions and work-rule changes. In January 1994, the agreement was ratified by the Air Line Pilots Association ("ALPA") and the International Association of Machinists ("IAM"). The transaction is subject to, among other things, approval by UAL stockholders.

In the transaction, an Employee Stock Ownership Plan will be created to provide United employees with a minimum of a 53% equity interest in UAL in exchange for wage concessions and work-rule changes. 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 closes. The transaction is not dependent on external financing.

Pursuant to the terms of the agreement in principle, current UAL stockholders would receive the remaining 37 to 47% of the common stock and \$88 per share in cash and face amount of debt and preferred stock. The non-common stock consideration is expected to aggregate approximately \$743 million of cash, \$900 million face amount of senior unsecured debentures and \$900 million face amount of preferred stock depending on the number of common shares on which the distribution is made. While the agreement in principle contemplates that the debentures would be issued by UAL, such debentures could be issued by United.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

UAL agreed that if the transaction closes prior to August 31, 1994, severance payments and employee benefits coverage approximating \$50 million would be provided by United to IAM employees being terminated from United as a result of the recent sale of flight kitchens (see Note 16), in addition to payments required under United's labor contracts. Certain of the severance payments, which are to be made on a monthly basis, became payable in January 1994 after the unions ratified the agreement; however, these monthly payments terminate but are not refunded if the transaction does not close before August 31, 1994 or certain other conditions are not met. Other lump-sum severance amounts are payable only if the transaction closes prior to the required date. UAL has also agreed to pay up to \$45 million of transaction fees and expenses incurred by ALPA and the IAM if the transaction is closed by August 31, 1994. If the transaction does not close by the required date but certain conditions are met, UAL will pay up to \$12.5 million of ALPA and IAM transaction expenses.

(3) MERGER OF AFFILIATES

In September 1993, the Covia Partnership ("Covia"), a 50% owned affiliate of United, and The Galileo Company Limited, a 25.9% owned affiliate of United, merged. The merger resulted in the formation of the Apollo Travel Services Partnership ("ATS") and the Galileo International Partnership ("Galileo"), two general partnerships that are owned 77% and 38%, respectively, by United through a wholly-owned subsidiary. Galileo owns the Apollo and Galileo computer reservations systems. ATS is responsible for marketing, sales and support of Apollo in the United States, Mexico and the Caribbean.

Prior to the merger, United's investments in these companies were carried on the equity basis. As a result of the merger and United's majority ownership of ATS, the accounts of ATS are consolidated, resulting 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. United's investment in Galileo is carried on the equity basis. The accounting for the merger resulted in no change in the book value of the assets and liabilities of the companies combined. During the fourth quarter, Galileo recorded a charge for the cost of eliminating duplicate facilities and operations. United's share of this charge was recorded in "Equity in earnings (loss) of affiliates." The merger is expected to create operating efficiencies by eliminating duplication.

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, \$22 million and \$31 million in 1993, 1992 and 1991, respectively. The cost to United of services purchased from the Covia Partnership amounted to approximately \$168 million, \$219 million, and \$191 million in 1993, 1992 and 1991, respectively. Under operating agreements with Galileo subsequent to the merger, United purchases computer reservation services from Galileo and ATS provides marketing, sales and communication services for Galileo. Revenues derived from the sale of services to Galileo amounted to approximately \$58 million and the cost of services purchased from Galileo amounted to approximately \$47 million in 1993.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Summarized financial information for the significant entities accounted for on the equity basis, follows.

Covia--Summarized financial information as of September 15, 1993 and December 31, 1992 and for the period from January 1, 1993 through September 15, 1993 and the years ended December 31, 1992 and 1991 (in millions):

| | SEPTEMBER 15, 1993 | DECEMBER 31, 1992 |
|----------------------------|-----------------------|----------------------|
| | ----- | ----- |
| Current assets..... | \$168 | \$132 |
| Non-current assets..... | 312 | 322 |
| | ---- | ---- |
| Total assets..... | 480 | 454 |
| | ---- | ---- |
| Current liabilities..... | 83 | 98 |
| Long-term liabilities..... | 44 | 13 |
| | ---- | ---- |
| Total liabilities..... | 127 | 111 |
| | ---- | ---- |
| Net assets..... | \$353 | \$343 |
| | ==== | ==== |

| | 1993 | 1992 | 1991 |
|--|-------|-------|-------|
| | ---- | ---- | ---- |
| Net services revenues..... | \$398 | \$527 | \$451 |
| Costs and expenses..... | 334 | 444 | 436 |
| Income before cumulative effect of change in accounting..... | 64 | 83 | 15 |
| Net income..... | 47 | 83 | 15 |

Effective January 1, 1993, Covia adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" which resulted in a cumulative charge of \$17 million.

Galileo--Summarized financial information as of December 31, 1993 and for the period from September 16, 1993 through December 31, 1993 (in millions):

| | DECEMBER 31, 1993 |
|----------------------------|----------------------|
| | ----- |
| Current assets..... | \$ 141 |
| Non-current assets..... | 467 |
| | ---- |
| Total assets..... | 608 |
| | ---- |
| Current liabilities..... | 173 |
| Long-term liabilities..... | 440 |
| | ---- |
| Total liabilities..... | 613 |
| | ---- |
| Net assets..... | \$ (5) |
| | ==== |
| | 1993 |
| | ----- |
| Services revenues..... | \$ 186 |
| Costs and expenses..... | 327 |
| Net loss..... | (141) |

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(4) OTHER INCOME (EXPENSE)--MISCELLANEOUS

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

| | 1993 | 1992 | 1991 |
|--|---------------|-------|--------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |
| Foreign exchange gains or losses..... | \$(20) | \$ 2 | \$(20) |
| Amortization of hedge transaction costs..... | (6) | (4) | (8) |
| Write down of aircraft to net realizable value..... | (59) | -- | - |
| Gain on settlement of 1985 annuity purchases..... | 17 | -- | - |
| Net gains on disposition of property..... | 2 | 32 | 49 |
| Gain on sale of certain property rights..... | -- | 9 | 15 |
| Settlement of class action claims regarding airline fare data..... | -- | (13) | - |
| Other..... | (4) | (14) | (29) |
| | ----- | ----- | ----- |
| | \$ (70) | \$ 12 | \$ 7 |
| | ===== | ===== | ===== |

(5) INCOME TAXES

United, its subsidiaries and other affiliated companies file a consolidated federal income tax return with UAL. Under an intercompany tax allocation policy, United and its subsidiaries compute, record, and pay UAL for their own tax liability as if they were separate companies filing separate tax returns. In determining their own tax liabilities, United and each of its subsidiaries take into account all tax credits or benefits generated and utilized as separate companies, and they are compensated for the aforementioned tax benefits only if they would be able to use those benefits on separate company bases.

In 1993, United incurred a regular tax loss but had an alternative minimum tax ("AMT") liability. The regular tax loss will be carried back to reduce taxable income generated in previous years resulting in federal and state refunds and additional AMT credits. Certain preferences, mainly depreciation adjustments, have caused alternative minimum taxable income to exceed regular taxable income, resulting in the AMT liability.

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

| | 1993 | 1992 | 1991 |
|--------------|---------------|---------|---------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |
| Current-- | | | |
| Federal..... | \$ 50 | \$ (85) | \$(198) |
| State..... | -- | (3) | 2 |
| | ----- | ----- | ----- |
| | 50 | (88) | (196) |
| Deferred-- | | | |
| Federal..... | (68) | (114) | 24 |
| State..... | 9 | (14) | (6) |
| | ----- | ----- | ----- |
| | (59) | (128) | 18 |
| | ----- | ----- | ----- |
| | \$ (9) | \$(216) | \$(178) |
| | ===== | ===== | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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

| | 1993 | 1992 | 1991 |
|---|---------------|---------|---------|
| | ---- | ----- | ----- |
| | (IN MILLIONS) | | |
| Income tax provision (credit) at statutory rate..... | \$ (9) | \$(205) | \$(174) |
| State income taxes, net of federal income tax benefit.... | 6 | (11) | (3) |
| Nondeductible employee meals..... | 8 | 8 | 6 |
| Foreign sales corporation benefit..... | (1) | (6) | (6) |
| Rate change effect..... | (9) | -- | -- |
| Foreign tax credits..... | (3) | (2) | (2) |
| Losses of foreign affiliate..... | -- | -- | 1 |
| Other, net..... | (1) | -- | -- |
| | ----- | ----- | ----- |
| Income tax provision (credit) as reported..... | \$ (9) | \$(216) | \$(178) |
| | ===== | ===== | ===== |

United 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. United recognized a tax benefit of \$33 million for the cumulative effect of adopting SFAS No. 109. Deferred income taxes (credit) for 1993 and 1992 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.

During 1991, deferred income taxes were provided for significant timing differences in the recognition of revenue and expenses for tax and financial statement purposes. Principally, these items consisted of the following: \$81 million for depreciation and capitalized interest, \$(62) million for gains on sale and leaseback transactions, \$32 million for gains on asset dispositions, \$(24) million for rent expense, \$(31) for pension expense, \$16 million for other employee benefits and \$12 million for prepaid commissions.

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities for 1993 and 1992 are as follows:

| | 1993 | | 1992 | |
|---------------------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|
| | ----- | ----- | ----- | ----- |
| | DEFERRED TAX ASSETS | DEFERRED TAX LIABILITIES | DEFERRED TAX ASSETS | DEFERRED TAX LIABILITIES |
| | (IN MILLIONS) | | | |
| Employee benefits, including | | | | |
| postretirement medical..... | \$ 598 | \$ 31 | \$ 657 | \$ 119 |
| Prepaid commissions..... | -- | 49 | -- | 51 |
| Depreciation, capitalized interest | | | | |
| and transfers of tax benefits..... | -- | 1,105 | -- | 1,013 |
| Gains on sale and leasebacks..... | 480 | -- | 479 | -- |
| Rent expense..... | 207 | -- | 169 | -- |
| AMT credit carryforward..... | 202 | -- | 132 | -- |
| Foreign exchange gains and losses.... | 84 | -- | 102 | -- |
| Frequent flyer accrual..... | 72 | -- | 72 | -- |
| Other..... | 295 | 56 | 385 | 200 |
| | ----- | ----- | ----- | ----- |
| | \$1,938 | \$1,241 | \$1,996 | \$1,383 |
| | ===== | ===== | ===== | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

United has determined, based on its history of operating earnings, available carrybacks, expectations for the future and potential tax planning strategies, that it is more likely than not that the deferred tax assets at December 31, 1993 will be realized before expiration.

The significant differences between pretax book losses and taxable losses for the last three years were as follows (in millions):

| | 1993 | 1992 | 1991 |
|---|---------|---------|---------|
| | ----- | ----- | ----- |
| Pretax book loss..... | \$ (26) | \$(602) | \$(513) |
| Gains on sale and leasebacks..... | 17 | 304 | 171 |
| Depreciation, capitalized interest and transfers of tax benefits..... | (370) | (278) | (218) |
| Rent expense..... | 139 | 127 | 93 |
| Pension expense..... | (3) | (95) | (194) |
| Other employee benefits..... | 47 | 36 | (67) |
| Gains on asset dispositions..... | (41) | (3) | (110) |
| Other, net..... | 81 | 9 | 54 |
| | ----- | ----- | ----- |
| Taxable loss..... | \$(156) | \$(502) | \$(784) |
| | ===== | ===== | ===== |

At December 31, 1993, United and its subsidiaries had \$202 million of federal AMT credit carryforwards available for an indefinite period and \$27 million of state tax benefit from net operating loss carryforwards expiring between 1997 and 2009.

(6) SHORT-TERM BORROWINGS

At December 31, 1993, United had outstanding \$315 million in short-term borrowings, bearing an average interest rate of 3.34%. Receivables amounting to \$367 million were pledged by United to secure repayment of such outstanding borrowings. Due to the short maturity of these borrowings, their carrying amount is a reasonable estimate of fair value. In February 1993, United entered agreements to increase the maximum available amount of borrowings under this arrangement from \$450 million to \$500 million. Pursuant to the terms of this agreement, in the event of a change in control of United or UAL, such as the proposed employee investment transaction, the lenders under this agreement may decline to make new loans to United.

(7) 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, 1993):

| | 1993 | 1992 |
|--|---------------|---------|
| | ----- | ----- |
| | (IN MILLIONS) | |
| Secured notes, 4.2125% to 11.54%, averaging 7.41%, due 1994 to 2014..... | \$1,399 | \$1,057 |
| Deferred purchase certificates, Japanese yen-denominated, 7.75%, due 1994 to 1998..... | 178 | 183 |
| Debentures, 6.75% to 10.25%, averaging 9.36%, due 1997 to 2021..... | 1,000 | 900 |
| Promissory notes, 3.72% to 4.38%, averaging 4.07%, due 1994 through 1998..... | 41 | 76 |
| Senior subordinated notes..... | -- | 500 |
| | ----- | ----- |
| Unamortized discount on debt..... | 2,618 | 2,716 |
| | (15) | (22) |
| | ----- | ----- |
| | \$2,603 | \$2,694 |
| | ===== | ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The fair value of long-term debt, including current maturities, at December 31, 1993 and 1992 were estimated to be \$2.928 billion and \$2.893 billion, respectively, based on the quoted market prices for the same or similar issues or on the then current rates offered for debt of the same remaining maturities.

In the second quarter of 1993, United retired \$500 million of senior subordinated notes. The notes, bearing interest at 12.5% and 13%, were scheduled to mature in 1995 and 1998 for \$150 and \$350 million, respectively. 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 May 1993, United issued \$176 million of pass through certificates under a 1992 shelf registration to refinance aircraft under operating leases. In June 1993, a new shelf registration filed by UAL and United for up to \$1.5 billion of securities, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof, was declared effective. Under the terms of the 1993 shelf registration statement, the 1992 shelf and a 1991 shelf, under which \$394 million and \$100 million, respectively, of securities remained, were combined with the 1993 shelf. In November 1993, United issued \$118 million of pass through certificates under the shelf registration to refinance aircraft under operating leases. In December 1993, United issued \$100 million of 6.75% debentures due 1997 under the shelf. On a combined basis, up to \$1.776 billion of additional securities may be offered at December 31, 1993.

In connection with 1993 aircraft financings, United issued \$470 million of secured notes due through 2013. Interest rates were fixed between 7.53% and 8.99% on \$270 million of principal amount. Initial interest rates on the remaining notes were 166 and 176 basis points over the London interbank offered rate ("LIBOR") and will be 650 basis points over LIBOR after nine months. In addition, during 1993, United retired \$74 million of principal amount of secured notes in connection with sale and leaseback transactions.

At December 31, 1993, United had outstanding a total of \$544 million of long-term debt bearing interest at rates 85 to 176 basis points over LIBOR. In connection with certain of these debt financings, United has entered interest rate swap agreements to effectively fix interest rates at December 31, 1993 between 8.554% and 8.6% on \$73 million of notional amount. The swap agreements have terms of 18.5 years, corresponding to the terms of the related debt obligations. Under the agreements, United makes payments to counterparties at fixed rates and in return receives payments based on LIBOR. In the event of default by the counterparties, United is exposed to credit risk for periodic settlements due under the swap agreements; however, United does not anticipate such default. The fair values of these swap agreements at December 31, 1993 and 1992 were \$8 million and \$3 million, respectively, representing the estimated amount that United would pay to terminate the swap agreements, based on interest rates in effect at the time.

Maturities of long-term debt for each of the four years after 1994 are: 1995--\$107 million; 1996--\$112 million; 1997--\$114 million; and 1998--\$175 million.

Various assets, principally aircraft, having an aggregate book value of \$1.634 billion at December 31, 1993, were pledged under various loan agreements.

(8) LEASE OBLIGATIONS

United leases aircraft, airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, flight kitchens, real estate, office and computer equipment and vehicles.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Future minimum lease payments as of December 31, 1993, 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-- | | |
| 1994..... | \$ 1,255 | \$ 144 |
| 1995..... | 1,268 | 144 |
| 1996..... | 1,249 | 146 |
| 1997..... | 1,230 | 141 |
| 1998..... | 1,273 | 145 |
| After 1998..... | 19,639 | 548 |
| | ----- | ----- |
| Total minimum lease payments..... | \$25,914 | 1,268 |
| | ===== | ===== |
| Imputed interest (at rates of 5.3% to 12.2%)..... | (382) | |
| | ----- | |
| Present value of minimum lease payments..... | | 886 |
| Current portion..... | (62) | |
| | ----- | |
| Long-term obligations under capital leases..... | | \$ 824 |
| | | ===== |

As of December 31, 1993, United leased 298 aircraft, 45 of which were under capital leases. These leases have terms of four to 26 years, and expiration dates range from 1994 through 2017. Under the terms of leases for 287 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 five 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 \$1.176 billion in 1993, \$1.021 billion in 1992, and \$854 million in 1991. Included in rent expense for 1993 and 1992 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, with terms similar to those discussed in Note 7--Long-Term Debt. At December 31, 1993, a notional amount of \$415 million of interest rate swap agreements effectively fixed interest rates between 8.02% and 8.65% on such leases. The fair values of these swap agreements at December 31, 1993 and 1992 were \$34 million and \$8 million, respectively.

(9) FOREIGN OPERATIONS

United conducts operations in various foreign countries, principally in the Pacific, Europe and Latin America. Operating revenues from foreign operations were approximately \$5.560 billion in 1993, \$4.863 billion in 1992 and \$3.870 billion in 1991.

(10) RETIREMENT PLANS

United 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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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:

| | 1993 | 1992 | |
|---|---|--|--|
| | ----- ACCUMULATED BENEFITS EXCEED ASSETS ----- | ASSETS EXCEED ACCUMULATED BENEFITS ----- | ACCUMULATED BENEFITS EXCEED ASSETS ----- |
| | (IN MILLIONS) | | |
| Actuarial present value of accumulated benefit obligation..... | \$4,200 ===== | \$2,179 ===== | \$1,088 ===== |
| Actuarial present value of projected benefit obligation..... | \$5,025 | \$2,705 | \$1,356 |
| Plan assets at fair value..... | 3,589 ----- | 2,290 ----- | 762 ----- |
| Projected benefit obligation in excess of plan assets..... | 1,436 | 415 | 594 |
| Unrecognized net gain (loss)..... | (624) | (27) | (28) |
| Prior service cost not yet recognized in net periodic pension cost..... | (455) | (122) | (435) |
| Remaining unrecognized net asset..... | 16 | 70 | 3 |
| Adjustment required to recognize minimum liability..... | 346 ----- | -- ----- | 255 ----- |
| Pension liability recognized in the statement of consolidated financial position..... | \$ 719 ===== | \$ 336 ===== | \$ 389 ===== |

For the valuation of pension obligations as of December 31, 1993 and 1992, the weighted average discount rates used were 7.5% and 8.75%, respectively, and the rates of increase in compensation were 4.0% and 4.3%, respectively. Substantially all of the accumulated benefit obligation is vested.

Total pension expense for all retirement plans (including defined contribution plans) was \$346 million in 1993, \$324 million in 1992, and \$252 million in 1991.

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 1993, 10.25% for 1992 and 11.25% for 1991.

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

| | 1993 | 1992 | 1991 |
|--|-----------------|-----------------|-----------------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |
| Service cost--benefits earned during the year..... | \$ 186 | \$ 180 | \$ 144 |
| Interest cost on projected benefit obligation..... | 356 | 320 | 257 |
| Actual return on plan assets..... | (310) | (289) | (237) |
| Net amortization and deferral..... | 19 | 24 | 6 |
| Net periodic pension cost..... | \$ 251 ===== | \$ 235 ===== | \$ 170 ===== |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(11) POSTRETIREMENT BENEFITS

United provides certain life insurance and health care benefits for substantially all retired employees. The estimated cost of life insurance benefits is accrued and funded over the years of service of those employees expected to qualify for such benefits. United provides various defined benefit postretirement health care plans which pay stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. United funds this plan as medical claims are paid. Effective January 1, 1992, United 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, United elected to record the transition obligation of \$925 million as a one-time charge against earnings. Prior to 1992, the cost of health care benefits was recognized as expense as claims were paid. The total cost of these postretirement benefits was \$33 million in 1991.

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

| | 1993 | 1992 |
|--|---------|---------|
| | ----- | ----- |
| Accumulated postretirement benefit obligation: | | |
| Retirees..... | \$ 416 | \$ 442 |
| Other fully eligible participants..... | 236 | 277 |
| Other active participants..... | 679 | 416 |
| | ----- | ----- |
| Total accumulated postretirement benefit obligation..... | 1,331 | 1,135 |
| Unrecognized net loss..... | (149) | (49) |
| Fair value of plan assets..... | (91) | (86) |
| | ----- | ----- |
| Accrued postretirement benefit obligation..... | \$1,091 | \$1,000 |
| | ===== | ===== |

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

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

For the valuation of the accumulated postretirement benefit obligation as of December 31, 1993 and 1992, the discount rate was 7.5% and 8.75%, respectively. An 11% and 12% annual rate of increase in the per capita cost of covered health care was assumed for 1993 and 1992, respectively; the rate is assumed to decrease annually to a rate of 4% by the year 2001, 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, 1993, by \$175 million and the aggregate of the service and interest cost components of net postretirement benefit cost for 1993 by \$21 million.

(12) RELATED PARTY TRANSACTIONS

In 1992 and 1991, UAL made capital contributions of \$60 million and \$192 million, respectively, to United. In 1991, UAL also made a capital contribution to United of its investment in United Vacations, Inc., a wholly-owned subsidiary. At December 31, 1993 and 1992, United had accounts receivable from UAL of \$361 million and \$288 million, respectively.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Certain officers and key employees of United participate in UAL stock award plans. Under UAL's incentive stock option program, stock appreciation rights ("SARs") were granted in tandem with certain stock options prior to 1992. On exercise of these SARs, holders would receive in cash 100% of the appreciation in fair market value of the UAL shares subject to the SAR. The estimated payment value of SARs, net of market value adjustments, was charged to United's earnings over the vesting period. In 1992, all active officers relinquished their SARs but retained the tandem stock options. The expense (credit) recorded for SARs was \$1 million in 1993, \$(1) million in 1992 and \$18 million in 1991. In February 1994, UAL reinstated the use of SARs and 818,370 SARs were authorized in tandem with existing options with an outstanding average option price of \$128.50. The SARs are not exercisable until September 1, 1994, and will expire if the employee investment transaction is consummated.

Under UAL's restricted stock plan, 138,500 and 101,750 shares of UAL common stock were awarded to officers and key employees of United in 1993 and 1991, respectively. No shares were issued under this plan in 1992. In 1993, 1992 and 1991, 9,000, 6,500 and 4,200 shares, respectively, were forfeited under this plan. Unearned compensation, representing the fair market value of the stock on the date of award, is being amortized to salaries and related costs over the vesting period.

Air Wis Services, Inc. ("Air Wis") became a wholly-owned subsidiary of UAL in January 1992. Air Wis owns Air Wisconsin, Inc. 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. These actions are not expected to have a material effect on United's results of operations or financial position. At December 31, 1993 and 1992, United had outstanding loans to Air Wisconsin, Inc. in the amount of \$80 million and \$58 million, respectively, bearing interest at market rates.

(13) COMMITMENTS AND CONTINGENCIES

United 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 United is subject and its prior experience, that the ultimate disposition of these contingencies is not expected to materially affect United's consolidated financial position or results of operations.

At December 31, 1993, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.3 billion after deducting advance payments. An estimated \$0.6 billion is expected to be expended during 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. The major commitments are for the purchase of thirty-four B777 aircraft, which are expected to be delivered between 1995 and 1999. These amounts reflect United's revised capital spending plan and agreements with The Boeing Company, to convert certain aircraft orders into options. Under the terms of the agreements, if United does not elect to confirm the delivery of these option aircraft before 1998, it will forfeit significant deposits.

In addition to the B777 order, United has arrangements with Airbus and International Aero Engines to lease an additional 45 A320 aircraft, which are scheduled for delivery through 1998. Under the agreement, United is making advance payments through 1996 which are refundable upon delivery of each aircraft.

At December 31, 1993, United also had purchase options for 186 B737 aircraft, 54 B757 aircraft, 34 B777 aircraft, 52 B747 aircraft, eight B767 aircraft and 50 A320 aircraft. Consistent with its revised capital

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

spending plan, United has recently cancelled options on certain aircraft. In January 1994, United entered an agreement with Boeing to acquire two B747-400 aircraft in 1994 and cancelled options for two B747 aircraft. These aircraft are not included in the commitment amounts above.

As of December 31, 1993, United had guaranteed \$97 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, 1993, \$907 million principal amount of such bonds was outstanding. Payment of United's obligations with respect to \$40 million of this amount is secured through standby letters of credit. As of December 31, 1993, UAL and United had jointly guaranteed \$35 million of such bonds and United had guaranteed \$841 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 ("Stapleton"). Denver has agreed to retire the outstanding special facility revenue bonds related to United's Stapleton facilities. The new airport is expected to open in 1994.

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 \$68 million at December 31, 1993. At that date, United had granted mortgages on aircraft and engines having a total book value of \$252 million as security for indemnity obligations under tax leases and letters of credit.

United is in the process of constructing a maintenance facility in Indianapolis, which begins operation in 1994. The facility is 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 6,300 individuals.

United does not believe it is subject to any significant concentration of credit risk. Most of United'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.

(14) NEW ACCOUNTING STANDARDS

In November 1992, the Financial Accounting Standards Board ("FASB") issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which 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. United will adopt the new standard in the first quarter of 1994. Based on preliminary estimates, United currently expects to record a transition obligation which will result in a cumulative charge of \$26 million, net of tax. Prior years' financial statements will not be restated. Ongoing expenses will vary based on actual claims experience.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires fair value accounting for certain investments. United is required to adopt the new standard in 1994 and the standard is not to be applied retroactively. Upon adoption, United will record a periodic charge or credit to adjust the carrying value of certain investments to fair value. The adjustment will be recorded in earnings or as a separate component of equity, depending on the type of investment. United does not expect a material impact on either earnings or equity as a result of adopting SFAS No. 115.

(15) STATEMENT OF CONSOLIDATED CASH FLOWS--SUPPLEMENTAL DISCLOSURES

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

| | 1993 | 1992 | 1991 |
|--|---------------|-------|-------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |
| Cash paid during the year for: | | | |
| Interest (net of amounts capitalized)..... | \$319 | \$188 | \$ 87 |
| Income taxes..... | \$ 43 | \$ 6 | \$ 62 |
| Non-cash transactions: | | | |
| Capital lease obligations incurred..... | \$ 70 | \$276 | \$277 |
| Long-term debt incurred in connection with additions to equipment..... | \$487 | \$755 | \$318 |
| Increase in pension intangible..... | \$ 19 | \$ 8 | \$192 |

(16) OTHER MATTERS

In the third quarter of 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. Under the agreements, the purchasers will provide catering services for United at the airports served by the flight kitchens for seven years. The asset sales for most, if not all, of the flight kitchens are expected to be finalized in the second quarter of 1994. The asset sales result in an insignificant gain.

(17) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER | YEAR |
|---|----------------|----------------|----------------|----------------|----------|
| | ----- | ----- | ----- | ----- | ----- |
| | (IN MILLIONS) | | | | |
| 1993: | | | | | |
| Operating revenues..... | \$3,280 | \$3,513 | \$3,952 | \$3,609 | \$14,354 |
| Earnings (loss) from operations..... | (107) | 93 | 288 | 21 | 295 |
| Earnings (loss) before extraordinary item..... | (129) | 27 | 151 | (66) | (17) |
| Extraordinary loss on early extinguishment of debt..... | (19) | -- | -- | -- | (19) |
| Net earnings (loss)..... | \$ (148) | \$ 27 | \$ 151 | \$ (66) | \$ (36) |
| 1992: | | | | | |
| Operating revenues..... | \$2,938 | \$3,098 | \$3,531 | \$3,158 | \$12,725 |
| Earnings (loss) from operations..... | (165) | (79) | 59 | (311) | (496) |
| Earnings (loss) before cumulative effect of accounting changes..... | (105) | (82) | 15 | (214) | (386) |
| Cumulative effect of accounting changes..... | (547) | -- | -- | -- | (547) |
| Net earnings (loss)..... | \$ (652) | \$ (82) | \$ 15 | \$ (214) | \$ (933) |

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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.

Effective January 1, 1992, United adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and SFAS No. 109, "Accounting for Income Taxes." The effect of adopting SFAS No. 106 was a cumulative charge of \$580 million, net of tax benefits of \$345 million. The effect of adopting SFAS No. 109 was a cumulative benefit of \$33 million.

In the 1992 fourth quarter, operating expenses included charges of \$18 million for certain foreign employee benefits and certain taxes. In addition, operating expenses included charges of \$25 million related to the announced cost reduction program. The 1992 second quarter included a \$13 million non-operating charge to record the cash settlement of class action claims resulting from litigation relating to the use of airline fare data.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No reportable event has occurred.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Omitted pursuant to General Instruction J (2) (c) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Omitted pursuant to General Instruction J (2) (c) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Omitted pursuant to General Instruction J (2) (c) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Omitted pursuant to General Instruction J (2) (c) of 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" on page 40 herein.

2. The financial statements schedules required by this item are listed below:

| FINANCIAL STATEMENT SCHEDULES: ----- | PAGE NUMBER ----- |
|---|-------------------------|
| Schedules-- | |
| As of December 31, 1993: | |
| I --Marketable securities..... | 70 |
| --Guarantees of securities of other is- | |
| VII suers..... | 77 |
| For the years ended December 31, 1993, 1992 and 1991: | |
| V --Property, plant and equipment..... | 71-73 |
| VI --Accumulated depreciation, depletion | |
| and amortization of property, plant | |
| and equipment..... | 74-76 |
| VIII --Valuation and qualifying accounts.... | 78-80 |
| IX --Short-term borrowing..... | 81 |
| --Supplementary income statement infor- | |
| X mation..... | 82 |

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. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. The exhibits required by this item are listed in "Index to Exhibits" on pages 83 through 87 herein. The financial statements of the Covia Partnership and the Galileo International Partnership are included herein as exhibits.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(B) REPORTS ON FORM 8-K

On October 28, 1993, United filed a report on Form 8-K dated October 28, 1993 to include a press release issued by UAL reporting UAL's financial results for the third quarter of 1993 and certain financial information for United.

On November 19, 1993, United filed a report on Form 8-K dated November 17, 1993 to include exhibits relating to an offering covered by the Registration Statement on Form S-3 (File No. 33-57192) included as Exhibit 4.1 hereto.

On December 1, 1993, United filed a report on Form 8-K dated November 30, 1993 to include a press release issued by UAL on its discussions with union representatives.

On December 23, 1993, United filed a report on Form 8-K to report the execution of an agreement in principle dated December 22, 1993 among UAL, ALPA and the IAM concerning the proposed Employee Investment Transaction.

On February 4, 1994, United filed a report on Form 8-K to report the execution of an amendment, dated February 3, 1994, among UAL, ALPA and the IAM to the agreement in principle dated December 22, 1993 among the parties concerning the proposed Employee Investment Transaction.

On February 4, 1994, United filed a report on Form 8-K to include the text of a speech concerning the proposed Employee Investment Transaction delivered by Stephen M. Wolf, the Chairman and Chief Executive Officer of the Company.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

SCHEDULE I -- MARKETABLE SECURITIES

AS OF DECEMBER 31, 1993

| TITLE OF ISSUE (1) | AS OF DECEMBER 31, 1993 | | | AMOUNT AT WHICH |
|--|-------------------------|--------|-----------------|---|
| | PRINCIPAL AMOUNT | COST | MARKET VALUE | CARRIED ON STATEMENT OF CONSOLIDATED FINANCIAL POSITION |
| (IN MILLIONS) | | | | |
| Time deposits..... | \$ 310 | \$ 310 | \$ 310 | \$310 |
| United States government agencies securities..... | 291 | 293 | 293 | 293 |
| Commercial paper..... | 188 | 187 | 187 | 187 |
| Corporate bonds and notes..... | 72 | 73 | 73 | 73 |
| Yankee certificates of deposit.... | 25 | 25 | 25 | 25 |
| Variable rate certificates of de- posit..... | 22 | 22 | 22 | 22 |
| Eurodollar certificates of depos- it..... | 11 | 11 | 11 | 11 |
| Other..... | 40 | 40 | 40 | 40 |
| Total marketable securities..... | \$ 959 | \$ 961 | \$ 961 | 961 |
| Reconciliation with statement of consolidated financial position: | | | | |
| Cash..... | | | | 5 |
| Total..... | | | | \$966 |
| Amount classified as cash and cash equivalents..... | | | | \$285 |
| Amount classified as short-term investments..... | | | | 681 |
| Total..... | | | | \$966 |

(1) No individual security issue exceeds 2% of total assets.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1993

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS, AT COST | RETIREMENTS | OTHER CHANGES- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|-----------------------|-------------|--------------------------------------|------------------------------|
| (IN MILLIONS) | | | | | |
| Operating property and equipment: | | | | | |
| Owned-- | | | | | |
| Flight equipment..... | \$ 7,604 | \$1,510(1) | \$1,225(2) | \$(319)(3) 329 (5) | \$ 7,899 |
| Advances on flight equipment..... | 706 | 212(4) | -- | (329)(5) | 589 |
| Other property and equipment..... | 2,077 | 233 | 38 | 386 (6) | 2,658 |
| | 10,387 | 1,955 | 1,263 | 67 | 11,146 |
| Capital leases-- | | | | | |
| Flight equipment..... | 958 | 69(7) | -- | -- | 1,027 |
| Other property and equipment..... | 100 | 1 | -- | 3 | 104 |
| | 1,058 | 70 | -- | 3 | 1,131 |
| | \$11,445 | \$2,025 | \$1,263 | \$ 70 | \$12,277 |
| Non-operating property.. | \$ 35 | \$ -- | \$ 8 | \$ 269 | \$ 296 |

- (1) Includes the cost of 9 B737-500 aircraft, 3 B747-400 aircraft, 15 B757-200 aircraft, and 7 B767-300ER aircraft purchased.
- (2) Includes the cost of aircraft sold and leased back (6 B737-500, 3 B747-400, 2 B757-200 and 7 B767-300ER aircraft) and aircraft sold (3 B727-100 and 2 B727-200 aircraft).
- (3) Includes principally the cost of 24 B727-100 aircraft, 5 DC10-10 aircraft, 1 B747SP aircraft and spare parts transferred to non-operating property.
- (4) Represents principally advance payments on B737, B747, B757, B767, B777 and A320 aircraft on order.
- (5) Represents the transfer of prior advances to flight equipment upon delivery of the aircraft.
- (6) Includes the cost of assets held by Apollo Travel Services Partnership at the time of consolidation.
- (7) Includes the capitalized lease amount of 1 B737-500 aircraft and 1 B757-200 aircraft acquired under capital leases.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1992

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS, AT COST | RETIREMENTS | OTHER CHANGES- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|-----------------------|-------------|--------------------------------------|------------------------------|
| (IN MILLIONS) | | | | | |
| Operating property and equipment: | | | | | |
| Owned-- | | | | | |
| Flight equipment..... | \$ 6,710 | \$2,450(1) | \$2,136(2) | \$ (30)(3) 610 (5) | \$ 7,604 |
| Advances on flight equipment..... | 785 | 531(4) | -- | (610)(5) | 706 |
| Other property and equipment..... | 1,891 | 222 | 37 | 1 | 2,077 |
| | 9,386 | 3,203 | 2,173 | (29) | 10,387 |
| Capital leases-- | | | | | |
| Flight equipment..... | 682 | 276(6) | -- | -- | 958 |
| Other property and equipment..... | 100 | -- | -- | -- | 100 |
| | 782 | 276 | -- | -- | 1,058 |
| | \$10,168 | \$3,479 | \$2,173 | \$ (29) | \$11,445 |
| Non-operating property.. | \$ 43 | \$ 14 | \$ 49(7) | \$ 27 (3) | \$ 35 |

(1) Includes the cost of 16 B737-500 aircraft, 6 B747-400 aircraft, 25 B757-200 aircraft, and 9 B767-300ER aircraft purchased.

(2) Includes the cost of aircraft sold and leased back (3 B737-500, 4 B747-400, 27 B757-200 and 6 B767-300ER aircraft) and aircraft sold (8 B727-100, 2 B727-200, 1 B737-200 and 1 B747SP aircraft).

(3) Includes principally the cost of 1 B727-100 aircraft, 3 B737-200 aircraft and spare parts transferred to non-operating property.

(4) Represents principally advance payments on B737, B747, B757, B767, B777 and A320 aircraft on order.

(5) Represents the transfer of prior advances to flight equipment upon delivery of the aircraft.

(6) Includes the capitalized lease amount of 9 B737-500 aircraft and 1 B767-300ER aircraft acquired under capital leases.

(7) Includes principally the cost of 3 B727-100 aircraft and 3 B737-200 aircraft sold and 4 B727-100 aircraft donated.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

SCHEDULE V--PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS, AT COST | RETIREMENTS | OTHER CHANGES- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|-----------------------|-------------|--------------------------------------|------------------------------|
| | (IN MILLIONS) | | | | |
| Operating property and equipment: | | | | | |
| Owned-- | | | | | |
| Flight equipment..... | \$5,677 | \$1,694(1) | \$1,013(2) | \$ (36)(3) 388 (5) | \$ 6,710 |
| Advances on flight equipment..... | 641 | 532(4) | -- | (388)(5) | 785 |
| Other property and equipment..... | 1,733 | 199 | 23 | (18) | 1,891 |
| | 8,051 | 2,425 | 1,036 | (54) | 9,386 |
| Capital leases-- | | | | | |
| Flight equipment..... | 421 | 261(6) | -- | -- | 682 |
| Other property and equipment..... | 100 | -- | -- | -- | 100 |
| | 521 | 261 | -- | -- | 782 |
| | \$8,572 | \$2,686 | \$1,036 | \$ (54) | \$10,168 |
| Non-operating property.. | \$ 84 | \$ -- | \$ 64(7) | \$ 23 (3) | \$ 43 |

- (1) Includes the cost of 11 B737-500 air craft, 4 B747-400 aircraft, 16 B757-200 aircraft and 5 B767-300ER aircraft purchased.
- (2) Includes the cost of aircraft sold and leased back (2 B737-500, 3 B747-400, 5 B767-300ER and 5 B757-200 aircraft) and aircraft sold (4 B727-100 and 2 DC8-71 aircraft).
- (3) Includes principally the cost of 8 B727 aircraft transferred to non-operating property.
- (4) Represents principally advance payments on B737, B757, B767 and B747 aircraft on order.
- (5) Represents the transfer of prior advances to flight equipment upon delivery of the aircraft.
- (6) Includes the capitalized lease amount of 5 B737-500 aircraft and 4 B757-200 aircraft acquired under capital leases.
- (7) Represents principally the cost of 2 B747-200 aircraft sold.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1993

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COSTS AND EXPENSES | | | OTHER CHANGES- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|--|-------------------|-------------|--------------------------------------|------------------------------|
| | | DEPRECIATION AND AMORTIZATION | OTHER ACCOUNTS | RETIREMENTS | | |
| (IN MILLIONS) | | | | | | |
| Operating property and equipment: | | | | | | |
| Owned-- | | | | | | |
| Flight equipment..... | \$3,081 | \$ 471 | \$ -- | \$ 139 | \$(224) | \$3,189 |
| Other property and equipment..... | 1,102 | 141 | 13 | 27 | 260 | 1,489 |
| | 4,183 | 612 | 13 | 166 | 36 | 4,678 |
| Capital leases-- | | | | | | |
| Flight equipment..... | 289 | 42 | 1 | -- | 6 | 338 |
| Other property and equipment..... | 54 | 3 | -- | -- | -- | 57 |
| | 343 | 45 | 1 | -- | 6 | 395 |
| | \$4,526 | \$ 657 | \$ 14 | \$ 166 | \$ 42 | \$5,073 |
| Non-operating property.. | \$ 26 | \$ -- | \$ 23 | \$ 8 | \$ 225 | \$ 266 |

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1992
ADDITIONS CHARGED TO COSTS AND EXPENSES

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | DEPRECIATION AND AMORTIZATION | OTHER ACCOUNTS | RETIREMENTS | OTHER CHANGES-- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|-------------------------------------|-------------------|-------------|---------------------------------------|------------------------------|
| (IN MILLIONS) | | | | | | |
| Operating property and equipment: | | | | | | |
| Owned-- | | | | | | |
| Flight equipment..... | \$2,884 | \$ 459 | \$ -- | \$ 226 | \$ (36) | \$3,081 |
| Other property and equipment..... | 993 | 139 | 4 | 33 | (1) | 1,102 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 3,877 | 598 | 4 | 259 | (37) | 4,183 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Capital leases-- | | | | | | |
| Flight equipment..... | 250 | 35 | -- | -- | 4 | 289 |
| Other property and equipment..... | 51 | 3 | -- | -- | -- | 54 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 301 | 38 | -- | -- | 4 | 343 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$4,178 | \$ 636 | \$ 4 | \$ 259 | \$ (33) | \$4,526 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Non-operating property.. | \$ 46 | \$ -- | \$ -- | \$ 44 | \$ 24 | \$ 26 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
SCHEDULE VI--ACCUMULATED DEPRECIATION, DEPLETION AND
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 1991

| CLASSIFICATION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COSTS AND EXPENSES | | RETIREMENTS | OTHER CHANGES-- ADD (DEDUCT) | BALANCE AT END OF YEAR |
|--------------------------------------|------------------------------------|--|-------------------|-------------|---------------------------------------|------------------------------|
| | | DEPRECIATION AND AMORTIZATION | OTHER ACCOUNTS | | | |
| (IN MILLIONS) | | | | | | |
| Operating property and equipment: | | | | | | |
| Owned-- | | | | | | |
| Flight equipment..... | \$2,666 | \$ 399 | \$ -- | \$ 148 | \$ (33) | \$2,884 |
| Other property and equipment..... | 891 | 116 | 4 | 18 | -- | 993 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 3,557 | 515 | 4 | 166 | (33) | 3,877 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Capital leases-- | | | | | | |
| Flight equipment..... | 225 | 25 | -- | -- | -- | 250 |
| Other property and equipment..... | 47 | 3 | -- | -- | 1 | 51 |
| | 272 | 28 | -- | -- | 1 | 301 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$3,829 | \$ 543 | \$ 4 | \$ 166 | \$ (32) | \$4,178 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Non-operating property.. | \$ 4 | \$ -- | \$ 5 | \$ 1 | \$ 38 | \$ 46 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
 SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEAR ENDED DECEMBER 31, 1993

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO | | DEDUCTIONS | BALANCE AT END OF YEAR |
|--|------------------------------------|-----------------------|-------------------|----------------|------------------------------|
| ----- | ----- | COSTS AND EXPENSES | OTHER ACCOUNTS | ----- | ----- |
| | | (IN MILLIONS) | | | |
| 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 === | \$26 === | \$15(1) === | \$69 === |

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

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
 SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1992

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO | | DEDUCTIONS | BALANCE AT END OF YEAR |
|--|------------------------------------|-----------------------|-------------------|----------------|------------------------------|
| | | COSTS AND EXPENSES | OTHER ACCOUNTS | | |
| (IN MILLIONS) | | | | | |
| 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.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
 SCHEDULE VIII--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1991

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO | | DEDUCTIONS | BALANCE AT END OF YEAR |
|--|------------------------------------|-----------------------|-------------------|----------------|------------------------------|
| | | COSTS AND EXPENSES | OTHER ACCOUNTS | | |
| (IN MILLIONS) | | | | | |
| Reserve deducted from asset to which it applies: | | | | | |
| Allowance for doubtful accounts..... | \$13 === | \$14 === | \$ -- ==== | \$14(1) === | \$13 === |
| Obsolescence allowance--Flight equipment spare parts..... | \$57 === | \$13 === | \$ 2 ==== | \$ 5(1) === | \$67 === |

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

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

SCHEDULE IX--SHORT-TERM BORROWINGS

FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

| CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS | BALANCE AT END OF YEAR | WEIGHTED AVERAGE INTEREST RATE | MAXIMUM AMOUNT OUTSTANDING DURING THE YEAR | AVERAGE AMOUNT OUTSTANDING DURING THE YEAR (1) | WEIGHTED AVERAGE INTEREST RATE DURING THE YEAR (2) |
|---|------------------------------|---|--|--|--|
| ----- (DOLLARS IN MILLIONS) ----- | | | | | |
| Notes payable to others, net of unamortized discount: | | | | | |
| 1993..... | \$315 | 3.3% | \$488 | \$421 | 3.1% |
| | ==== | ==== | ==== | ==== | ==== |
| 1992..... | \$450 | 4.2% | \$450 | \$449 | 4.0% |
| | ==== | ==== | ==== | ==== | ==== |
| 1991..... | \$449 | 5.0% | \$449 | \$448 | 6.1% |
| | ==== | ==== | ==== | ==== | ==== |

(1) Computed by dividing the sum of the beginning of the year balance and the 12 month-end balances by 13.

(2) Computed by dividing total annual interest expense by the average amount outstanding during the year.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
SCHEDULE VII--GUARANTEES OF SECURITIES OF OTHER ISSUERS

AS OF DECEMBER 31, 1993

| NAME OF ISSUER OF SECURITIES GUARANTEED BY PERSON FOR WHICH STATEMENT IS FILED | TITLE OF ISSUE OF EACH CLASS OF OUTSTANDING SECURITIES GUARANTEED | TOTAL AMOUNT GUARANTEED AND NATURE OF GUARANTEE |
|--|---|--|
| ----- | | ----- |
| | | (IN MILLIONS) |
| Guaranteed by United Air Lines, Inc.: | | |
| Regional Airports Improvement Corporation Facilities Lease Refunding..... | Revenue Bonds, 6.875% | \$ 35 Principal and interest |
| Adjustable-Rate Facilities Lease..... | Refunding Revenue Bonds, 8.80% | 25 Principal and interest |
| City of Chicago Chicago-O'Hare International Airport Special Facility. | Revenue Bonds--Series 1984A, 8.85% Series 1984B, 8.85% Series 1984C, 8.20% Series 1988A, 8.40% Series 1988B, 8.95% Series 1990, 8.25% to 8.50% | 87 Principal and interest 87 Principal and interest 135 Principal and interest 75 Principal and interest 64 Principal and interest 101 Principal and interest |
| City and County of Denver, Colorado Special Facilities Airport..... | Revenue Bonds, 6.875% | 266 Principal and interest |
| Galileo International Partnership..... | Unsecured borrowings under revolving credit facilities | 97 Principal and interest \$972 |

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
 SCHEDULE X--SUPPLEMENTARY INCOME STATEMENT INFORMATION
 FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

| I T E M ----- | CHARGED TO COSTS AND EXPENSES | | |
|--|-------------------------------|----------|----------|
| | 1993 | 1992 | 1991 |
| | (IN MILLIONS) | | |
| Maintenance and repairs..... | \$ 1,516 | \$ 1,397 | \$ 1,423 |
| Taxes other than payroll and income taxes..... | \$ 198 | \$ 178 | \$ 139 |
| Amortization of intangibles..... | \$ 53 | \$ 47 | \$ 48 |

INDEX TO EXHIBITS

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|-------------------------|--|
| 3.1 | Registrant's Restated Certificate of Incorporation, as amended March 13, 1992 (filed as Exhibit 3.1 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference). |
| 3.2 | Registrant's By-laws, as amended on June 25, 1987 (filed as Exhibit 3(b) to Registrant's S-1 Registration Statement (Nos.33-21220 and 22-18246) effective June 3, 1988, and incorporated herein by reference). |
| 4.1 | Registrant's Registration Statement Form S-3 (No. 33-46033) filed on January 21, 1993, relating to the offer of \$1,500,000,000 Convertible Debt Securities, Preferred Stock and Common Stock and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 to UAL's (File No. 1-6033) Registration Statement Form S-3 (No. 33-46033) filed on January 21, March 19, May 7 and May 28, 1993, respectively, and each incorporated herein by reference. |
| | Registrant's indebtedness under any single instrument, other than Exhibit 4.1, does not exceed 10% of Registrant's total assets on a consolidated basis. Copies of such instruments will be furnished to the Commission upon request. |
| 10.1 | Letter Agreement, dated December 22, 1993, among UAL Corporation, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.1 to UAL Corporation's Form 8-K dated December 22, 1993 and incorporated herein by reference; amendment thereto filed as Exhibit 10.1 to UAL's (File No. 1-6033) Form 8-K dated February 4, 1994 and incorporated herein by reference). |
| 10.2 | Letter Agreement No. 6-1162-DLJ-1193 dated January 25, 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1990 and incorporated herein by reference; supplements thereto filed as Exhibits 10.1, 10.2 and 10.22 to UAL's (File No. 1-6033) Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference)). (Filed as Exhibit 10.2 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993, with a request for confidential treatment of certain portions and incorporated herein by reference.) |
| 10.3 | Supplemental Agreement No. 5 dated January 17, 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 747-400 aircraft (as previously amended and supplemented, "747-400 Purchase Agreement" (filed as Exhibit 10.8 to UAL's (File No. 1-6033) 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 UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1991 and (ii) Exhibits 10.3, 10.4, 10.5, 10.6 and 10.22 to UAL's (File No. 1-6033) Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference)). (Filed as Exhibit 10.3 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993, with a request for confidential treatment of certain portions and incorporated herein by reference.) |
| 10.4 | Amendment No. 1 dated as of November 24, 1993 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 UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference)). (Filed as Exhibit 10.4 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993, with a request for |

confidential treatment of certain portions and incorporated herein by reference).

EXHIBIT NUMBER

DESCRIPTION

- 10.5 Amendment No. 1 dated as of November 24, 1993 to Letter Agreement No. 8 dated as of August 10, 1992 to A320-200 Purchase Agreement (filed as Exhibit 10.5 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993, with a request for confidential treatment of certain portions and incorporated herein by reference).
- 10.6 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 UAL's (File No. 1-6033) 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 UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1991, and (ii) Exhibits 10.7, 10.8, 10.9, 10.10, 10.11, 10.12, 10.13 and 10.22 to UAL's (File No. 1-6033) Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.7 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 UAL's (File No. 1-6033) 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 UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1991, and (ii) Exhibits 10.14, 10.15, 10.16, 10.17, 10.18, 10.19 and 10.22 to UAL's (File No. 1-6033) Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.8 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 UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; supplements thereto filed as Exhibits 10.20, 10.21 and 10.22 to UAL's (File No. 1-6033) Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.9 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated June 15, 1992, amending the Agreement dated November 21, 1991, concerning United's aircraft maintenance facility ("MOC II Agreement" (filed as Exhibit 10.29 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference)). (Filed as Exhibit 10.9 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference.)
- 10.10 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated December 23, 1993, amending the MOC II Agreement (filed as Exhibit 10.10 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 24.1 Consent of Independent Public Accountants.
- 24.2 Consent of Independent Public Accountants.
- 99.1 Financial Statements of the Covia Partnership (filed as Exhibit 99.1 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).
- 99.2 Financial Statements of the Galileo International Partnership together with the report of its independent public accountants (filed as Exhibit 99.2 to UAL's (File No. 1-6033) Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).

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.

United Air Lines, Inc.

By: /s/ Stephen M. Wolf

STEPHEN M. WOLF
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
AND A DIRECTOR (PRINCIPAL
EXECUTIVE OFFICER)

By: /s/ John C. Pope

JOHN C. POPE
PRESIDENT AND CHIEF OPERATING OFFICER
AND A DIRECTOR (PRINCIPAL FINANCIAL
OFFICER)

By: /s/ Frederic F. Brace

FREDERIC F. BRACE
VICE PRESIDENT--CORPORATE DEVELOPMENT
AND CONTROLLER (PRINCIPAL ACCOUNTING
OFFICER)

March 11, 1994

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 ON MARCH 11, 1994.

/s/ Paul G. George

PAUL G. GEORGE

/s/ James M. Guyette

JAMES M. GUYETTE

/s/ Lawrence M. Nagin

LAWRENCE M. NAGIN

/s/ Joseph R. O'Gorman

JOSEPH R. O'GORMAN

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED MARCH 31, 1994

COMMISSION FILE NUMBER 1-6033

UAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

36-2675207
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

1200 EAST 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

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

Yes X No
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (applicable only to corporate issuers).

| CLASS ----- | OUTSTANDING AT APRIL 30, 1994 ----- |
|------------------------------|---|
| Common Stock (\$5 par value) | 24,569,412 |

UAL CORPORATION AND SUBSIDIARY COMPANIES
REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 1994

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UAL CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(IN MILLIONS)

| | MARCH 31, 1994 | DECEMBER 31, 1993 |
|---|----------------------|----------------------|
| | ----- (UNAUDITED) | |
| ASSETS ----- | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 1,046 | \$ 437 |
| Short-term investments..... | 1,020 | 1,391 |
| Receivables, net..... | 1,108 | 1,095 |
| Inventories, net..... | 266 | 278 |
| Deferred income taxes..... | 124 | 124 |
| Prepaid expenses and other..... | 339 | 388 |
| | ----- | ----- |
| | 3,903 | 3,713 |
| Operating property and equipment: | | |
| Owned..... | 11,094 | 11,161 |
| Accumulated depreciation and amortization..... | (4,768) | (4,691) |
| | ----- | ----- |
| | 6,326 | 6,470 |
| Capital leases..... | 1,132 | 1,131 |
| Accumulated amortization..... | (409) | (395) |
| | ----- | ----- |
| | 723 | 736 |
| | ----- | ----- |
| | 7,049 | 7,206 |
| Other assets: | | |
| Intangibles, net..... | 848 | 866 |
| Deferred income taxes..... | 625 | 590 |
| Other..... | 464 | 465 |
| | ----- | ----- |
| | 1,937 | 1,921 |
| | ----- | ----- |
| | \$12,889 | \$12,840 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY ----- | | |
| Current liabilities: | | |
| Short-term borrowings..... | \$ 269 | \$ 315 |
| Current portions of long-term debt and capital lease obligations..... | 217 | 206 |
| Advance ticket sales..... | 1,191 | 1,036 |
| Accounts payable..... | 613 | 599 |
| Other..... | 2,698 | 2,740 |
| | ----- | ----- |
| | 4,988 | 4,896 |
| Long-term debt..... | 2,693 | 2,702 |
| Long-term obligations under capital leases..... | 777 | 827 |
| Other liabilities and deferred credits: | | |
| Deferred pension liability..... | 652 | 571 |
| Postretirement benefit liability..... | 1,081 | 1,058 |
| Deferred gains..... | 1,377 | 1,400 |
| Other..... | 184 | 148 |
| | ----- | ----- |
| | 3,294 | 3,177 |
| Minority interest..... | 40 | 35 |
| Shareholders' equity: | | |
| Convertible preferred stock..... | -- | 30 |
| Common stock at par..... | 128 | 127 |
| Other..... | 969 | 1,046 |
| | ----- | ----- |
| Commitments and contingent liabilities (See note) | 1,097 | 1,203 |
| | ----- | ----- |
| | \$12,889 | \$12,840 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

UAL CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF CONSOLIDATED OPERATIONS (UNAUDITED)
(IN MILLIONS, EXCEPT PER SHARE)

| | THREE MONTHS ENDED MARCH 31 | |
|---|--------------------------------|-----------|
| | 1994 | 1993 |
| Operating revenues: | | |
| Passenger..... | \$ 2,771 | \$ 2,750 |
| Cargo..... | 164 | 143 |
| Other operating revenues..... | 260 | 160 |
| | ----- | ----- |
| | 3,195 | 3,053 |
| Operating expenses: | | |
| Salaries and related costs..... | 1,202 | 1,164 |
| Commissions..... | 334 | 303 |
| Aircraft fuel..... | 370 | 425 |
| Rentals and landing fees..... | 378 | 364 |
| Purchased services..... | 218 | 240 |
| Depreciation and amortization..... | 178 | 193 |
| Aircraft maintenance..... | 109 | 100 |
| Food and beverages..... | 91 | 75 |
| Personnel expenses..... | 59 | 66 |
| Advertising and promotion..... | 27 | 35 |
| Other operating expenses..... | 265 | 209 |
| | ----- | ----- |
| | 3,231 | 3,174 |
| Loss from operations..... | (36) | (121) |
| Other income (expense): | | |
| Interest expense..... | (83) | (95) |
| Interest capitalized..... | 10 | 20 |
| Interest income..... | 17 | 16 |
| Equity in earnings of affiliates..... | 6 | 3 |
| Miscellaneous, net..... | (22) | (27) |
| | ----- | ----- |
| | (72) | (83) |
| Loss before income taxes, cumulative effect of accounting change and extraordinary item..... | (108) | (204) |
| Provision (credit) for income taxes..... | (37) | (66) |
| Loss before cumulative effect of accounting change and ex- traordinary item..... | (71) | (138) |
| Cumulative effect of accounting change, net of tax..... | (26) | -- |
| Extraordinary loss on early extinguishment of debt, net of tax..... | -- | (19) |
| | ----- | ----- |
| Net loss..... | \$ (97) | \$ (157) |
| | ===== | ===== |
| Per share: | | |
| Loss before cumulative effect of accounting change and ex- traordinary item..... | \$ (3.31) | \$ (5.92) |
| Cumulative effect of accounting change..... | (1.06) | -- |
| Extraordinary loss on early extinguishment of debt..... | -- | (0.77) |
| | ----- | ----- |
| Net loss..... | \$ (4.37) | \$ (6.69) |
| | ===== | ===== |
| Average shares used in per-share computation..... | 24.5 | 24.2 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

UAL CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)
(IN MILLIONS)

| | THREE MONTHS ENDED MARCH 31 | |
|---|--------------------------------|----------|
| | 1994 | 1993 |
| Cash and cash equivalents at beginning of period..... | \$ 437 | \$ 522 |
| Cash flows from operating activities..... | 317 | 254 |
| Cash flows from investing activities: | | |
| Additions to property and equipment..... | (75) | (489) |
| Proceeds on disposition of property and equipment..... | 96 | 233 |
| Decrease (increase) in short-term investments..... | 387 | (32) |
| Other, net..... | 6 | (43) |
| | 414 | (331) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt..... | (13) | (14) |
| Principal payments under capital lease obligations..... | (55) | (30) |
| Increase (decrease) in short-term borrowings..... | (46) | 38 |
| Issuance of convertible preferred..... | -- | 591 |
| Other, net..... | (8) | -- |
| | (122) | 585 |
| Increase in cash and cash equivalents..... | 609 | 508 |
| Cash and cash equivalents at end of period..... | \$ 1,046 | \$ 1,030 |
| | ===== | ===== |
| Cash paid during the period for: | | |
| Interest (net of amounts capitalized)..... | \$ 85 | \$ 79 |
| Income taxes..... | \$ 1 | \$ 1 |
| Non-cash transactions: | | |
| Long-term debt incurred in connection with additions to equipment..... | \$ 5 | \$ 157 |
| Capital lease obligations incurred..... | \$ -- | \$ 69 |
| Unrealized loss on investments..... | \$ 3 | \$ -- |

See accompanying notes to consolidated financial statements.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THE COMPANY

UAL Corporation ("UAL") is a holding company whose principal subsidiary is United Air Lines, Inc. ("United").

INTERIM FINANCIAL STATEMENTS

The consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to or as permitted by such rules and regulations, although UAL believes that the disclosures are adequate to make the information presented not misleading. In management's opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations for the three month periods have been made. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in UAL's Annual Report on Form 10-K for the year 1993.

PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On March 24, 1994, the Board of Directors of UAL approved a plan of recapitalization, dated March 25, 1994, that would provide a majority equity interest in UAL to the employees of United in exchange for wage concessions and work-rule changes. The transaction is subject to approval by UAL shareholders and certain closing conditions.

RECLASSIFICATION

In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commissions, as adjustments to revenue. Certain amounts in the Statement of Consolidated Operations for the first quarter of 1993 have been reclassified to conform with the current presentation.

OTHER INCOME (EXPENSE)--MISCELLANEOUS

Included in "Miscellaneous, net" in the first quarter of 1994 was a charge of \$19 million for costs incurred in connection with the proposed employee investment transaction. In addition, the 1994 and 1993 periods included foreign exchange losses of \$1 million and \$22 million, respectively.

INCOME TAXES

The provisions (credits) for income taxes are based on estimated annual effective tax rates which differ from the federal statutory rate of 35% principally due to state income taxes and certain nondeductible expenses. The estimated annual effective tax rate for the first quarter of 1994 is based on the actual effective tax rate for the quarter. Deferred tax assets are recognized based upon UAL's history of operating earnings, available carrybacks, expectations for the future and potential tax planning strategies.

ACCOUNTING CHANGES

UAL adopted Statement of Financial Accounting Standards ("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

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)--(CONTINUED)

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.

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

| | AGGREGATE FAIR VALUE | GROSS UNREALIZED HOLDING GAINS | GROSS UNREALIZED HOLDING LOSSES | AVERAGE COST BASIS | MATURITY (MONTHS) |
|---|----------------------------|---|--|--------------------------|----------------------|
| Available-for-sale: | | | | | |
| U.S. government agency debt securities..... | \$328 | \$ -- | \$ 2 | \$330 | 10 |
| Corporate debt securities..... | \$239 | \$ -- | \$ 1 | \$240 | 13 |
| Other debt securities..... | \$ 70 | \$ -- | \$ -- | \$ 70 | 12 |
| Held-to-maturity: | | | | | |
| U.S. government agency debt securities..... | \$ 85 | \$ -- | \$ -- | \$ 85 | 3 |
| Corporate debt securities..... | \$841 | \$ -- | \$ -- | \$841 | 2 |
| Other debt securities..... | \$493 | \$ -- | \$ -- | \$493 | 1 |

The net unrealized holding loss on available-for-sale securities of \$3 million has been recorded as a component of shareholders' equity, net of related tax benefits. The proceeds from sales of available-for-sale securities for the three months ended March 31, 1994 were \$175 million, which, based on the cost of securities sold, resulted in insignificant gross realized gains and losses. These gains and losses were included in interest income for the period.

PER SHARE AMOUNTS

Per share amounts were calculated after providing for preferred stock dividends of \$9 million in the first quarter of 1994 and \$5 million in the first quarter of 1993.

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") and, accordingly, its accounts are consolidated for the first quarter of 1994. Prior to a September 1993 merger, United owned 50% of the Covia Partnership ("Covia"), one of Galileo's and ATS's predecessor companies, which was accounted for on the equity basis.

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 \$12 million and the cost of services purchased from Covia amounted to approximately \$58 million in the first quarter of 1993. Under operating agreements with Galileo subsequent to the merger, United purchases computer reservation services from Galileo and provides marketing, sales and communication services for Galileo. Revenues derived from the sale of services to Galileo amounted to approximately \$59 million and the cost of services purchased from Galileo amounted to approximately \$21 million in the first quarter of 1994.

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)--(CONTINUED)

Summarized financial information of Galileo follows (in millions):

| | MARCH 31, 1994 | DECEMBER 31, 1993 |
|----------------------------|-------------------|----------------------|
| | ----- | ----- |
| Current assets..... | \$155 | \$141 |
| Non-current assets..... | 457 | 467 |
| | ---- | ---- |
| Total assets..... | 612 | 608 |
| | ---- | ---- |
| Current liabilities..... | 165 | 173 |
| Long-term liabilities..... | 435 | 440 |
| | ---- | ---- |
| Total liabilities..... | 600 | 613 |
| | ---- | ---- |
| Net assets..... | \$ 12 | \$ (5) |
| | ==== | ==== |

THREE MONTHS ENDED
MARCH 31, 1994

| | ----- |
|-------------------------|-------|
| Services revenues..... | \$198 |
| Costs and expenses..... | 181 |
| Net earnings..... | \$ 17 |

LONG-TERM DEBT

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

PREFERRED STOCK

Effective March 31, 1994, UAL changed the stated capital of its cumulative 6.25% convertible 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, which is included in other shareholders' equity.

CONTINGENCIES AND COMMITMENTS

UAL 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 UAL 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 March 31, 1994, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.4 billion, after deducting advance payments. An estimated \$0.7 billion will be spent during the remainder of 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. The major commitments are for the purchase of two B747 aircraft to be delivered this year and thirty-four B777 aircraft which are expected to be delivered between 1995 and 1999. These amounts reflect United's revised capital spending plan and an agreement with The Boeing Company, announced in April 1993, to convert certain aircraft orders into options. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft before 1998, it would forfeit significant deposits.

In addition to the B747 and B777 orders, United has arrangements with Airbus Industrie and International Aero Engines to lease 41 A320 aircraft, which are scheduled for delivery through 1998. At

UAL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)--(CONCLUDED)

March 31, 1994, United also had options for an additional 180 B737 aircraft, 49 B757 aircraft, 34 B777 aircraft, 49 B747 aircraft, 8 B767 aircraft and 50 A320 aircraft.

FOREIGN CURRENCY TRANSACTIONS

In the first quarter of 1994, United entered into a foreign currency swap contract to replace existing short-term foreign currency call options and forward contracts in order to reduce exposure to currency fluctuations in connection with certain Japanese yen-denominated obligations. The currency swap contract, which was designated as a hedge, had a notional amount of \$499 million at March 31, 1994. The notional amount will reduce periodically as payments are made. Foreign currency gains and losses on the portion of the contract hedging recorded obligations are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations. Currency gains and losses on the difference between the gross future cash flows and the recorded obligations are deferred and included in interest as it accrues. United's theoretical risk in the 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.

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

PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On March 24, 1994, the Board of Directors of UAL approved a plan of recapitalization, dated March 25, 1994, that would provide a minimum 53% equity interest in UAL to the employees of United in exchange for wage concessions and work-rule changes. The transaction would be implemented through the creation of Employee Stock Ownership Plans ("ESOPs") for United employees. 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 closes. Pursuant to the terms of the plan of recapitalization, current UAL shareholders would receive the remaining 37% to 47% of the common stock and \$88 per share in cash and face amount of debt and preferred stock. The transaction is subject to approval by UAL shareholders and certain closing conditions.

If approved, the employee investment transaction would put in place a lower cost structure and allow for the creation of a low-cost short-haul operation. The purpose of these changes is to create a cost structure which would allow United to compete effectively against the low-cost carriers currently influencing the domestic marketplace and improve UAL's long-term financial viability.

LIQUIDITY AND CAPITAL RESOURCES

UAL's total of cash, cash equivalents and short-term investments increased \$238 million in the first quarter of 1994 to a balance of \$2.066 billion at March 31, 1994. Cash flows from operating activities amounted to \$317 million. Partially offsetting this was cash used in financing activities of \$122 million, which included principal payments under capital lease and debt obligations of \$55 million and \$13 million, respectively, and a \$46 million reduction of short-term borrowings.

In the first quarter of 1994, United took delivery of four A320 aircraft, which were acquired under operating leases. Other 1994 first quarter property additions, primarily spare parts, amounted to \$75 million, while property dispositions resulted in proceeds of \$96 million.

At March 31, 1994, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.4 billion, after deducting advance payments. An estimated \$0.7 billion will be spent during the remainder of 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. The major commitments are for the purchase of two B747 aircraft to be delivered this year and thirty-four B777 aircraft which are expected to be delivered between 1995 and 1999. These amounts reflect United's revised capital spending plan and an agreement with The Boeing Company, announced in April 1993, to convert certain aircraft orders into options. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft before 1998, it would forfeit significant deposits.

In addition to the B747 and B777 orders, United has arrangements with Airbus Industrie and International Aero Engines to lease 41 A320 aircraft, which are scheduled for delivery through 1998. At March 31, 1994, United also had options for an additional 180 B737 aircraft, 49 B757 aircraft, 34 B777 aircraft, 49 B747 aircraft, 8 B767 aircraft and 50 A320 aircraft. 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. Funds necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds, irrevocable external financing arrangements or other external sources.

UAL and United have a shelf registration statement on file with the Securities and Exchange Commission under which up to \$1.776 billion of securities may be offered, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof. The shelf registration statement is being utilized for purposes of registering \$900 million principal amount of debentures to be issued upon consummation of the employee investment transaction or thereafter upon conversion of outstanding securities currently convertible into, or exercise of outstanding options currently exercisable for, UAL common stock.

The employee investment transaction, if approved, would have an initial adverse effect on UAL's cash flow as a result of the cash consideration paid to existing UAL shareholders 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 existing shareholders.

RESULTS OF OPERATIONS

UAL's results of operations for interim periods are not necessarily indicative of those for an entire year, as a result of seasonal factors to which United is subject. First and fourth quarter results are normally affected by reduced travel demand in the fall and winter, and United's operations, particularly at its Chicago and Denver hubs, are adversely affected by winter weather on occasion.

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.

The employee investment transaction would impact UAL's results as operating expenses would be reduced due to wage and benefit reductions, work-rule changes and the startup of a new short-haul, low-cost operation. These expense reductions would be offset by non-cash compensation charges for stock periodically released to employees from the ESOPs and additional interest expense on the debentures. The amount of the non-cash compensation expense cannot be predicted, since it is based on the future fair value of UAL's stock.

Due to the delay in the opening of the new Denver International Airport, United's 1994 operating expenses are not expected to increase as First Quarter 1994 Compared with First Quarter 1993.

UAL's results of operations in the first quarter of 1994 improved as compared to 1993. In the first quarter of 1994, UAL recorded a net loss of \$97 million, \$4.37 per share, compared to a 1993 first quarter net loss of \$157 million, \$6.69 per share. The 1994 first quarter results include a \$26 million cumulative effect charge for the adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which UAL adopted effective January 1, 1994. The first quarter 1993 results include an extraordinary loss of \$19 million on the early extinguishment of debt.

UAL's financial statements have been affected by recent structural changes. The September 1993 merger of the Covia Partnership and The Galileo Company Limited resulted in the formation of Apollo Travel Services ("ATS"), which is 77% owned by United, and the consolidation of ATS's accounts with those of UAL. 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, catering costs.

In the first quarter of 1994, United also 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 the first quarter of 1993 have been adjusted to conform with the current presentation.

The significant factors affecting UAL's consolidated operations for the first quarter of 1994 are described below.

Operating revenues increased \$142 million (5%). Passenger revenues increased \$21 million (1%) due to a 4% increase in United's revenue passenger miles, offset by a 1% decrease in yield to 11.85 cents. The

increase in United's revenue passenger miles occurred systemwide, with the Atlantic increase the largest at 7%. Available seat miles generally increased, except in Latin America, where available seat miles decreased 10%, resulting in an increase of 7.8 points in the Latin American load factor to 64.9%. Domestic passenger load factor increased 1.7 points to 62.4%. On a system basis, United's available seat miles increased 1% and passenger load factor increased 1.7 points to 65.4%. In addition, Air Wisconsin, Inc. accounted for \$60 million of passenger revenues in the first quarter of 1993.

Cargo revenues increased \$21 million (15%), due primarily to increased freight revenues, as mail revenues were relatively unchanged. Freight and mail revenue ton miles increased 5% and 6%, respectively; however, freight yield increased 15% while mail yield decreased 5%. Other operating revenues increased \$100 million (63%) 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 increased \$57 million (2%). United's cost per available seat mile increased 2% as well to 9.04 cents. Salaries and related costs increased \$38 million (3%) primarily due to higher average wage rates and higher costs associated with pensions and medical benefits, partially offset by a lower number of employees as a result of the flight kitchen sales. Commissions increased \$31 million (10%) due principally to increased travel agency sales and higher freight volumes. Food and beverages increased \$16 million (21%) due to the new catering arrangements resulting from the flight kitchen sales. An increase of \$14 million (4%) in rentals and landing fees reflects rent associated with new aircraft acquired on operating leases, primarily B767, B747 and A320 aircraft. Aircraft maintenance increased \$9 million (9%) as a result of higher vendor-provided maintenance. Other operating expenses increased \$56 million (27%) due to higher fuel sales, the consolidation of ATS and depreciation in the 1994 period on Air Wisconsin, Inc. assets leased to others.

Aircraft fuel expense decreased \$55 million (13%), due to an 11% decrease in United's average price per gallon of fuel to 58.6 cents and a 1% decrease in United's consumption. Purchased services decreased \$22 million (9%), as certain services, principally computer reservations and communications, are now provided by ATS. Depreciation and amortization decreased \$15 million (8%) 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.

Other expense amounted to \$72 million in the first quarter of 1994 compared to \$83 million in the first quarter of 1993. Interest expense decreased \$12 million (13%) due primarily to the extinguishment of \$500 million of subordinated debt in 1993. Interest capitalized decreased \$10 million (50%) as a result of lower advance payments on new aircraft. Included in "Miscellaneous, net" in the first quarter of 1994 was a charge of \$19 million for fees and costs incurred in connection with the proposed employee investment transaction. In addition, the 1994 and 1993 periods included foreign exchange losses of \$1 million and \$22 million, respectively.

The reduction in the foreign currency loss from 1993 was due to increased hedging activity which minimized the impact of foreign exchange rate changes on reported financial results. In the first quarter of 1994, United also entered into a foreign currency swap contract to replace short-term foreign currency call options and forward contracts previously used to hedge certain yen-denominated obligations. Foreign currency gains and losses on the portion of the swap contract hedging recorded obligations are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations. Currency gains and losses on the difference between the gross future cash flows and the recorded obligations are deferred and included in interest as it accrues.

PART II. OTHER INFORMATION

ITEM 2. LEGAL PROCEEDINGS

In Re UAL Shareholder Litigation (Krasner v. UAL Corp. et al, Stepak v. UAL Corp., Berger v. UAL Corp., Berger and Lewis v. UAL Corporation, et al.)--In August and September 1989, four purported class action complaints by Registrant's shareholders against Registrant and its Board of Directors in the Circuit Court of Cook County were consolidated. The complaints alleged that (1) Registrant's directors breached their fiduciary duties to the shareholders in connection with the Board's dealings with Marvin Davis, an investor allegedly interested in acquiring Registrant, as part of a larger scheme of entrenchment by the Board of Directors; (2) fees paid by Registrant in connection with a 1989 attempt by Airline Acquisition Corp. to acquire Registrant should be reimbursed to UAL; and (3) the Board's acceptance of a 1990 offer by United Employee Acquisition Corp. to acquire Registrant was improper because the offer was unfairly low. On March 17, 1994, the Court approved the settlement previously agreed to by the parties, and awarded plaintiffs attorney's fees and costs and expenses.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) Exhibit 10.1--UAL Corporation Retirement Plan for Outside Directors, as amended.

Exhibit 10.2--Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors.

Exhibit 11 --Calculation of fully diluted net earnings per share.

Exhibit 12.1--Computation of Ratio of Earnings to Fixed Charges.

Exhibit 12.2--Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.

(B) 1. Form 8-K dated March 28, 1994--Registrant reported entering into an Agreement and Plan of Recapitalization dated as of March 25, 1994 with Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers related to the Employee Stock Ownership Plans.

2. Form 8-K dated March 29, 1994 to report certain press releases issued by Registrant.

3. Form 8-K dated April 28, 1994 to report certain financial information for Registrant for the first quarter of 1994.

4. Form 8-K dated May 3, 1994 to report information provided to investment analysts by Registrant, summarizing the effect on prior period financial statements for Registrant and subsidiary companies of certain air transportation price adjustments.

SIGNATURES

PURSUANT TO THE REQUIREMENTS 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/ John C. Pope

JOHN C. POPE
PRESIDENT AND CHIEF OPERATING
OFFICER
(PRINCIPAL FINANCIAL AND
ACCOUNTING OFFICER)

Dated: May , 1994

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED MARCH 31, 1994

COMMISSION FILE NUMBER 33-21220*

UNITED AIR LINES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

36-2675206
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

1200 EAST ALGONQUIN ROAD, ELK GROVE TOWNSHIP, ILLINOIS 60007
MAILING ADDRESS: P. O. BOX 66100, CHICAGO, ILLINOIS 60666
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (708) 952-4000

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

Yes X No
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (applicable only to corporate issuers).

| CLASS ----- | OUTSTANDING AT OCTOBER 31, 1993 ----- |
|------------------------------|---|
| Common Stock (\$5 par value) | 200 |

* Registrant is the wholly-owned subsidiary of UAL Corporation (File 1-6033). Registrant became subject to filing periodic reports under the Securities Exchange Act of 1934 as a result of a public offering of securities which became effective June 3, 1988 (Registration Nos. 33-21220 and 22-18246).

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 1994

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(IN MILLIONS)

| | MARCH 31, 1994 | DECEMBER 31, 1993 |
|---|----------------------|----------------------|
| | ----- (UNAUDITED) | |
| ASSETS ----- | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 666 | \$ 285 |
| Short-term investments..... | 542 | 681 |
| Receivables, net..... | 1,104 | 1,092 |
| Related party receivables..... | 382 | 397 |
| Inventories, net..... | 266 | 277 |
| Deferred income taxes..... | 127 | 127 |
| Prepaid expenses and other..... | 362 | 408 |
| | ----- | ----- |
| | 3,449 | 3,267 |
| Operating property and equipment: | | |
| Owned..... | 11,079 | 11,146 |
| Accumulated depreciation and amortization..... | (4,755) | (4,678) |
| | ----- | ----- |
| | 6,324 | 6,468 |
| Capital leases..... | 1,132 | 1,131 |
| Accumulated amortization..... | (409) | (395) |
| | ----- | ----- |
| | 723 | 736 |
| | ----- | ----- |
| | 7,047 | 7,204 |
| Other assets: | | |
| Intangibles, net..... | 778 | 789 |
| Deferred income taxes..... | 606 | 570 |
| Other..... | 316 | 323 |
| | ----- | ----- |
| | 1,700 | 1,682 |
| | ----- | ----- |
| | \$ 12,196 | \$ 12,153 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDER'S EQUITY ----- | | |
| Current liabilities: | | |
| Short-term borrowings..... | \$ 269 | \$ 315 |
| Current portions of long-term debt and capital lease obligations..... | 197 | 187 |
| Advance ticket sales..... | 1,191 | 1,036 |
| Accounts payable..... | 632 | 632 |
| Other..... | 2,650 | 2,705 |
| | ----- | ----- |
| | 4,939 | 4,875 |
| Long-term debt..... | 2,596 | 2,603 |
| Long-term obligations under capital leases..... | 774 | 824 |
| Other liabilities and deferred credits: | | |
| Deferred pension liability..... | 652 | 571 |
| Postretirement benefit liability..... | 1,081 | 1,058 |
| Deferred gains..... | 1,377 | 1,400 |
| Other..... | 167 | 113 |
| | ----- | ----- |
| | 3,277 | 3,142 |
| Minority interest..... | 40 | 35 |
| Shareholder's equity..... | 570 | 674 |
| | ----- | ----- |
| Commitments and contingent liabilities (See note) | | |
| | \$ 12,196 | \$ 12,153 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED OPERATION (UNAUDITED)
(IN MILLIONS)

| | THREE MONTHS ENDED MARCH 31 | |
|---|--------------------------------|----------|
| | 1994 | 1993 |
| Operating revenues: | | |
| Passenger..... | \$ 2,771 | \$ 2,690 |
| Cargo..... | 164 | 143 |
| Other operating revenues..... | 238 | 168 |
| | ----- | ----- |
| | 3,173 | 3,001 |
| | ===== | ===== |
| Operating expenses: | | |
| Salaries and related costs..... | 1,202 | 1,142 |
| Commissions..... | 334 | 298 |
| Aircraft fuel..... | 370 | 420 |
| Rentals and landing fees..... | 380 | 351 |
| Purchased services..... | 218 | 237 |
| Depreciation and amortization..... | 178 | 178 |
| Aircraft maintenance..... | 109 | 93 |
| Food and beverages..... | 91 | 75 |
| Personnel expenses..... | 59 | 64 |
| Advertising and promotion..... | 27 | 35 |
| Other operating expenses..... | 249 | 215 |
| | ----- | ----- |
| | 3,217 | 3,108 |
| | ===== | ===== |
| Loss from operations..... | (44) | (107) |
| Other income (expense): | | |
| Interest expense..... | (81) | (92) |
| Interest capitalized..... | 10 | 20 |
| Interest income..... | 11 | 12 |
| Equity in earnings of affiliates..... | 6 | 3 |
| Miscellaneous, net..... | (22) | (27) |
| | ----- | ----- |
| | (76) | (84) |
| | ===== | ===== |
| Loss before income taxes, cumulative effect of accounting change and extraordinary item..... | (120) | (191) |
| Provision (credit) for income taxes..... | (41) | (62) |
| Loss before cumulative effect of accounting change and ex- traordinary item..... | (79) | (129) |
| Cumulative effect of accounting change, net of tax..... | (26) | -- |
| Extraordinary loss on early extinguishment of debt, net of tax..... | -- | (19) |
| | ----- | ----- |
| Net loss..... | \$ (105) | \$ (148) |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES
CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)
(IN MILLIONS)

| | THREE MONTHS ENDED MARCH 31 | |
|---|--------------------------------|--------|
| | 1994 | 1993 |
| Cash and cash equivalents at beginning of period..... | \$ 285 | \$ 454 |
| Cash flows from operating activities..... | 287 | 231 |
| Cash flows from investing activities: | | |
| Additions to property and equipment..... | (66) | (487) |
| Proceeds on disposition of property and equipment..... | 93 | 231 |
| Decrease (increase) in short-term investments..... | 155 | 254 |
| Other, net..... | 22 | (44) |
| | ----- | ----- |
| | 204 | (46) |
| | ===== | ===== |
| Cash flows from financing activities: | | |
| Repayment of long-term debt..... | (9) | (12) |
| Principal payments under capital lease obligations..... | (55) | (30) |
| Increase (decrease) in short-term borrowings..... | (46) | 38 |
| | ----- | ----- |
| | (110) | (4) |
| | ===== | ===== |
| Increase in cash and cash equivalents..... | 381 | 181 |
| Cash and cash equivalents at end of period..... | \$ 666 | \$ 635 |
| Cash paid during the period for: | | |
| Interest (net of amounts capitalized)..... | \$ 84 | \$ 78 |
| Income taxes..... | \$ 1 | \$ 1 |
| Non-cash transactions: | | |
| Long-term debt incurred in connection with additions to equipment..... | \$ 5 | \$ 157 |
| Capital lease obligations incurred..... | \$ -- | \$ 69 |
| Unrealized loss on investments..... | \$ 3 | \$ -- |

See accompanying notes to consolidated financial statements.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(UNAUDITED)

THE COMPANY

United Air Lines, Inc. ("United") is a wholly-owned subsidiary of UAL Corporation ("UAL").

INTERIM FINANCIAL STATEMENTS

The consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to or as permitted by such rules and regulations, although United believes that the disclosures are adequate to make the information presented not misleading. In management's opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations for the three month periods have been made. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in United's Annual Report on Form 10-K for the year 1993.

PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On March 24, 1994, the Board of Directors of UAL approved a plan of recapitalization, dated March 25, 1994, that would provide a majority equity interest in UAL to the employees of United in exchange for wage concessions and work-rule changes. The transaction is subject to approval by UAL shareholders and certain closing conditions.

RECLASSIFICATION

In the first quarter of 1994, United began recording certain air transportation price adjustments, which were previously recorded as commissions, as adjustments to revenue. Certain amounts in the Statement of Consolidated Operations for the first quarter of 1993 have been reclassified to conform with the current presentation.

OTHER INCOME (EXPENSE)--MISCELLANEOUS

Included in "Miscellaneous, net" in the first quarter of 1994 was a charge of \$19 million for costs incurred in connection with the proposed employee investment transaction. In addition, the 1994 and 1993 periods included foreign exchange losses of \$1 million and \$22 million, respectively.

INCOME TAXES

The provisions (credits) for income taxes are based on estimated annual effective tax rates which differ from the federal statutory rate of 35% principally due to state income taxes and certain nondeductible expenses. The estimated annual effective tax rate for the first quarter of 1994 is based on the actual effective tax rate for the quarter. Deferred tax assets are recognized based upon United's history of operating earnings, available carrybacks, expectations for the future and potential tax planning strategies.

ACCOUNTING CHANGES

United adopted Statement of Financial Accounting Standards ("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.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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

| | AGGREGATE FAIR VALUE | GROSS UNREALIZED HOLDING GAINS | GROSS UNREALIZED HOLDING LOSSES | AVERAGE COST BASIS | MATURITY (MONTHS) |
|---|----------------------------|---|--|--------------------------|----------------------|
| Available-for-sale: | | | | | |
| U.S. government agency debt securities..... | \$167 | \$ -- | \$ 2 | \$169 | 10 |
| Corporate debt securities..... | \$128 | \$ -- | \$ 1 | \$129 | 13 |
| Other debt securities..... | \$ 37 | \$ -- | \$ -- | \$ 37 | 12 |
| Held-to-maturity: | | | | | |
| U.S. government agency debt securities..... | \$ 46 | \$ -- | \$ -- | \$ 46 | 3 |
| Corporate debt securities..... | \$450 | \$ -- | \$ -- | \$450 | 2 |
| Other debt securities..... | \$374 | \$ -- | \$ -- | \$374 | 1 |

The net unrealized holding loss on available-for-sale securities of \$3 million has been recorded as a component of shareholder's equity, net of related tax benefits. The proceeds from sales of available-for-sale securities for the three months ended March 31, 1994 were \$94 million, which, based on the cost of securities sold, resulted in insignificant gross realized gains and losses. These gains and losses were included in interest income for the period.

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") and, accordingly, its accounts are consolidated for the first quarter of 1994. Prior to a September 1993 merger, United owned 50% of the Covia Partnership ("Covia"), one of Galileo's and ATS's predecessor companies, which was accounted for on the equity basis.

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 \$12 million and the cost of services purchased from Covia amounted to approximately \$58 million in the first quarter of 1993. Under operating agreements with Galileo subsequent to the merger, United purchases computer reservation services from Galileo and provides marketing, sales and communication services for Galileo. Revenues derived from the sale of services to Galileo amounted to approximately \$59 million and the cost of services purchased from Galileo amounted to approximately \$21 million in the first quarter of 1994.

Summarized financial information of Galileo follows (in millions):

| | MARCH 31, 1994 | DECEMBER 31, 1993 |
|----------------------------|-------------------|----------------------|
| Current assets..... | \$155 | \$141 |
| Non-current assets..... | 457 | 467 |
| Total assets..... | 612 | 608 |
| Current liabilities..... | 165 | 173 |
| Long-term liabilities..... | 435 | 440 |
| Total liabilities..... | 600 | 613 |
| Net assets..... | \$ 12 | \$ (5) |

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONCLUDED)

THREE MONTHS ENDED
MARCH 31, 1994

| | |
|-------------------------|--------|
| Services revenues..... | \$ 198 |
| Costs and expenses..... | 181 |
| Net earnings..... | \$ 17 |

LONG-TERM DEBT

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

CONTINGENCIES AND COMMITMENTS

United 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 United is subject and its prior experience, that the ultimate disposition of these contingencies is not expected to materially affect United's consolidated financial position or results of operations.

At March 31, 1994, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.4 billion, after deducting advance payments. An estimated \$0.7 billion will be spent during the remainder of 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. The major commitments are for the purchase of two B747 aircraft to be delivered this year and thirty-four B777 aircraft which are expected to be delivered between 1995 and 1999. These amounts reflect United's revised capital spending plan and an agreement with The Boeing Company, announced in April 1993, to convert certain aircraft orders into options. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft before 1998, it would forfeit significant deposits.

In addition to the B747 and B777 orders, United has arrangements with Airbus Industrie and International Aero Engines to lease 41 A320 aircraft, which are scheduled for delivery through 1998. At March 31, 1994, United also had options for an additional 180 B737 aircraft, 49 B757 aircraft, 34 B777 aircraft, 49 B747 aircraft, 8 B767 aircraft and 50 A320 aircraft.

FOREIGN CURRENCY TRANSACTIONS

In the first quarter of 1994, United entered into a foreign currency swap contract to replace existing short-term foreign currency call options and forward contracts in order to reduce exposure to currency fluctuations in connection with certain Japanese yen-denominated obligations. The currency swap contract, which was designated as a hedge, had a notional amount of \$499 million at March 31, 1994. The notional amount will reduce periodically as payments are made. Foreign currency gains and losses on the portion of the contract hedging recorded obligations are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations. Currency gains and losses on the difference between the gross future cash flows and the recorded obligations are deferred and included in interest as it accrues. United's theoretical risk in the 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.

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

PROPOSED EMPLOYEE INVESTMENT TRANSACTION

On March 24, 1994, the Board of Directors of UAL approved a plan of recapitalization, dated March 25, 1994, that would provide a minimum 53% equity interest in UAL to the employees of United in exchange for wage concessions and work-rule changes. The transaction would be implemented through the creation of Employee Stock Ownership Plans ("ESOPs") for United employees. 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 closes. Pursuant to the terms of the plan of recapitalization, current UAL shareholders would receive the remaining 37% to 47% of the common stock and \$88 per share in cash and face amount of debt and preferred stock. The transaction is subject to approval by UAL shareholders and certain closing conditions.

If approved, the employee investment transaction would put in place a lower cost structure and allow for the creation of a low-cost short-haul operation. The purpose of these changes is to create a cost structure which would allow United to compete effectively against the low-cost carriers currently influencing the domestic marketplace and improve United's long-term financial viability.

LIQUIDITY AND CAPITAL RESOURCES

United's total of cash, cash equivalents and short-term investments increased \$242 million in the first quarter of 1994 to a balance of \$1.208 billion at March 31, 1994. Cash flows from operating activities amounted to \$287 million. Partially offsetting this was cash used in financing activities of \$110 million, which included principal payments under capital lease and debt obligations of \$55 million and \$9 million, respectively, and a \$46 million reduction of short-term borrowings.

In the first quarter of 1994, United took delivery of four A320 aircraft, which were acquired under operating leases. Other 1994 first quarter property additions, primarily spare parts, amounted to \$66 million, while property dispositions resulted in proceeds of \$93 million.

At March 31, 1994, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.4 billion, after deducting advance payments. An estimated \$0.7 billion will be spent during the remainder of 1994, \$1.1 billion in 1995, \$0.8 billion in 1996, \$1.2 billion in 1997, \$0.4 billion in 1998, and \$0.2 billion after 1998. The major commitments are for the purchase of two B747 aircraft to be delivered this year and thirty-four B777 aircraft which are expected to be delivered between 1995 and 1999. These amounts reflect United's revised capital spending plan and an agreement with The Boeing Company, announced in April 1993, to convert certain aircraft orders into options. Under the terms of the agreement, if United does not elect to confirm the delivery of these option aircraft before 1998, it would forfeit significant deposits.

In addition to the B747 and B777 orders, United has arrangements with Airbus Industrie and International Aero Engines to lease 41 A320 aircraft, which are scheduled for delivery through 1998. At March 31, 1994, United also had options for an additional 180 B737 aircraft, 49 B757 aircraft, 34 B777 aircraft, 49 B747 aircraft, 8 B767 aircraft and 50 A320 aircraft. 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. Funds necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds, irrevocable external financing arrangements or other external sources.

UAL and United have a shelf registration statement on file with the Securities and Exchange Commission under which up to \$1.776 billion of securities may be offered, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof. The shelf registration statement is being utilized for purposes of registering \$900 million principal amount of debentures to be issued upon consummation of the employee investment transaction or thereafter upon conversion of outstanding

securities currently convertible into, or exercise of outstanding options currently exercisable for, UAL common stock.

The employee investment transaction, if approved, would have an initial adverse effect on United's cash flow as a result of the payment of certain fees and transaction expenses. 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.

RESULTS OF OPERATIONS

United's results of operations for interim periods are not necessarily indicative of those for an entire year, as a result of seasonal factors to which United is subject. First and fourth quarter results are normally affected by reduced travel demand in the fall and winter, and United's operations, particularly at its Chicago and Denver hubs, are adversely affected by winter weather on occasion.

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. United 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.

The employee investment transaction would impact United's results as operating expenses would be reduced due to wage and benefit reductions, work-rule changes and the startup of a new short-haul, low-cost operation. These expense reductions would be offset by non-cash compensation charges for stock periodically released to employees from the ESOPs and additional interest expense on the debentures. The amount of the non-cash compensation expense cannot be predicted, since it is based on the future fair value of UAL's stock.

Due to the delay in the opening of the new Denver International Airport, United's 1994 operating expenses are not expected to increase as much as originally anticipated.

FIRST QUARTER 1994 COMPARED WITH FIRST QUARTER 1993.

United's results of operations in the first quarter of 1994 improved as compared to 1993. In the first quarter of 1994, United recorded a net loss of \$105 million, compared to a 1993 first quarter net loss of \$148 million. The 1994 first quarter results include a \$26 million cumulative effect charge for the adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which UAL adopted effective January 1, 1994. The first quarter 1993 results include an extraordinary loss of \$19 million on the early extinguishment of debt.

United's financial statements have been affected by recent structural changes. The September 1993 merger of the Covia Partnership and The Galileo Company Limited resulted in the formation of Apollo Travel Services ("ATS"), which is 77% owned by United, and the consolidation of ATS's accounts with those of United. 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, catering costs.

In the first quarter of 1994, United also 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 the first quarter of 1993 have been adjusted to conform with the current presentation.

The significant factors affecting United's consolidated operations for the first quarter of 1994 are described below.

Operating revenues increased \$172 million (6%). Passenger revenues increased \$81 million (3%) due to a 4% increase in United's revenue passenger miles, offset by a 1% decrease in yield to 11.85 cents. The increase in United's revenue passenger miles occurred systemwide, with the Atlantic increase the largest at 7%. Available seat miles generally increased, except in Latin America, where available seat miles decreased 10%, resulting in an increase of 7.8 points in the Latin American load factor to 64.9%. Domestic passenger load factor increased 1.7 points to 62.4%. On a system basis, United's available seat miles increased 1% and passenger load factor increased 1.7 points to 65.4%.

Cargo revenues increased \$21 million (15%), due primarily to increased freight revenues, as mail revenues were relatively unchanged. Freight and mail revenue ton miles increased 5% and 6%, respectively; however, freight yield increased 15% while mail yield decreased 5%. Other operating revenues increased \$70 million (42%) primarily as a result of the consolidation of ATS and an increase in fuel sales.

Operating expenses increased \$109 million (4%). United's cost per available seat mile increased 2% to 9.04 cents. Salaries and related costs increased \$60 million (5%) primarily due to higher average wage rates and higher costs associated with pensions and medical benefits, partially offset by a lower number of employees as a result of the flight kitchen sales. Commissions increased \$36 million (12%) due principally to increased travel agency sales and higher freight volumes. Food and beverages increased \$16 million (21%) due to the new catering arrangements resulting from the flight kitchen sales. An increase of \$29 million (8%) in rentals and landing fees reflects rent associated with new aircraft acquired on operating leases, primarily B767, B747 and A320 aircraft. Aircraft maintenance increased \$16 million (17%) as a result of higher vendor-provided maintenance. Other operating expenses increased \$34 million (16%) due to higher fuel sales and the consolidation of ATS.

Aircraft fuel expense decreased \$50 million (12%), due to an 11% decrease in United's average price per gallon of fuel to 58.6 cents and a 1% decrease in United's consumption. Purchased services decreased \$19 million (8%), as certain services, principally computer reservations and communications, are now provided by ATS.

Other expense amounted to \$76 million in the first quarter of 1994 compared to \$84 million in the first quarter of 1993. Interest expense decreased \$11 million (12%) due primarily to the extinguishment of \$500 million of subordinated debt in 1993. Interest capitalized decreased \$10 million (50%) as a result of lower advance payments on new aircraft. Included in "Miscellaneous, net" in the first quarter of 1994 was a charge of \$19 million for fees and costs incurred in connection with the proposed employee investment transaction. In addition, the 1994 and 1993 periods included foreign exchange losses of \$1 million and \$22 million, respectively.

The reduction in the foreign currency loss from 1993 was due to increased hedging activity which minimized the impact of foreign exchange rate changes on reported financial results. In the first quarter of 1994, United also entered into a foreign currency swap contract to replace short-term foreign currency call options and forward contracts previously used to hedge certain yen-denominated obligations. Foreign currency gains and losses on the portion of the swap contract hedging recorded obligations are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations. Currency gains and losses on the difference between the gross future cash flows and the recorded obligations are deferred and included in interest as it accrues.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 1994

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 12.1--Computation of Ratio of Earnings To Fixed Charges.
- (b)
 1. Form 8-K dated March 29, 1994--Registrant's parent company, UAL Corporation, reported entering into an Agreement and Plan of Recapitalization dated as of March 25, 1994 with Air Line Pilots Association, International UA-MEC and the International Association of Machinists and Aerospace Workers related to the Employee Stock Ownership Plans.
 2. Form 8-K dated April 22, 1994--Registrant submitted a report to incorporate portions of Registrant's parent company's and Registrant's Preliminary Proxy Statement/Joint Prospectus.
 3. Form 8-K dated April 28, 1994 to report Registrant's parent company's financial information for the first quarter of 1994 and certain financial information for the Registrant.
 4. Form 8-K dated May 3, 1994 to report information provided to investment analysts by Registrant's parent company summarizing the effect on prior period financial statements for UAL and subsidiary companies of certain air transportation price adjustments.

SIGNATURES

PURSUANT TO THE REQUIREMENTS 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.

United Air Lines, Inc.

By: /s/ John C. Pope

JOHN C. POPE PRESIDENT AND CHIEF
OPERATING OFFICER (PRINCIPAL
FINANCIAL OFFICER)

By: /s/ Frederic F. Brace

FREDERIC F. BRACE VICE PRESIDENT-
CORPORATE DEVELOPMENT AND
CONTROLLER (PRINCIPAL ACCOUNTING
OFFICER)

Dated: May , 1994

STATEMENT OF EXHIBIT FEES

FOR COPIES OF EXHIBITS TO UAL AND UNITED
ANNUAL AND QUARTERLY REPORTS

The enclosed copies of (i) the UAL Corporation 1993 Annual Report on Form 10-K to the Securities and Exchange Commission (the "SEC"), as amended (the "UAL Annual Report"), (ii) the United Air Lines, Inc. 1993 Annual Report on Form 10-K to the SEC (the "United Annual Report"), (iii) the UAL Corporation March 1994 Quarterly Report on Form 10-Q to the SEC (the "UAL Quarterly Report") and (iv) the United Air Lines, Inc. March 1994 Quarterly Report on Form 10-Q to the SEC (the "United Quarterly Report") are provided to you free of charge. The enclosed reports do not, however, contain the exhibits that were included with the forms filed with the Commission.

The Company will furnish copies of the exhibits not contained in the enclosed annual and quarterly reports upon written request, if accompanied by payment of the following fees, which represent the Company's reasonable expenses in providing the documents:

| EXHIBIT NUMBER ----- | DESCRIPTION ----- | FEE ----- |
|----------------------------|--|--------------|
| UAL ANNUAL REPORT ----- | | |
| 10.2 | Letter Agreement No. 6-1162-DLJ-1193 dated January 25, 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. | \$5.25 |
| 10.3 | Supplemental Agreement No. 5 dated January 17, 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 747-400 aircraft. | \$1.05 |
| 10.4 | Amendment No. 1 dated as of November 24, 1993 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. | \$1.80 |
| 10.5 | Amendment No. 1 dated as of November 24, 1993 to Letter Agreement No. 8 dated as of August 10, 1992 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. | \$1.05 |
| 10.9 | Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated June 15, 1992, amending the Agreement dated November 21, 1991, concerning United's aircraft maintenance facility. | \$1.95 |
| 10.10 | Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated December 23, 1993, amending the Agreement dated November 21, 1991, concerning United's aircraft maintenance facility. | \$1.65 |
| 10.14 | Form of Option Agreement Amendment dated as of February 24, 1994 for UAL Corporation's Section 16 officers. | \$0.60 |
| 10.20 | Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors. | \$0.15 |
| 10.26 | Social Club Membership Program. | \$0.15 |
| 11 | Calculation of fully diluted net earnings per share. | \$0.15 |
| 12.1 | Computation of UAL's Ratio of Earnings to Fixed Charges. | \$0.15 |
| 12.2 | Computation of UAL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements. | \$0.15 |
| 22 | List of UAL's subsidiaries. | \$0.15 |

| EXHIBIT NUMBER ----- | DESCRIPTION ----- | FEE ----- |
|----------------------------------|---|--------------|
| 99.1 | Financial Statements of the Covia Partnership. | \$2.25 |
| 99.2 | Financial Statements of the Galileo International Partnership together with the report of its independent public accountants. | \$2.10 |
| 99.3 | Annual Report on Form 11-K for Employees' Stock Purchase Plan of UAL Corporation. | \$1.20 |
| UNITED ANNUAL REPORT ----- | | |
| 12 | Computation of United's Ratio of Earnings to Fixed Charges. | \$0.15 |
| UAL QUARTERLY REPORT ----- | | |
| 10.1 | UAL Corporation Retirement Plan for Outside Directors, as amended. | \$0.60 |
| 10.2 | Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors. | \$0.15 |
| 11 | Calculation of fully diluted net earnings per share. | \$0.15 |
| 12.1 | Computation of UAL's Ratio of Earnings to Fixed Charges | \$0.15 |
| 12.2 | Computation of UAL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements. | \$0.15 |
| UNITED QUARTERLY REPORT ----- | | |
| 12.1 | Computation of United's Ratio of Earnings to Fixed Charges. | \$0.15 |

Requests for exhibits, together with a check payable to UAL Corporation, should be addressed to:

UAL Corporation
Office of the Secretary--EXOLD
P.O. Box 66919
Chicago, IL 60666

AMENDMENT TO THE
UAL, INC. 1981 INCENTIVE STOCK PROGRAM

UAL CORPORATION (the "Company"), having heretofore adopted the UAL, Inc. 1981 Incentive Stock Program, as amended effective February 28, 1991 (the "Plan"), hereby furthers amends the Plan, effective as of the date of consummation of the Recapitalization to be effected pursuant to the Agreement and Plan of Recapitalization proposed to be entered into among the Company, Air Line Pilots Association, International and International Association of Machinists and Aerospace Workers, as follows:

1. Section 1 of the Plan is hereby amended by deleting the reference to "Common Stock of the Company" therein and inserting, in lieu thereof, the phrase "the Company's Common Stock, par value \$.01 per share ("Common Stock")."

2. The name of the Plan is hereby amended to be the "UAL Corporation 1981 Incentive Stock Plan", each reference in the Plan to "UAL, Inc." is hereby replaced with a reference to "UAL Corporation", and the word "Program" is hereby replaced with the word "Plan" each place the former appears in the Plan.

3. The first sentence of Section 3 of the Plan is hereby amended in its entirety to read as follows:

"The Plan shall be administered by the Compensation Administration Committee of the Board of Directors of the Company."

4. The first sentence of Section 5 of the Plan is hereby amended in its entirety to read as follows:

"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."

5. Section 5 of the Plan is hereby further amended by adding the following two new sentences at the end thereof:

"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)."

AMENDMENT TO THE UAL CORPORATION
1988 RESTRICTED STOCK PLAN

UAL CORPORATION (the "Company"), having heretofore adopted the UAL Corporation 1988 Restricted Stock Plan, as amended effective February 22, 1990 and as further amended effective July 1, 1993 (the "Plan"), hereby further amends the Plan, effective as of the date of consummation of the Recapitalization to be effected pursuant to the Agreement and Plan of Recapitalization proposed to be entered into among the Company, Air Line Pilots Association, International and International Association of Machinists and Aerospace Workers (the "Effective Time"), as follows:

1. Section 2(d) of the Plan is hereby amended in its entirety to read as follows:

"(d) 'Committee' shall mean the Compensation Administration Committee of the Board."

2. Section 2(f) of the Plan is hereby amended in its entirety to read as follows:

"(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."

3. Section 4(b) of the Plan is hereby amended by adding the following two new sentences at the end thereof:

"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)."

4. Section 7(c) of the Plan is hereby amended by adding the following at the end thereof:

"Notwithstanding the foregoing provisions 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."

5. The Restricted Share reserve (established pursuant to Section 3(a) of the Plan) immediately prior to the Effective Time shall continue to constitute such Restricted Share reserve as of the Effective Time.

UAL CORPORATION
INCENTIVE COMPENSATION PLAN
(AS AMENDED JUNE 30, 1988)

UAL CORPORATION
INCENTIVE COMPENSATION PLAN
(THE "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 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 and Stock Option Committee of the Board of Directors (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 creditors' 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 annual 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--Payment of Incentive Awards will be made in cash on or about April 1, of the year following the Award Year.

AMENDMENT TO THE UAL
CORPORATION INCENTIVE COMPENSATION PLAN

UAL CORPORATION (the "Company"), having heretofore adopted the UAL Corporation Incentive Compensation Plan, as amended June 30, 1988 (the "Plan"), hereby amends the Plan, effective as of the date of consummation of the Recapitalization to be effected pursuant to the Agreement and Plan of Recapitalization proposed to be entered into among the Company, Air Line Pilots Association, International and International Association of Machinists and Aerospace Workers, as follows:

1. The first sentence of Paragraph 1 of Section II of the plan is hereby amended in its entirety to read as follows:

"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 (the "Committee"), provided however, that the Plan shall be administered by the Committee to the extent necessary to cause the amounts payable hereunder to satisfy the requirements of Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended the "Code").

2. Section VI of the Plan is hereby amended in its entirety to read as follows:

"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 of 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."

3. The Plan is hereby amended by adding a new Section VII at the end thereof to read as follows:

"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) the 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). Notwithstanding the foregoing, the Committee may reduce the Incentive Award otherwise determined pursuant to such formula in its sole discretion."

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the General Corporation Law of Delaware empowers each of the Registrants to indemnify, subject to the standards herein prescribed, any person in connection with any action, suit or proceeding brought or threatened by reason of the fact that such person is or was a director, officer, employee or agent of a Registrant or was serving as such with respect to another corporation or other entity at the request of a Registrant. Article Sixth (b) of each of the Registrants' Restated Certificates of Incorporation provides that each person who was or is made a party to (or is threatened to be made a party to) or is otherwise involved in any action, suit or proceeding by reason of the fact that such person is or was a director or officer of the applicable Registrant shall be indemnified and held harmless by the applicable Registrant to the fullest extent authorized by the General Corporation Law of Delaware against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred by such person in connection therewith. The rights conferred by Article Sixth (b) are contractual rights and include the right to be paid by the applicable Registrant the expenses incurred in defending such action, suit or proceeding in advance of the final disposition thereof.

Article SIXTH (a) of each of the Registrants' Restated Certificate of Incorporation and the proposed Restated Certificate of Incorporation of UAL provides that the applicable Registrant's directors will not be personally liable to the applicable Registrant or its stockholders for monetary damages resulting from breaches of their fiduciary duty as directors except for liability (a) for any breach of the duty of loyalty to the applicable Registrant or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the General Corporation Law of Delaware, which makes directors liable for unlawful dividends or unlawful stock repurchases or redemptions or (d) for any transaction from which directors derive improper personal benefit.

The Registrants maintain directors and officers liability insurance covering all directors and officers of the Registrants against claims arising out of the performance of their duties.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|-------------------------|---|
| 2.1 | Agreement and Plan of Recapitalization dated as of March 25, 1994, among UAL, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers, including all schedules and exhibits thereto (filed as Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). |
| 2.2 | Letter agreement dated as of March 25, 1994, among UAL, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.2 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). |
| 2.3 | Letter agreement dated as of March 25, 1994, between UAL and State Street Bank and Trust Company (filed as Exhibit 10.3 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). |
| 3.1 | UAL's Restated Certificate of Incorporation as filed in Delaware on November 1, 1993 (filed as Exhibit 3.1 of UAL's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference). |

EXHIBIT
NO.

DESCRIPTION

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- 3.2 UAL's Bylaws, as amended on October 28, 1993 (filed as Exhibit 3.2 of UAL's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference).
- 3.3 United's Restated Certificate of Incorporation, as amended March 13, 1992 (filed as Exhibit 3.1 of United's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference).
- 3.4 United's Bylaws, as amended on June 25, 1987 (filed as Exhibit 3(b) to United's S-1 Registration Statement (Nos. 33-21220 and 22-18246) effective June 3, 1988, and incorporated herein by reference).
- 4.1 UAL's Proposed Restated Certificate of Incorporation, to be filed in connection with the consummation of the Recapitalization (filed as Schedule 1.1 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 4.2 UAL's Proposed Restated Bylaws, to be adopted in connection with the consummation of the Recapitalization (filed as Schedule 2.2 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 4.3 Form of Deposit Agreement between UAL and the Holders from Time to Time of the Depositary Receipts Described therein.
- 4.4 Rights Agreement dated as of December 11, 1986 between UAL and Morgan Shareholder Services Trust Company, as Rights Agent (filed as Exhibit 4.1 of UAL's Annual Report on Form 10-K for the year ended December 31, 1992 and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 thereto filed, respectively, as (i) Exhibit 2 to UAL's Form 8 dated February 26, 1988, (ii) Exhibit 3 to Registrant's Form 8 dated July 28, 1989, (iii) Exhibit 4 to UAL's Form 8 dated September 26, 1989, and (iv) Exhibit to UAL's Form 8 dated February 3, 1993, and each incorporated herein by reference).
- 4.5 Indenture dated as of July 1, 1991 between United and The Bank of New York providing for the Issuance of Senior Debt Securities in Series (filed as Exhibit 4(a) of United's Registration Statement Form S-3 (No. 33-57192) and incorporated herein by reference).
- 4.6 Form of Officer's Certificate relating to United's Series A Debentures due 2004 and United Series B Debentures due 2014 (filed as Schedule 1.3 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 4.7 UAL's Registration Statement Form S-3 (No. 33-57192) filed on January 21, 1993, relating to the offer of up to \$1,500,000,000 Convertible Debt Securities, Preferred Stock and Common Stock and United Air Lines, Inc. Debt Securities, Warrants to Purchase Debt Securities, Equipment Trust Certificates and/or Pass-Through Certificates, and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 to UAL Registration Statement Form S-3 (No. 33-57192) filed on January 21, March 19, May 7 and May 28, 1993, respectively, and each incorporated herein by reference.
UAL's indebtedness under any single instrument, or any potential indebtedness under any instruments except as described in Exhibit 4.6, does not exceed 10% of UAL's total assets on a consolidated basis. Copies of such instruments will be furnished to the Commission upon request.
- 4.8 United's Registration Statement Form S-3 (No. 33-46033) filed on January 21, 1993, relating to the offer of \$1,500,000,000 Debt Securities, Preferred Stock and Common Stock and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 to UAL's (File No. 1-6033) Registration Statement Form S-3 (No. 33-46033) filed on January 21, March 19, May 7 and May 28, 1993, respectively, and each incorporated herein by reference.
United's indebtedness under any single instrument, other than Exhibit 4.7, does not exceed 10% of United's total assets on a consolidated basis. Copies of such instruments will be furnished to the Commission upon request.
- *5 Opinion of Skadden, Arps, Slate, Meagher & Flom as to the legality of the Securities dated as of June , 1994.
- *7 Opinion of Skadden, Arps, Slate, Meagher & Flom as to liquidity preference (see Exhibit No. 5).

EXHIBIT
NO.

DESCRIPTION

- *8 Tax Opinion of Skadden, Arps, Slate, Meagher & Flom dated as of June , 1994.
- 10.1 Letter Agreement, dated December 22, 1993, among UAL Corporation, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.1 to UAL's Form 8-K dated December 22, 1993 and incorporated herein by reference; amendment thereto filed as Exhibit 10.1 to UAL's Form 8-K dated February 4, 1994 and incorporated herein by reference).
- 10.2 Letter Agreement No. 6-1162-DLJ-1193 dated January 25, 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1990 and incorporated herein by reference; supplements thereto filed as Exhibits 10.1, 10.2 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference)) (filed as Exhibit 10.2 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference).
- 10.3 Supplemental Agreement No. 5 dated January 17, 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 747-400 aircraft (as previously amended and supplemented, "747-400 Purchase Agreement" (filed as Exhibit 10.8 to UAL'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 UAL's Annual Report on Form 10-K for the year ended December 31, 1991 and (ii) Exhibits 10.3, 10.4, 10.5, 10.6 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference)) (filed as Exhibit 10.3 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference).
- 10.4 Amendment No. 1 dated as of November 24, 1993 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference)) (filed as Exhibit 10.4 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference).
- 10.5 Amendment No. 1 dated as of November 24, 1993 to Letter Agreement No. 8 dated as of August 10, 1992 to A320-200 Purchase Agreement (filed as Exhibit 10.5 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference).
- 10.6 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 UAL'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 UAL's Annual Report on Form 10-K for the year ended December 31, 1991, and (ii) Exhibits 10.7, 10.8, 10.9, 10.10, 10.11, 10.12, 10.13 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.7 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 UAL'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 UAL's Annual Report on Form 10-K for the year ended December 31, 1991, and (ii) Exhibits 10.14, 10.15, 10.16, 10.17, 10.18, 10.19 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).

EXHIBIT

NO.

DESCRIPTION

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- 10.8 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; supplements thereto filed as Exhibits 10.20, 10.21 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.9 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated June 15, 1992, amending the Agreement dated November 21, 1991, concerning United's aircraft maintenance facility ("MOC II Agreement" (filed as Exhibit 10.29 to UAL's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference)) (filed as Exhibit 10.9 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).
- 10.10 Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated December 23, 1993, amending the MOC II Agreement (filed as Exhibit 10.10 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 10.11 Employees' Stock Purchase Plan of UAL Corporation, as amended February 1, 1993 (filed as Exhibit 10.25 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.12 UAL's 1981 Incentive Stock Program (filed as Exhibit 10.26 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.13 UAL's 1988 Restricted Stock Plan, as amended July 1, 1993 (filed as Exhibit 10.23 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.14 Form of Option Agreement Amendment dated as of February 24, 1994 for UAL's Section 16 officers (filed as Exhibit 10.14 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 10.15 Form of Option Agreement between UAL and officers and certain other key employees of United (filed as Exhibit 10.28 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.16 UAL's Incentive Compensation Plan, as amended June 30, 1988 (filed as Exhibit (10)C to UAL's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated herein by reference).
- 10.17 United Supplemental Retirement Plan (filed as Exhibit 10.42 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.18 UAL Corporation Retirement Plan for Outside Directors (filed as Exhibit 10.43 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; as amended by Exhibit 10.30 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference).
- 10.19 UAL Corporation 1992 Stock Plan for Outside Directors (filed as Exhibit 10.44 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.20 Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors (filed as Exhibit 10.20 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 10.21 Split Dollar Insurance Program (filed as Exhibit 10.46 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.22 Composite Employment Agreement between UAL, United and John C. Pope, dated as July 1, 1993 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference; and incorporating herein by reference paragraph 4.C. of Employment Agreement between UAL and Pope dated January 11, 1988 and filed as Exhibit (10)I to UAL's Annual Report on Form 10-K for the year ended December 31, 1988).
- 10.23 Composite Employment Agreement between UAL, United and Stephen M. Wolf, dated as of July 1, 1993 (filed as Exhibit 10.2 to UAL's Form 10-Q for the quarter ended September 30, 1993, and incorporated herein by reference; and incorporating by reference herein Appendix 3 to Employment Agreement between UAL, United and Stephen M. Wolf, dated December 9, 1987 (filed as Exhibit 10.30 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992)).

EXHIBIT

NO.

DESCRIPTION

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- 10.24 Accidental Death and Dismemberment Insurance Program (filed as Exhibit 10.47 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.25 Financial Advisory Services Program (filed as Exhibit 10.48 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.26 Social Club Membership Program (filed as Exhibit 10.26 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 10.27 Arrangement for Supplemental Long Term Disability (filed as Exhibit 10.50 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.28 Arrangement for use of United Cars (filed as Exhibit 10.51 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.29 Arrangement for UAL and United Officers' Travel Benefits (filed as Exhibit 10.52 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).
- 10.30 Form of Restricted Stock Deposit Agreement between UAL and officers and certain other key employees of United (filed as Exhibit 10.29 to UAL's Form 10-Q for the quarter ended June 30, 1993, as amended, and incorporated herein by reference).
- 10.31 Form of Severance Agreement between United and officers of United other than Messrs. Stephen M. Wolf and John C. Pope (filed as Exhibit 10.27 to UAL's Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference).
- 10.32 Preferred Stock Purchase Agreement dated as of March 25, 1994 between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(a)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.33 Form of Employee Stock Ownership Trust Non-Recourse ESOP Note between UAL and State Street Bank and Trust Company (filed as Exhibit A to Schedule 1.6(a)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.34 Form of Employee Stock Ownership Plan Trust Agreement between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(a)(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.35 Employee Stock Ownership Plan Effective as of [July 1,] 1994 (filed as Schedule 1.6(a)(iii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.36 Form of Stock Subscription Agreement between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(b)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.37 Form of Supplemental ESOP Trust Agreement Effective [July 1,] 1994 between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(b)(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated by reference).
- 10.38 Supplemental ESOP Effective as of [July 1,] 1994 (filed as Schedule 1.6(b)(iii) to Exhibit 10.1 to UAL's Form 8-K filed March 28, 1994 and incorporated herein by reference).
- 10.39 Form of Class I Junior Preferred Stock Subscription Agreement between UAL, Air Line Pilots Association, International, International Association of Machinists and Aerospace Workers and [Name of individual to become an Independent Director/Class I Preferred Stockholder] (filed as Schedule 1.6(c) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.40 Form of Class Pilot MEC Junior Preferred Stock Subscription Agreement between UAL and United Airlines Pilots Master Executive Council of the Air Line Pilots Association, International (filed as Schedule 1.6(d) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.41 Form of Class IAM Junior Preferred Stock Subscription Agreement between UAL and International Association of Machinists and Aerospace Workers (filed as Schedule 1.6(e) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).

EXHIBIT
NO.

DESCRIPTION

- 10.42 Form of Class SAM Preferred Stock Subscription Agreement between UAL and [Name of individual to become the Salaried/Management Employee Director/Class SAM Shareholder] and [Name of individual to be additional Class SAM Shareholder] (filed as Schedule 1.6(f)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.43 Amendment to the UAL, Inc. 1991 Incentive Stock Program to become effective as of the date of consummation of the Recapitalization (filed as Schedule 3.2(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.44 Amendment to the UAL Corporation 1988 Restricted Stock Plan to become effective as of the date of consummation of the Recapitalization (filed as Schedule 3.2(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.45 Amendment to the UAL Corporation Incentive Compensation Plan to become effective as of the date of consummation of the Recapitalization (filed as Schedule 3.2(iii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein).
- 10.46 Form of Class I Junior Preferred Stockholders' Agreement between UAL, Air Line Pilots Association, International, International Association of Machinists and Aerospace Workers, [Name of initial independent director], [Name of initial independent director], [Name of initial independent director] and [Name of initial independent director] (filed as Schedule 5.10(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.47 Form of Class SAM Preferred Stockholders' Agreement between UAL and [Name of individual to become the Salaried/Management Employee Director/Class SAM Shareholder] and [Name of the most senior executive of United who has primary responsibility for human resources immediately prior to the Effective Time] (filed as Schedule 5.10(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- 10.48 UAL Corporation Retirement Plan for Outside Directors, as amended (filed as Exhibit 10.1 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference).
- 11.1 Calculation of fully diluted net earnings per share (filed as Exhibit 11 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 11.2 Calculation of fully diluted net earnings per share (filed as Exhibit 11 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference).
- 12.1 UAL's Calculation of Pro Forma Ratio of Earnings to Fixed Charges.
- 12.2 UAL's Calculation of Pro Forma Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.
- 12.3 United's Calculation of Pro Forma Ratio of Earnings to Fixed Charges.
- 12.4 Computation of UAL's Ratio of Earnings to Fixed Charges (filed as Exhibit 12.1 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 12.5 Computation of UAL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements (filed as Exhibit 12.2 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 12.6 Computation of UAL's Ratio of Earnings to Fixed Charges (filed as Exhibit 12.1 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference).
- 12.7 Computation of UAL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividends (filed as Exhibit 12.2 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference).
- 12.8 Computation of United's Ratio of Earnings to Fixed Charges (filed as Exhibit 12 to United's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference).

EXHIBIT

NO.

DESCRIPTION

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- 12.13 Computation of United's Ratio of Earnings to Fixed Charges (filed as Exhibit 12.1 to United's Quarterly Report on Form 10-Q for the period ending March 31, 1994 and incorporated herein by reference).
- 13.1 UAL Annual Report on Form 10-K for the year ended December 31, 1993, as amended (incorporated herein by reference).
- 13.2 United Annual Report on Form 10-K for the year ended December 31, 1993, as amended (incorporated herein by reference).
- 13.3 UAL Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (incorporated herein by reference).
- 13.4 United Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (incorporated herein by reference).
- 22 List of UAL's subsidiaries (filed as Exhibit 22 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 23.1 Consent of Arthur Andersen & Co. dated as of May 18, 1994.
- +23.2 Consent of KPMG Peat Marwick dated as of April 11, 1994.
- +23.3 Consent of CS First Boston Corporation dated as of April 12, 1994.
- +23.4 Consent of Lazard Freres & Co. dated as of April 12, 1994.
- +23.5 Consent of American Appraisal Associates, Inc. dated as of April 11, 1994.
- *23.6 Consent of Skadden, Arps, Slate, Meagher & Flom, included as part of Exhibit 5.1.
- +23.7 Consent of John F. McGillicuddy.
- +23.8 Consent of James J. O'Connor.
- +23.9 Consent of Paul E. Tierney.
- +23.10 Consent of Gerald Greenwald.
- +23.11 Consent of Duane D. Fitzgerald.
- +23.12 Consent of Richard D. McCormick.
- +23.13 Consent of John K. Van de Kamp.
- +23.14 Consent of Paul A. Volcker.
- +23.15 Consent of Joseph V. Vittoria.
- 23.16 Consent of Captain Roger D. Hall.
- 23.17 Consent of John Peterpaul.
- +24.1 Power of Attorney.
- +24.2 Power of Attorney.
- 25.1 Form T-1 of The Bank of New York with respect to the Series A Debentures.
- 25.2 Form T-1 of The Bank of New York with respect to the Series B Debentures.
- 99.1 Form of Proxy.
- 99.2 Opinion of CS First Boston Corporation.
- 99.3 Opinion of Lazard Freres & Co.
- 99.4 Opinion of American Appraisal Associates, Inc. dated as of March 14, 1994 (filed as Schedule 5.9 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference).
- +99.5 Retention Agreement dated January 1, 1994 between Air Line Pilots Association, International, the International Association of Machinists and Aerospace Workers and Gerald Greenwald, attaching Employment Agreement between UAL Corporation and Gerald Greenwald to be entered into at the Effective Time.
- 99.6 Financial Statements of the Covia Partnership (filed as Exhibit 99.1 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 99.7 Financial Statements of the Galileo International Partnership together with the report and consent of its independent public accountants (filed as Exhibit 99.2 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).
- 99.8 Annual Report on Form 11-K for Employees' Stock Purchase Plan of UAL (filed as Exhibit 99.3 to UAL's Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference).

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* To be filed by amendment.

+ Previously filed.

ITEM 22. UNDERTAKINGS

(a) Each of the undersigned Registrants hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change of such information in the Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Each of the undersigned Registrants hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of a Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrants pursuant to the foregoing provisions, or otherwise, the Registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by a Registrant of expenses incurred or paid by a director, officer or controlling person of such Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the applicable Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(d) Each of undersigned Registrants hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, 13, or 16 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

(e) Each of the undersigned Registrants hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction that was not the subject of and included in the Registration Statement when it became effective.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN ELK GROVE TOWNSHIP, ILLINOIS, ON THE 27TH DAY OF MAY, 1994.

UAL Corporation

/s/ John C. Pope

By _____
JOHN C. POPE PRESIDENT AND CHIEF
OPERATING OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES NOTED ON THIS 27TH DAY OF MAY, 1994.

| SIGNATURE | TITLE | DATE |
|---|--|--------------|
| * ----- STEPHEN M. WOLF | Director, and Chairman and Chief Executive Officer | May 27, 1994 |
| /s/ John C. Pope ----- JOHN C. POPE | Director, and President and Chief Operating Officer (principal accounting officer and principal financial officer) | May 27, 1994 |
| * ----- NEIL A. ARMSTRONG | Director | May 27, 1994 |
| * ----- ANDREW F. BRIMMER | Director | May 27, 1994 |
| * ----- RICHARD P. COOLEY | Director | May 27, 1994 |
| * ----- CARLA A. HILLS | Director | May 27, 1994 |
| * ----- FUJIO MATSUDA | Director | May 27, 1994 |

SIGNATURES

TITLE

DATE

*

Director

May 27, 1994

JOHN F. MCGILLICUDDY

*

Director

May 27, 1994

HARRY MULLIKIN

*

Director

May 27, 1994

JAMES J. O'CONNOR

*

Director

May 27, 1994

FRANK A. OLSON

*

Director

May 27, 1994

RALPH STRANGIS

*

Director

May 27, 1994

PAUL E. TIERNEY, JR.

/s/ John C. Pope

*By _____
John C. Pope, Attorney-in-fact

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN ELK GROVE TOWNSHIP, ILLINOIS, ON THE 27TH DAY OF MAY, 1994.

United Air Lines, Inc.

/s/ John C. Pope

By _____
JOHN C. POPE PRESIDENT AND CHIEF
OPERATING OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES NOTED ON THIS 27TH DAY OF MAY, 1994.

| SIGNATURE | TITLE | DATE |
|---|---|--------------|
| * ----- STEPHEN M. WOLF | Director, and Chairman and Chief Executive Officer (principal executive officer) | May 27, 1994 |
| /s/ John C. Pope ----- JOHN C. POPE | Director, President and Chief Operating Officer (principal financial officer) | May 27, 1994 |
| * ----- LAWRENCE M. NAGIN | Director, and Executive Vice President-- Corporate Affairs and General Counsel | May 27, 1994 |
| * ----- JAMES M. GUYETTE | Director, and Executive Vice President-- Marketing and Planning | May 27, 1994 |
| * ----- PAUL G. GEORGE | Director, and Senior Vice President-- Human Resources | May 27, 1994 |
| * ----- JOSEPH R. O'GORMAN, JR. | Director, and Executive Vice President-- Operations | May 27, 1994 |
| * ----- FREDERIC F. BRACE | Vice President-- Corporate Development and Controller (principal accounting officer) | May 27, 1994 |

/s/ John C. Pope

*By _____
John C. Pope, Attorney-in-fact

EXHIBIT INDEX

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
|-------------------------|--|--------------|
| 2.1 | Agreement and Plan of Recapitalization dated as of March 25, 1994, among UAL, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers, including all schedules and exhibits thereto (filed as Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 2.2 | Letter agreement dated as of March 25, 1994, among UAL, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.2 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 2.3 | Letter agreement dated as of March 25, 1994, between UAL and State Street Bank and Trust Company (filed as Exhibit 10.3 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 3.1 | UAL's Restated Certificate of Incorporation as filed in Delaware on November 1, 1993 (filed as Exhibit 3.1 of UAL's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference). | |
| 3.2 | UAL's Bylaws, as amended on October 28, 1993 (filed as Exhibit 3.2 of UAL's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference). | |
| 3.3 | United's Restated Certificate of Incorporation, as amended March 13, 1992 (filed as Exhibit 3.1 of United's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference). | |
| 3.4 | United's Bylaws, as amended on June 25, 1987 (filed as Exhibit 3(b) to United's S-1 Registration Statement (Nos. 33-21220 and 22-18246) effective June 3, 1988, and incorporated herein by reference). | |
| 4.1 | UAL's Proposed Restated Certificate of Incorporation, to be filed in connection with the consummation of the Recapitalization (filed as Schedule 1.1 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 4.2 | UAL's Proposed Restated Bylaws, to be adopted in connection with the consummation of the Recapitalization (filed as Schedule 2.2 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 4.3 | Form of Deposit Agreement between UAL and the Holders from Time to Time of the Depositary Receipts Described therein. | |
| 4.4 | Rights Agreement dated as of December 11, 1986 between UAL and Morgan Shareholder Services Trust Company, as Rights Agent (filed as Exhibit 4.1 of UAL's Annual Report on Form 10-K for the year ended December 31, 1992 and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 thereto filed, respectively, as (i) Exhibit 2 to UAL's Form 8 dated February 26, 1988, (ii) Exhibit 3 to Registrant's Form 8 dated July 28, 1989, (iii) Exhibit 4 to UAL's Form 8 dated September 26, 1989, and (iv) Exhibit to UAL's Form 8 dated February 3, 1993, and each incorporated herein by reference). | |
| 4.5 | Indenture dated as of July 1, 1991 between United and The Bank of New York providing for the Issuance of Senior Debt Securities in Series (filed as Exhibit 4(a) of United's Registration Statement Form S-3 (No. 33-57192) and incorporated herein by reference). | |
| 4.6 | Form of Officer's Certificate relating to United's Series A Debentures due 2004 and United Series B Debentures due 2014 (filed as Schedule 1.3 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
|-------------------------|--|--------------|
| 4.7 | <p>UAL's Registration Statement Form S-3 (No. 33-57192) filed on January 21, 1993, relating to the offer of up to \$1,500,000,000 Convertible Debt Securities, Preferred Stock and Common Stock and United Air Lines, Inc. Debt Securities, Warrants to Purchase Debt Securities, Equipment Trust Certificates and/or Pass-Through Certificates, and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 to UAL Registration Statement Form S-3 (No. 33-57192) filed on January 21, March 19, May 7 and May 28, 1993, respectively, and each incorporated herein by reference.</p> <p>UAL's indebtedness under any single instrument, or any potential indebtedness under any instruments except as described in Exhibit 4.6, does not exceed 10% of UAL's total assets on a consolidated basis. Copies of such instruments will be furnished to the Commission upon request.</p> | |
| 4.8 | <p>United's Registration Statement Form S-3 (No. 33-46033) filed on January 21, 1993, relating to the offer of \$1,500,000,000 Debt Securities, Preferred Stock and Common Stock and incorporated herein by reference; Amendment Nos. 1, 2, 3 and 4 to UAL's (File No. 1-6033) Registration Statement Form S-3 (No. 33-46033) filed on January 21, March 19, May 7 and May 28, 1993, respectively, and each incorporated herein by reference.</p> <p>United's indebtedness under any single instrument, other than Exhibit 4.7, does not exceed 10% of United's total assets on a consolidated basis. Copies of such instruments will be furnished to the Commission upon request.</p> | |
| *5 | Opinion of Skadden, Arps, Slate, Meagher & Flom as to the legality of the Securities dated as of June , 1994. | |
| *7 | Opinion of Skadden, Arps, Slate, Meagher & Flom as to liquidity preference (see Exhibit No. 5). | |
| *8 | Tax Opinion of Skadden, Arps, Slate, Meagher & Flom dated as of June , 1994. | |
| 10.1 | Letter Agreement, dated December 22, 1993, among UAL Corporation, Air Line Pilots Association, International UAL-MEC and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.1 to UAL's Form 8-K dated December 22, 1993 and incorporated herein by reference; amendment thereto filed as Exhibit 10.1 to UAL's Form 8-K dated February 4, 1994 and incorporated herein by reference). | |
| 10.2 | Letter Agreement No. 6-1162-DLJ-1193 dated January 25, 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1990 and incorporated herein by reference; supplements thereto filed as Exhibits 10.1, 10.2 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference)) (filed as Exhibit 10.2 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference). | |
| 10.3 | Supplemental Agreement No. 5 dated January 17, 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 747-400 aircraft (as previously amended and supplemented, "747-400 Purchase Agreement" (filed as Exhibit 10.8 to UAL'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 UAL's Annual Report on Form 10-K for the year ended December 31, 1991 and (ii) Exhibits 10.3, 10.4, 10.5, 10.6 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference)) (filed as Exhibit 10.3 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference). | |

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
|-------------------------|--|--------------|
| 10.4 | Amendment No. 1 dated as of November 24, 1993 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference)) (filed as Exhibit 10.4 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference). | |
| 10.5 | Amendment No. 1 dated as of November 24, 1993 to Letter Agreement No. 8 dated as of August 10, 1992 to A320-200 Purchase Agreement (filed as Exhibit 10.5 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, with a request for confidential treatment of certain portions, and incorporated herein by reference). | |
| 10.6 | 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 UAL'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 UAL's Annual Report on Form 10-K for the year ended December 31, 1991, and (ii) Exhibits 10.7, 10.8, 10.9, 10.10, 10.11, 10.12, 10.13 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference). | |
| 10.7 | 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 UAL'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 UAL's Annual Report on Form 10-K for the year ended December 31, 1991, and (ii) Exhibits 10.14, 10.15, 10.16, 10.17, 10.18, 10.19 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference). | |
| 10.8 | 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 UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; supplements thereto filed as Exhibits 10.20, 10.21 and 10.22 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference). | |
| 10.9 | Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated June 15, 1992, amending the Agreement dated November 21, 1991, concerning United's aircraft maintenance facility ("MOC II Agreement" (filed as Exhibit 10.29 to UAL's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference)) (filed as Exhibit 10.9 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 10.10 | Letter Agreement among the State of Indiana, the City of Indianapolis, the Indianapolis Airport Authority and United Air Lines, Inc. dated December 23, 1993, amending the MOC II Agreement (filed as Exhibit 10.10 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 10.11 | Employees' Stock Purchase Plan of UAL Corporation, as amended February 1, 1993 (filed as Exhibit 10.25 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.12 | UAL's 1981 Incentive Stock Program (filed as Exhibit 10.26 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.13 | UAL's 1988 Restricted Stock Plan, as amended July 1, 1993 (filed as Exhibit 10.23 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference). | |
| 10.14 | Form of Option Agreement Amendment dated as of February 24, 1994 for UAL's Section 16 officers (filed as Exhibit 10.14 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
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| 10.15 | Form of Option Agreement between UAL and officers and certain other key employees of United (filed as Exhibit 10.28 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference). | |
| 10.16 | UAL's Incentive Compensation Plan, as amended June 30, 1988 (filed as Exhibit (10)C to UAL's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated herein by reference). | |
| 10.17 | United Supplemental Retirement Plan (filed as Exhibit 10.42 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.18 | UAL Corporation Retirement Plan for Outside Directors (filed as Exhibit 10.43 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; as amended by Exhibit 10.30 to UAL's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, and incorporated herein by reference). | |
| 10.19 | UAL Corporation 1992 Stock Plan for Outside Directors (filed as Exhibit 10.44 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.20 | Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors (filed as Exhibit 10.20 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 10.21 | Split Dollar Insurance Program (filed as Exhibit 10.46 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.22 | Composite Employment Agreement between UAL, United and John C. Pope, dated as July 1, 1993 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference; and incorporating herein by reference paragraph 4.C. of Employment Agreement between UAL and Pope dated January 11, 1988 and filed as Exhibit (10)I to UAL's Annual Report on Form 10-K for the year ended December 31, 1988). | |
| 10.23 | Composite Employment Agreement between UAL, United and Stephen M. Wolf, dated as of July 1, 1993 (filed as Exhibit 10.2 to UAL's Form 10-Q for the quarter ended September 30, 1993, and incorporated herein by reference; and incorporating by reference herein Appendix 3 to Employment Agreement between UAL, United and Stephen M. Wolf, dated December 9, 1987 (filed as Exhibit 10.30 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992). | |
| 10.24 | Accidental Death and Dismemberment Insurance Program (filed as Exhibit 10.47 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.25 | Financial Advisory Services Program (filed as Exhibit 10.48 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.26 | Social Club Membership Program (filed as Exhibit 10.26 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 10.27 | Arrangement for Supplemental Long Term Disability (filed as Exhibit 10.50 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.28 | Arrangement for use of United Cars (filed as Exhibit 10.51 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.29 | Arrangement for UAL and United Officers' Travel Benefits (filed as Exhibit 10.52 to UAL's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference). | |
| 10.30 | Form of Restricted Stock Deposit Agreement between UAL and officers and certain other key employees of United (filed as Exhibit 10.29 to UAL's Form 10-Q for the quarter ended June 30, 1993, as amended, and incorporated herein by reference). | |
| 10.31 | Form of Severance Agreement between United and officers of United other than Messrs. Stephen M. Wolf and John C. Pope (filed as Exhibit 10.27 to UAL's Form 10-Q for the quarter ended June 30, 1993 and incorporated herein by reference). | |

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
|-------------------------|---|--------------|
| 10.32 | Preferred Stock Purchase Agreement dated as of March 25, 1994 between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(a)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.33 | Form of Employee Stock Ownership Trust Non-Recourse ESOP Note between UAL and State Street Bank and Trust Company (filed as Exhibit A to Schedule 1.6(a)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.34 | Form of Employee Stock Ownership Plan Trust Agreement between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(a)(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.35 | Employee Stock Ownership Plan Effective as of [July 1,] 1994 (filed as Schedule 1.6(a)(iii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.36 | Form of Stock Subscription Agreement between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(b)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.37 | Form of Supplemental ESOP Trust Agreement Effective [July 1,] 1994 between UAL and State Street Bank and Trust Company (filed as Schedule 1.6(b)(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated by reference). | |
| 10.38 | Supplemental ESOP Effective as of [July 1,] 1994 (filed as Schedule 1.6(b)(iii) to Exhibit 10.1 to UAL's Form 8-K filed March 28, 1994 and incorporated herein by reference). | |
| 10.39 | Form of Class I Junior Preferred Stock Subscription Agreement between UAL, Air Line Pilots Association, International, International Association of Machinists and Aerospace Workers and [Name of individual to become an Independent Director/Class I Preferred Stockholder] (filed as Schedule 1.6(c) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.40 | Form of Class Pilot MEC Junior Preferred Stock Subscription Agreement between UAL and United Airlines Pilots Master Executive Council of the Air Line Pilots Association, International (filed as Schedule 1.6(d) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.41 | Form of Class IAM Junior Preferred Stock Subscription Agreement between UAL and International Association of Machinists and Aerospace Workers (filed as Schedule 1.6(e) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.42 | Form of Class SAM Preferred Stock Subscription Agreement between UAL and [Name of individual to become the Salaried/Management Employee Director/Class SAM Shareholder] and [Name of individual to be additional Class SAM Shareholder] (filed as Schedule 1.6(f)(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.43 | Amendment to the UAL, Inc. 1991 Incentive Stock Program to become effective as of the date of consummation of the Recapitalization (filed as Schedule 3.2(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.44 | Amendment to the UAL Corporation 1988 Restricted Stock Plan to become effective as of the date of consummation of the Recapitalization (filed as Schedule 3.2(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.45 | Amendment to the UAL Corporation Incentive Compensation Plan to become effective as of the date of consummation of the Recapitalization (filed as Schedule 3.2(iii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein). | |
| 10.46 | Form of Class I Junior Preferred Stockholders' Agreement between UAL, Air Line Pilots Association, International, International Association of Machinists and Aerospace Workers, [Name of initial independent director], [Name of initial independent director], [Name of initial independent director] and [Name of initial independent director] (filed as Schedule 5.10(i) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
|-------------------------|---|--------------|
| 10.47 | Form of Class SAM Preferred Stockholders' Agreement between UAL and [Name of individual to become the Salaried/Management Employee Director/Class SAM Shareholder] and [Name of the most senior executive of United who has primary responsibility for human resources immediately prior to the Effective Time] (filed as Schedule 5.10(ii) to Exhibit 10.1 to UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| 10.48 | UAL Corporation Retirement Plan for Outside Directors, as amended (filed as Exhibit 10.1 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference). | |
| 11.1 | Calculation of fully diluted net earnings per share (filed as Exhibit 11 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 11.2 | Calculation of fully diluted net earnings per share (filed as Exhibit 11 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference). | |
| 12.1 | UAL's Calculation of Pro Forma Ratio of Earnings to Fixed Charges. | |
| 12.2 | UAL's Calculation of Pro Forma Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements. | |
| 12.3 | United's Calculation of Pro Forma Ratio of Earnings to Fixed Charges. | |
| 12.4 | Computation of UAL's Ratio of Earnings to Fixed Charges (filed as Exhibit 12.1 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein be reference). | |
| 12.5 | Computation of UAL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements (filed as Exhibit 12.2 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 12.6 | Computation of UAL's Ratio of Earnings to Fixed Charges (filed as Exhibit 12.1 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference). | |
| 12.7 | Computation of UAL's Ratio of Earnings to Fixed Charges and Preferred Stock Dividends (filed as Exhibit 12.2 to UAL's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 and incorporated herein by reference). | |
| 12.8 | Computation of United's Ratio of Earnings to Fixed Charges (filed as Exhibit 12 to United's Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference). | |
| 12.9 | Computation of United's Ratio of Earnings to Fixed Charges (filed as Exhibit 12.1 to United's Quarterly Report on Form 10-Q for the period ending March 31, 1994 and incorporated herein by reference). | |
| 13.1 | UAL Annual Report on Form 10-K for the year ended December 31, 1993, as amended (incorporated herein by reference). | |
| 13.2 | United Annual Report on Form 10-K for the year ended December 31, 1993, as amended (incorporated herein by reference). | |
| 13.3 | UAL Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (incorporated herein by reference). | |
| 13.4 | United Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (incorporated herein by reference). | |
| 22 | List of UAL's subsidiaries (filed as Exhibit 22 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 23.1 | Consent of Arthur Andersen & Co. dated as of May 18, 1994. | |

| EXHIBIT NO. ----- | DESCRIPTION ----- | PAGE ---- |
|-------------------------|---|--------------|
| +23.2 | Consent of KPMG Peat Marwick dated as of April 11, 1994. | |
| +23.3 | Consent of CS First Boston Corporation dated as of April 12, 1994. | |
| +23.4 | Consent of Lazard Freres & Co. dated as of April 12, 1994. | |
| +23.5 | Consent of American Appraisal Associates, Inc. dated as of April 11, 1994. | |
| *23.6 | Consent of Skadden, Arps, Slate, Meagher & Flom, included as part of Exhibit 5.1. | |
| +23.7 | Consent of John F. McGillicuddy. | |
| +23.8 | Consent of James J. O'Connor. | |
| +23.9 | Consent of Paul E. Tierney. | |
| +23.10 | Consent of Gerald Greenwald. | |
| +23.11 | Consent of Duane D. Fitzgerald. | |
| +23.12 | Consent of Richard D. McCormick. | |
| +23.13 | Consent of John K. Van de Kamp. | |
| +23.14 | Consent of Paul A. Volcker. | |
| +23.15 | Consent of Joseph V. Vittoria. | |
| 23.16 | Consent of Captain Roger D. Hall. | |
| 23.17 | Consent of John Peterpaul. | |
| +24.1 | Power of Attorney. | |
| +24.2 | Power of Attorney. | |
| 25.1 | Form T-1 of The Bank of New York, with respect to the Series A Debentures. | |
| 25.2 | Form T-1 of The Bank of New York, with respect to the Series B Debentures. | |
| 99.1 | Form of Proxy. | |
| 99.2 | Opinion of CS First Boston Corporation. | |
| 99.3 | Opinion of Lazard Freres & Co. | |
| 99.4 | Opinion of American Appraisal Associates, Inc. dated as of March 14, 1994 (filed as Schedule 5.9 to Exhibit 10.1 of UAL's Form 8-K dated March 28, 1994 and incorporated herein by reference). | |
| +99.5 | Retention Agreement dated January 1, 1994 between Air Line Pilots Association, International, the International Association of Machinists and Aerospace Workers and Gerald Greenwald, attaching Employment Agreement between UAL Corporation and Gerald Greenwald to be entered into at the Effective Time. | |
| 99.6 | Financial Statements of the Covia Partnership (filed as Exhibit 99.1 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 99.7 | Financial Statements of the Galileo International Partnership together with the report and consent of its independent public accountants (filed as Exhibit 99.2 to UAL's Annual Report on Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |
| 99.8 | Annual Report on Form 11-K for Employees' Stock Purchase Plan of UAL (filed as Exhibit 99.3 to UAL's Form 10-K for the year ended December 31, 1993, as amended, and incorporated herein by reference). | |

- - - - -
* To be filed by amendment.
+ Previously filed.

=====

UAL CORPORATION

_____, As Depositary

AND

THE HOLDERS FROM TIME TO TIME OF
THE DEPOSITARY RECEIPTS DESCRIBED HEREIN

DEPOSIT AGREEMENT

Dated as of _____, 1994

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Annex A

DEPOSIT AGREEMENT, dated as of _____, 1994, among UAL CORPORATION, a Delaware corporation (the "Company"), _____, a _____ (the "Depository"), and the holders from time to time of the Receipts described herein.

WHEREAS, it is desired to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of shares of Series B Preferred Stock of the Company with the Depository for the purposes set forth in this Deposit Agreement and for the issuance hereunder of Receipts evidencing Depository Shares in respect of the Stock so deposited; and

WHEREAS, the Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

NOW, THEREFORE, in consideration of the promises contained herein, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

The following definitions shall, for all purposes, unless otherwise indicated, apply to the respective terms used in this Deposit Agreement:

"Certificate" shall mean the Amended and Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware, that, among other things, establishes the Stock as a series of preferred stock of the Company.

"Company" shall mean the party named as such in the first paragraph of this Deposit Agreement and any successor hereunder.

"Deposit Agreement" shall mean this Deposit Agreement, as amended or supplemented from time to time.

"Depository" shall mean the person named as such in the first paragraph of this Deposit Agreement and any successor as Depository hereunder.

"Depositary Shares" shall mean depositary shares, each representing one one-thousandth (1/1,000) of a share of Stock and evidenced by a Receipt.

"Depositary's Agent" shall mean an agent appointed by the Depositary pursuant to Section 5.01 and shall include the Registrar if such Registrar is not the Depositary.

"Depositary's Office" shall mean the principal office of the Depositary, at which at any particular time its depositary receipt business shall be administered.

"Receipt" shall mean one of the depositary receipts, substantially in the form set forth as Exhibit A hereto, issued hereunder, whether in definitive or temporary form and evidencing the number of Depositary Shares held of record by the record holder of such Depositary Shares.

"record holder" or "holder" as applied to a Receipt shall mean the person in whose name a Receipt is registered on the books of the Depositary maintained for such purpose.

"Registrar" shall mean the Depositary or such other bank or trust company that shall be appointed to register ownership and transfers of Receipts as herein provided.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Stock" shall mean shares of the Company's ___% Series B Preferred Stock, without par value, \$25,000 liquidation value per share.

ARTICLE II

FORM OF RECEIPTS, DEPOSIT OF STOCK, EXECUTION AND DELIVERY, TRANSFER, SURRENDER AND REDEMPTION OF RECEIPTS

SECTION 2.1 Form and Transfer of Receipts. Definitive Receipts shall be

engraved or printed or lithographed on steel-engraved borders, with appropriate

insertions, modifications and omissions as hereinafter provided, if required by any securities exchange on which the Receipts are listed. Pending the preparation of definitive Receipts or if definitive Receipts are not required by any securities exchange on which the Receipts are listed, the Depository, upon the written order of the Company or any holder of Stock, as the case may be, delivered in compliance with Section 2.2, shall execute and deliver temporary Receipts that are printed, lithographed, typewritten, mimeographed or otherwise substantially of the tenor of the definitive Receipts in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the persons executing such Receipts may determine, as evidenced by their execution of such Receipts. If temporary Receipts are issued, the Company and the Depository shall cause definitive Receipts to be prepared without unreasonable delay. After the preparation of definitive Receipts, the temporary Receipts shall be exchangeable for definitive Receipts upon surrender of the temporary Receipts at the Depository's Office or at such other place or places as the Depository shall determine, without charge to the holder. Upon surrender for cancellation of any one or more temporary Receipts, the Depository shall execute and deliver in exchange therefor definitive Receipts representing the same number of Depository Shares as represented by the surrendered temporary Receipt or Receipts. Such exchange shall be made at the Company's expense and without any charge to the holder therefor. Until so exchanged, the temporary Receipts shall in all respects be entitled to the same benefits under this Agreement, and with respect to the Stock, as definitive Receipts.

Receipts shall be executed by the Depository by the manual signature of a duly authorized officer of the Depository; provided that such signature may be a

facsimile if a Registrar for the Receipts (other than the Depository) shall have been appointed and such Receipts are countersigned by a manual signature of a duly authorized officer of the Registrar. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose unless it shall have been executed manually by a duly authorized officer of the Depository or, if a Registrar for the Receipts (other than the Depository) shall have been appointed, by manual or facsimile signature of a duly authorized offi-

cer of the Depositary and countersigned manually by a duly authorized officer of such Registrar. The Depositary shall record on its books each Receipt so signed and delivered as hereinafter provided.

Receipts shall be in denominations of any number of whole Depositary Shares. The Company shall deliver to the Depositary from time to time such quantities of Receipts as the Depositary may request to enable the Depositary to perform its obligations under this Deposit Agreement.

Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Deposit Agreement as may be required by the Depositary or required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange upon which the Stock, the Depositary Shares or the Receipts may be listed or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Receipts are subject.

Title to Depositary Shares evidenced by a Receipt, which is properly endorsed or accompanied by a properly executed instrument of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument; provided that until transfer of a Receipt shall be registered on the

books of the Depositary as provided in Section 2.3, the Depositary may, notwithstanding any notice to the contrary, treat the record holder thereof at such time as the absolute owner thereof for the purpose of determining the person entitled to distributions of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes.

SECTION 2.2 Deposit of Stock; Execution and Delivery of Receipts in

Respect Thereof. Subject to the terms and conditions of this Deposit Agreement,

the Company or any holder of Stock may from time to time deposit shares of the Stock under this Deposit Agreement by delivering to the Depositary a certificate or certificates for the Stock to be deposited, properly endorsed or accompanied, if required by the Depositary, by a duly executed instrument of transfer or endorsement, in form

satisfactory to the Depositary, together with all such certifications as may be required by the Depositary in accordance with the provisions of this Deposit Agreement, and together with a written order of the Company or such holder, as the case may be, directing the Depositary to execute and deliver to, or upon the written order of, the person or persons stated in such order a Receipt or Receipts for the number of Depositary Shares representing such deposited Stock.

Deposited Stock shall be held by the Depositary at the Depositary's Office or at such other place or places as the Depositary shall determine.

Upon receipt by the Depositary of a certificate or certificates for Stock deposited in accordance with the provisions of this Section, together with the other documents required as above specified, and upon recordation of the Stock on the books of the Company in the name of the Depositary or its nominee, the Depositary, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver, to or upon the order of the person or persons named in the written order delivered to the Depositary referred to in the first paragraph of this Section, a Receipt or Receipts for the whole number of Depositary Shares representing the Stock so deposited and registered in such name or names as may be requested by such person or persons. The Depositary shall execute and deliver such Receipt or Receipts at the Depositary's Office or such other offices, if any, as the Depositary may designate. Delivery at other offices shall be at the risk and expense of the person requesting such delivery.

SECTION 2.3 Registration of Transfer of Receipts. Subject to the terms

and conditions of this Deposit Agreement, the Depositary shall register on its books from time to time transfers of Receipts upon any surrender thereof by the holder in person or by duly authorized attorney, properly endorsed or accompanied by a properly executed instrument of transfer. Thereupon, the Depositary shall execute a new Receipt or Receipts evidencing the same aggregate number of Depositary Shares as those evidenced by the Receipt or Receipts surrendered and deliver such new Receipt or Receipts to or upon the order of the person entitled thereto.

SECTION 2.4 Split-ups and Combinations of Receipts; Surrender of Receipts

and Withdrawal of Stock. Upon surrender of a Receipt or Receipts at the

Depository's Office or at such other offices as it may designate for the purpose of effecting a split-up or combination of such Receipt or Receipts, and subject to the terms and conditions of this Deposit Agreement, the Depository shall execute and deliver a new Receipt or Receipts in the authorized denomination or denominations requested, evidencing the aggregate number of Depository Shares evidenced by the Receipt or Receipts surrendered, provided that the Depository

shall not issue any Receipt evidencing a fractional Depository Share.

Any holder of a Receipt or Receipts representing any number of whole shares of Stock may (unless the related Depository Shares have previously been called for redemption) withdraw the Stock and all money and other property, if any, represented thereby by surrendering such Receipt or Receipts, at the Depository's Office or at such other offices as the Depository may designate for such withdrawals. Thereafter, without unreasonable delay, the Depository shall deliver to such holder, or to the person or persons designated by such holder as hereinafter provided, the number of whole shares of Stock and all money and other property, if any, represented by the Receipt or Receipts so surrendered for withdrawal, but holders of such whole shares of Stock shall not thereafter be entitled to deposit such Stock hereunder or to receive Depository Shares therefor. If a Receipt delivered by the holder to the Depository in connection with such withdrawal shall evidence a number of Depository Shares in excess of the number of Depository Shares representing the number of whole shares of Stock to be so withdrawn, the Depository shall at the same time, in addition to such number of whole shares of Stock and such money and other property, if any, to be so withdrawn, deliver to such holder, or upon his order, a new Receipt evidencing such excess number of Depository Shares, provided that the Depository

shall not issue any Receipt evidencing a fractional Depository Share. Delivery of the Stock and money and other property being withdrawn may be made by the delivery of such certificates, documents of title and other instruments as the Depository may deem appropriate that, if required by the Depository, shall be properly endorsed or accompanied by proper instruments of transfer.

If the Stock and the money and other property being withdrawn are to be delivered to a person or persons other than the record holder of the Receipt or Receipts being surrendered for withdrawal of Stock, such holders shall execute and deliver to the Depositary a written order so directing the Depositary and the Depositary may require that the Receipt or Receipts surrendered by such holder for withdrawal of such shares of Stock be properly endorsed in blank or accompanied by a properly executed instrument of transfer in blank.

Delivery of the Stock and the money and other property, if any, represented by Receipts surrendered for withdrawal shall be made by the Depositary at the Depositary's Office, except that, at the request, risk and expense of the holder surrendering such Receipt or Receipts and for the account of the holder thereof, such delivery may be made at such other place as may be designated by such holder.

SECTION 2.5 Limitations on Execution and Delivery, Transfer, Surrender and

Exchange of Receipts. As a condition precedent to the execution and delivery,

registration of transfer, split-up, combination, surrender or exchange of any Receipt, the Depositary, any of the Depositary's Agents or the Company may require payment to it of a sum sufficient for the payment (or, if the Depositary or the Company shall have made such payment, the reimbursement to it) of any charges or expenses payable by the holder of a Receipt pursuant to Sections 3.2 and 5.7, may require the production of evidence satisfactory to it as to the identity and genuineness of any signature and may also require compliance with such regulations, if any, as the Depositary or the Company may establish consistent with the provisions of this Deposit Agreement.

The deposit of Stock may be refused, the delivery of Receipts against Stock may be suspended, the registration of transfer of Receipts may be refused and the registration of transfer, surrender or exchange of outstanding Receipts may be suspended (i) during any period when the register of stockholders of the Company is closed, (ii) if any such action is deemed necessary or advisable by the Depositary, any of the Depositary's Agents or the Company at any time or from time to time because of any requirement of law or of any government or

governmental body or commission or under any provision of this Deposit Agreement or (iii) with the approval of the Company, for any other reason.

SECTION 2.6 Lost Receipts, etc. If any receipt shall be mutilated,

destroyed, lost or stolen, the Depositary in its discretion may execute and deliver a Receipt of like form and tenor in exchange and substitution for such mutilated Receipt, or in lieu of and in substitution for such destroyed, lost or stolen Receipt, upon (i) the filing by the holder thereof with the Depositary of evidence satisfactory to the Depositary of such destruction or loss or theft of such Receipt, of the authenticity thereof and of his or her ownership thereof, (ii) the furnishing of the Depositary with reasonable indemnification satisfactory to it and (iii) the payment of any expense (including fees, charges and expenses of the Depositary) in connection with such execution and delivery.

SECTION 2.7 Cancellation and Destruction of Surrendered Receipts. All

Receipts surrendered to the Depositary or any Depositary's Agent shall be cancelled by the Depositary. Except as prohibited by applicable law or regulation, the Company is authorized to destroy all Receipts so cancelled.

SECTION 2.8 Redemption of Stock. Whenever the Company shall be permitted

and shall elect to redeem shares of Stock in accordance with the provisions of the Certificate, it shall (unless otherwise agreed to in writing with the Depositary) give or cause notice to be given to the Depositary not less than 30 days, but not more than 60 days, prior to the date of such proposed redemption of Stock and of the number of such shares held by the Depositary to be so redeemed and the applicable redemption price, as set forth in the Certificate, which notice shall be accompanied by a certificate from the Company stating that such redemption of Stock is in accordance with the provisions of the Certificate. On the date of such redemption, if the Company shall then have paid or caused to be paid in full to the Depositary the redemption price of the Stock to be redeemed, plus an amount equal to any accrued and unpaid dividends thereon to the date fixed for redemption, in accordance with the provisions of the Certificate, the Depositary shall redeem the number of Depositary Shares representing such

Stock. The Depositary shall mail notice of the Company's redemption of Stock and the proposed simultaneous redemption of the number of Depositary Shares representing the Stock to be redeemed by first-class mail, postage prepaid, not less than 20 days, but not more than 50 days, prior to the date fixed for redemption of such Stock and Depositary Shares (the "Redemption Date") to the record holders of the Receipts evidencing the Depositary Shares to be so redeemed, at the address of such holders as they appear on the records of the Depositary; but neither failure to mail any such notice of redemption of Depositary Shares to one or more such holders nor any defect in any notice of redemption of Depositary Shares to one or more such holders shall affect the sufficiency of the proceedings for redemption as to the other holders. The Company shall provide the Depositary with the information necessary for the Depositary to prepare such notice and each such notice shall state: (i) the Redemption Date, (ii) the number of Depositary Shares to be redeemed and, if less than all the Depositary Shares held by any such holder are to be redeemed, the number of such Depositary Shares held by such holder to be so redeemed, (iii) the redemption price, (iv) the place or places where Receipts evidencing Depositary Shares are to be surrendered for payment of the redemption price, and (v) that dividends in respect of the Stock represented by the Depositary Shares to be redeemed shall cease to accrue on such Redemption Date. If less than all the outstanding Depositary Shares are to be redeemed, the Depositary Shares to be so redeemed shall be selected by the Depositary by lot or pro rata (as nearly as may be) or by any other method, in each case, as determined by the Depositary in its sole discretion to be equitable.

Notice having been mailed by the Depositary as aforesaid, from and after the Redemption Date (unless the Company shall have failed to provide the funds necessary to redeem the Stock evidenced by the Depositary Shares called for redemption) (i) dividends on the shares of Stock so called for redemption shall cease to accrue from and after such date, (ii) the Depositary Shares being redeemed from such proceeds shall be deemed no longer to be outstanding, (iii) all rights of the holders of Receipts evidencing such Depositary Shares (except the right to receive the redemption price) shall, to the extent of such Depositary Shares, cease and terminate, and (iv) upon surrender in accordance with such redemp-

tion notice of the Receipts evidencing any such Depositary Shares called for redemption (properly endorsed or assigned for transfer, if the Depositary or applicable law shall so require), such Depositary Shares shall be redeemed by the Depositary at a redemption price per Depositary Share equal to one one-thousandth (1/1,000) of the redemption price per share paid with respect to the shares of Stock plus all money and other property, if any, represented by such Depositary Shares, including all amounts paid by the Company in respect of dividends that on the Redemption Date have accumulated on the shares of Stock to be so redeemed and have not theretofore been paid.

If fewer than all of the Depositary Shares evidenced by a Receipt are called for redemption, the Depositary shall deliver to the holder of such Receipt upon its surrender to the Depositary, together with the redemption payment, a new Receipt evidencing the Depositary Shares evidenced by such prior Receipt and not called for redemption.

ARTICLE III

CERTAIN OBLIGATIONS OF HOLDERS OF RECEIPTS AND THE COMPANY

SECTION 3.1 Filing Proofs, Certificates and Other Information. Any holder

of a Receipt may be required from time to time to file such proof of residence, or other matters or other information, to execute such certificates and to make such representations and warranties as the Depositary or the Company may reasonably deem necessary or proper. The Depositary or the Company may withhold the delivery, or delay the registration of transfer, redemption or exchange, of any Receipt or the withdrawal or conversion of the Stock represented by the Depositary Shares evidenced by any Receipt or the distribution of any dividend or other distribution or the sale of any rights or of the proceeds thereof until such proof or other information is filed or such certificates are executed or such representations and warranties are made.

SECTION 3.2 Payment of Taxes or Other Governmental Charges. Holders of

Receipts shall be obligated to make payments to the Depositary of certain charges and expenses, as provided in Section 5.7. Registration of

transfer of any Receipt or any withdrawal of Stock and all money or other property, if any, represented by the Depositary Shares evidenced by such Receipt may be refused until any such payment due is made, and any dividends or other distributions may be withheld or any part of or all the Stock or other property represented by the Depositary Shares evidenced by such Receipt and not theretofore sold may be sold for the account of the holder thereof (after attempting by reasonable means to notify such holder prior to such sale), and such dividends or other distributions or the proceeds of any such sale may be applied to any payment of such charges or expenses, the holder of such Receipt remaining liable for any deficiency.

SECTION 3.3 Warranty as to Stock. The Company hereby represents and

warrants that the Stock, when issued, shall be duly authorized, validly issued, fully paid and nonassessable. Such representation and warranty shall survive the deposit of the Stock and the issuance of Receipts.

ARTICLE IV

THE DEPOSITED SECURITIES; NOTICES

SECTION 4.1 Cash Distributions. Whenever the Depositary shall receive any

cash dividend or other cash distribution on Stock, the Depositary shall, subject to Section 3.1 and 3.2, distribute to record holders of Receipts on the record date fixed pursuant to Section 4.4 such amounts of such dividend or distribution as are, as nearly as practicable, in proportion to the respective numbers of Depositary Shares evidenced by the Receipts held by such holders; provided that,

if the Company or the Depositary shall be required to withhold and shall withhold from any cash dividend or other cash distribution in respect of the Stock an amount on account of taxes or as otherwise required by law, regulation or court process, the amount made available for distribution or distributed in respect of Depositary Shares shall be reduced accordingly. If the calculation of any such cash dividend or other cash distribution to be paid to any record holder on the aggregate number of Receipts held by such holder results in an amount that is a fraction of a cent, the amount the Depositary shall distribute to such

record holder shall be rounded to the next highest whole cent, and upon request of the Depositary, the Company shall pay the additional amount to the Depositary for distribution.

SECTION 4.2 Distributions Other than Cash, Rights, Preferences or

Privileges. Whenever the Depositary shall receive any distribution other than

cash, rights, preferences or privileges upon the Stock, the Depositary shall, subject to Sections 3.1 and 3.2, distribute to record holders of Receipts on the record date fixed pursuant to Section 4.4 such amounts of the securities or property received by it as are, as nearly as practicable, in proportion to the respective numbers of Depositary Shares evidenced by the Receipts held by such holders, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution. If in the opinion of the Depositary such distribution cannot be made proportionately among such record holders, or if for any other reason (including any requirement that the Company or the Depositary withhold an amount on account of taxes) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it deems equitable and practicable for the purpose of effecting such distribution, including the sale (at public or private sale) of the securities or property thus received, or any part thereof, at such place or places and upon such terms as it may deem proper. The net proceeds of any such sale shall, subject to Sections 3.1 and 3.2, be distributed or made available for distribution, as the case may be, by the Depositary to record holders of Receipts as provided by Section 4.1 in the case of a distribution received in cash.

SECTION 4.3 Subscription Rights, Preferences or Privileges. If the

Company shall at any time offer or cause to be offered to the persons in whose names Stock is recorded on the books of the Company any rights, preferences or privileges to subscribe for or to purchase any securities or any rights, preferences or privileges of any other nature, such rights, preferences or privileges shall in each such instance be made available by the Depositary to the record holders of Receipts in such manner as the Depositary may determine, either by the issuance to such record holders of warrants representing such rights, preferences or privileges or by such other method as may be approved by the Depositary in its dis-

cretion with the approval of the Company; provided that, (i) if at the time of

issue or offer of any such rights, preferences or privileges the Depositary determines that it is not lawful or (after consultation with the Company) not feasible to make such rights, preferences or privileges available to holders of Receipts by the issue of warrants or otherwise or (ii) if and to the extent so instructed by holders of Receipts who do not desire to exercise such rights, preferences or privileges, then the Depositary, in its discretion (with approval of the Company, if the Depositary has determined that it is not feasible to make such rights, preferences or privileges available), may, if applicable laws or the terms of such rights, preferences or privileges so permit, sell such rights, preferences or privileges at public or private sale, at such place or places and upon such terms as it may deem proper. The net proceeds of any such sale shall, subject to Sections 3.1 and 3.2, be distributed by the Depositary to the record holders of Receipts entitled thereto as provided by Section 4.1 in the case of a distribution received in cash.

If the securities to which such rights, preferences or privileges relate must be registered under the Securities Act in order to be offered or sold to holders of Receipts, the Company shall file a registration statement under the Securities Act with respect to such rights, preferences or privileges and securities promptly and shall use its best efforts and take all steps available to it to cause such registration statement to become effective sufficiently in advance of the expiration of such rights, preferences or privileges to enable such holders to exercise such rights, preferences or privileges. In no event shall the Depositary make available to the holders of Receipts any right, preference or privilege to subscribe for or to purchase any securities unless and until it has received written notice from the Company that such registration statement has become effective or that the offer and sale of such securities to such holders are exempt from registration under the Securities Act and the Company shall have provided to the Depositary an opinion of counsel to such effect.

If any other action under the laws of any jurisdiction or any governmental or administrative authorization, consent or permit is required to permit such rights, preferences or privileges to be made available to

holders of Receipts, the Company shall use its reasonable best efforts to take such action or obtain such authorization, consent or permit sufficiently in advance of the expiration of such rights, preferences or privileges to enable such holders to exercise such rights, preferences or privileges.

SECTION 4.4 Notice of Dividends, etc.; Fixing Record Date for Holders of

Receipts. Whenever any cash dividend or other cash distribution shall become

payable or any distribution other than cash shall be made, or if rights, preferences or privileges shall at any time be offered, with respect to the Stock, or whenever the Depositary shall receive notice of any meeting at which holders of Stock are entitled to vote or of which holders of Stock are entitled to notice, or whenever the Depositary and the Company shall decide that it is appropriate, the Depositary shall in each such instance fix a record date (which shall be the same date as the record date fixed by the Company with respect to or otherwise in accordance with the terms of the Stock) for determining which holders of Receipts shall be entitled to receive such dividend, distribution, rights, preferences or privileges or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, or shall be entitled to notice of such meeting or for any other appropriate reasons.

SECTION 4.5 Voting Rights. Upon receipt of notice of any meeting at which

the holders of Stock are entitled to vote, the Depositary shall, as soon as practicable thereafter, mail to the record holders of Receipts a notice that shall contain (i) such information as is contained in such notice of meeting and (ii) a statement that the holders may, subject to any applicable restrictions, instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Stock represented by their respective Depositary Shares (including an express indication that instructions may be given to the Depositary to give a discretionary proxy to a person designated by the Company) and a brief statement as to the manner in which such instructions may be given. Upon the written request of the holders of Receipts on the relevant record date, the Depositary shall endeavor insofar as practicable to cast or cause to be cast, in accordance with the instructions set forth in such requests, the number of votes in respect of the Stock

represented by the Depositary Shares evidenced by Receipts as to which voting instructions are received. The Company hereby agrees to take all reasonable action that may be deemed necessary by the Depositary to enable the Depositary to cast such votes or cause such votes to be cast. In the absence of instructions from the holder of a Receipt, the Depositary shall not cast any vote (but, at its discretion, may appear at any meeting with respect to such Stock unless directed to the contrary by the holders of all the Receipts) in respect of the Stock represented by the Depositary Shares evidenced by such Receipt.

SECTION 4.6 Changes Affecting Deposited Securities and Reclassifications,

Recapitalizations, etc. Upon any change in par or stated value or liquidation

preference, split-up, combination or any other reclassification of the Stock, or upon any recapitalization, reorganization, merger or consolidation affecting the Company or to which it is a party, the Depositary may in its discretion with the approval of, and shall upon the instructions of, the Company, and (in either case) in such manner as the Depositary may deem equitable, (i) make such adjustments as are certified by the Company in the fraction of an interest represented by one Depositary Share in one share of Stock as may be necessary fully to reflect the effects of such change in par or stated value or liquidation preference, split-up, combination or other reclassification of the Stock, or of such recapitalization, reorganization, merger or consolidation, and (ii) treat any securities that shall be received by the Depositary in exchange for or upon conversion of or in respect of the Stock as new deposited securities so received in exchange for or upon conversion or in respect of such Stock. In any such case the Depositary may in its discretion, with the approval of the Company, execute and deliver additional Receipts or may call for the surrender of all outstanding Receipts to be exchanged for new Receipts specifically describing such new deposited securities. Anything to the contrary herein notwithstanding, holders of Receipts shall have the right from and after the effective date of any such change in par or stated value or liquidation preference, split-up, combination or other reclassification of the Stock or any such recapitalization, reorganization, merger or consolidation to surrender such Receipts to the Depositary with instructions to convert, exchange or surrender the Stock

represented thereby only into or for, as the case may be, the kind and amount of shares of stock and other securities and property and cash into which the Stock represented by such Receipts might have been converted or for which such Stock might have been exchanged or surrendered immediately prior to the effective date of such transaction.

SECTION 4.7 Delivery of Reports. The Depositary shall furnish to holders

of Receipts any reports and communications received from the Company that are received by the Depositary as the holder of Stock.

SECTION 4.8 List of Receipt Holders. Promptly upon request from time to

time by the Company, the Depositary shall furnish to it a list, as of the most recent practicable date, of the names, addresses and holdings of Depositary Shares of all record holders of Receipts. The Company shall be entitled to receive such list twice annually without charge.

ARTICLE V

THE DEPOSITARY, THE DEPOSITARY'S AGENTS, THE REGISTRAR AND THE COMPANY

SECTION 5.1 Maintenance of Offices, Agencies and Transfer Books by the

Depositary; Registrar. Upon execution of this Deposit Agreement, the Depositary

shall maintain at the Depositary's Office, facilities for the execution and delivery, registration and registration of transfer, surrender and exchange of Receipts, and at the offices of the Depositary's Agents, if any, facilities for the delivery, registration of transfer, surrender and exchange of Receipts, all in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books at the Depositary's Office for the registration and registration of transfer of Receipts, which books during normal business hours shall be open for inspection by the record holders of Receipts, provided that any such holder requesting to exercise such right shall certify

to the Depositary that such inspection shall be for a proper purpose reasonably related to such person's interest as an owner of Depositary Shares evidenced by the Receipts.

The Depositary may close such books, at any time or from time to time, when deemed necessary or appropriate by it in connection with the performance of its duties hereunder.

The Depositary may, with the approval of the Company, appoint a Registrar for registration of the Receipts or the Depositary Shares evidenced thereby. If the Receipts or the Depositary Shares evidenced thereby or the Stock represented by such Depositary Shares shall be listed on one or more national stock exchanges, the Depositary shall appoint a Registrar (acceptable to the Company) for registration of such Receipts or Depositary Shares in accordance with any requirements of such exchange. Such Registrar (which may be the Depositary if so permitted by the requirements of any such exchange) may be removed and a substitute registrar appointed by the Depositary upon the request or with the approval of the Company. If the Receipts, such Depositary Shares or such Stock are listed on one or more other stock exchanges, the Depositary shall, at the request and at the expense of the Company, arrange such facilities for the delivery, registration, registration of transfer, surrender and exchange of such Receipts, such Depositary Shares or such Stock as may be required by law or applicable stock exchange regulation.

The Depositary may from time to time appoint Depositary's Agents to act in any respect for the Depositary for the purposes of this Deposit Agreement and may at any time appoint additional Depositary's Agents and vary or terminate the appointment of such Depositary's Agents. The Depositary shall notify the Company of any such action.

SECTION 5.2 Prevention of or Delay in Performance by the Depositary, the

Depositary's Agents, the Registrar or the Company. Neither the Depositary nor

any Depositary's Agent nor the Registrar nor the Company shall incur any liability to any holder of any Receipt if by reason of any provision of any present or future law, or regulation thereunder, of the United States of America or of any other governmental authority or, in the case of the Depositary, the Depositary's Agent or the Registrar, by reason of any provision, present or future, of the Certificate or by reason of any act of God or war or other circumstance beyond the reasonable control of the relevant party, the Depositary, the Depositary's Agent,

the Registrar or the Company shall be prevented, delayed or forbidden from, or subjected to any penalty on account of, doing or performing any act or thing that the terms of this Deposit Agreement provide shall be done or performed, nor shall the Depositary, any Depositary's Agent, the Registrar or the Company incur liability to any holder of a Receipt (i) by reason of any nonperformance or delay, caused as aforesaid, in the performance of any act or thing that the terms of this Deposit Agreement shall provide shall or may be done or performed or (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement except, in the case of any such exercise or failure to exercise discretion not caused as aforesaid, if caused by the gross negligence, willful misconduct or bad faith of the party charged with such exercise or failure to exercise.

SECTION 5.3 Obligation of the Depositary, the Depositary's Agents, the Registrar and the Company. Neither the Depositary nor any Depositary's Agent nor the Registrar nor the Company assumes any obligation or shall be subject to any liability under this Deposit Agreement or any Receipt to holders of Receipts other than for its gross negligence, willful misconduct or bad faith.

Neither the Depositary nor any Depositary's Agent nor the Registrar nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of the Stock, the Depositary Shares or the Receipts that in its opinion may involve it in expense or liability unless indemnity satisfactory to it against all expense and liability be furnished as often as may be required.

Neither the Depositary nor any Depositary's Agent nor the Registrar nor the Company shall be liable for any action or any failure to act by it in reliance upon the written advice of legal counsel or accountants, or information from any person presenting Stock for deposit, any holder of a Receipt or any other person believed by it in good faith to be competent to give such information. The Depositary, any Depositary's Agent, the Registrar and the Company may each rely and shall each be protected in acting upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

The Depositary shall not be responsible for any failure to carry out any instruction to vote any of the shares of Stock or for the manner or effect of any such vote made, as long as any such action or non-action is in good faith. The Depositary undertakes, and any Registrar shall be required to undertake, to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Depositary or any Registrar. The Depositary shall indemnify the Company and hold it harmless from any loss, liability or expense (including the reasonable costs and expenses of defending itself) that may arise out of acts performed or omitted by the Depositary, including when such Depositary acts as Registrar, or the Depositary's Agents in connection with this Agreement due to its or their gross negligence, willful misconduct or bad faith. The indemnification obligations of the Depositary set forth in this Section 5.3 shall survive any termination of this Agreement and any succession of any Depositary.

The Depositary, its parent, affiliates and subsidiaries, the Depositary's Agents, and the Registrar may own, buy, sell and deal in any class of securities of the Company and its affiliates and in Receipts or Depositary Shares or become pecuniarily interested in any transaction in which the Company or its affiliates may be interested or contract with or lend money to or otherwise act as fully or as freely as if it were not the Depositary, its parent, affiliate or subsidiary or the Depositary's Agent or the Registrar hereunder. The Depositary may also act as trustee, transfer agent or registrar of any of the securities of the Company and its affiliates.

It is intended that none of the Depositary, any Depositary's Agent or the Registrar, acting as the Depositary, the Depositary's Agent or the Registrar, as the case may be, shall be deemed to be an "issuer" of the securities under the federal securities laws or applicable state securities laws, it being expressly understood and agreed that the Depositary, any Depositary's Agent and the Registrar are acting only in a ministerial capacity as Depositary or Registrar for the Stock.

Neither the Depositary (or its officers, directors, employees or agents) nor any Depositary's Agent nor

the Registrar makes any representation or has any responsibility as to the validity of any registration statement pursuant to which the Depositary Shares are registered under the Securities Act, the Stock, the Depositary Shares or the Receipts (except for its counter-signatures thereon) or any instruments referred to therein or herein or as to the correctness of any statement made therein or herein.

The Depositary assumes no responsibility for the correctness of the description that appears in the Receipts, which can be taken as a statement of the Company summarizing certain provisions of this Deposit Agreement. Notwithstanding any other provision herein or in the Receipts, the Depositary makes no warranties or representations as to the validity, genuineness or sufficiency of any Stock at any time deposited with the Depositary hereunder or of the Depositary Shares, as to the validity or sufficiency of this Deposit Agreement, as to the value of the Depositary Shares or as to any right, title or interest of the record holders of Receipts in and to the Depositary Shares. The Depositary shall not be accountable for the use or application by the Company of the Depositary Shares or the Receipts or the proceeds thereof.

SECTION 5.4 Resignation and Removal of the Depositary; Appointment of

Successor Depositary. The Depositary may at any time resign as Depositary

hereunder by delivering notice of its election to do so to the Company, such resignation to take effect upon the appointment of a successor Depositary and acceptance of such appointment by such successor as hereinafter provided.

The Depositary may at any time be removed by the Company by notice of such removal delivered to the Depositary, such removal to take effect upon the appointment of a successor Depositary and acceptance of such appointment by such successor as hereinafter provided.

If at any time the Depositary acting hereunder shall resign or be removed, the Company shall, within 60 days after the delivery of the notice of resignation or removal, as the case may be, appoint a successor Depositary, which shall be a bank or trust company having its principal office in the United States of America and

having a combined capital and surplus of at least \$50,000,000. If no successor Depositary shall have been so appointed and have accepted appointment within 60 days after delivery of such notice, the resigning or removed Depositary may petition any court of competent jurisdiction for the appointment of a successor Depositary. Every successor Depositary shall execute and deliver to its predecessor and to the Company an instrument in writing accepting its appointment hereunder, and thereupon such successor Depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor and for all purposes shall be the Depositary under this Deposit Agreement, and such predecessor, upon payment of all sums due it and on the written request of the Company, shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Stock and any moneys or property held hereunder to such successor and shall deliver to such successor a list of the record holders of all outstanding Receipts and such records, books and other information in its possession relating thereto. Any successor Depositary shall promptly mail notice of its appointment to the record holders of Receipts.

Any corporation into or with which the Depositary may be merged, consolidated or converted shall be the successor of such Depositary without the execution or filing of any document or any further act, and notice thereof shall not be required hereunder. Such successor Depositary may authenticate the Receipts in the name of the predecessor Depositary or in the name of the successor Depositary.

SECTION 5.5 Corporate Notices and Reports. The Company agrees that it

shall deliver to the Depositary, and the Depositary shall, promptly after receipt thereof transmit to the record holders of Receipts, in each case at the addresses recorded in the Depositary's books, copies of all notices and reports (including without limitation financial statements) required by law or by the rules of any national securities exchange upon which the Stock, the Depositary Shares or the Receipts are listed, to be furnished to the record holders of Receipts or otherwise required to be furnished to holder of the Stocks. Such transmission shall be at the Company's expense and the Company

shall provide the Depositary with such number of copies of such documents as the Depositary may reasonably request.

SECTION 5.6 Indemnification by the Company. The Company shall indemnify

the Depositary, any Depositary's Agent and the Registrar against, and hold each of them harmless from, any loss, liability or expense (including the reasonable costs and expenses of defending itself) that may arise out of acts performed or omitted in connection with this Agreement and the Receipts by the Depositary, any Registrar or any of their respective agents (including any Depositary's Agent), except for any liability arising out of negligence, willful misconduct or bad faith on the respective parts of any such person or persons. The obligations of the Company set forth in this Section 5.6 shall survive any succession of any Depositary or Depositary's Agent.

SECTION 5.7 Charges and Expenses. The Company shall pay all transfer and

other taxes and governmental charges arising solely from the existence of the depositary arrangements provided for herein. The Company shall pay all charges of the Depositary in connection with the initial deposit of the Stock and the initial issuance of the Depositary Shares, all withdrawals of shares of the Stock by owners of Depositary Shares, and any redemption or exchange of the Stock at the option of the Company. All other transfer and other taxes and governmental charges shall be at the expense of holders of Depositary Shares. If, at the request of a holder of Receipts, the Depositary incurs charges or expenses for which it is not otherwise liable hereunder, such holder shall be liable for such charges and expenses. All other charges and expenses of the Depositary and any Depositary's Agent hereunder (including, in each case, reasonable fees and expenses of counsel) incident to the performance of their respective obligations hereunder shall be paid upon prior consultation and agreement between the Depositary and the Company as to the amount and nature of such charges and expenses. The Depositary shall present its statement for charges and expenses to the Company at such intervals as the Company and the Depositary may agree.

SECTION 5.8 Tax Compliance. The Depositary, on its own behalf and on

behalf of the Company shall comply with all applicable certification, information

reporting and withholding (including "backup" withholding) requirements imposed by applicable tax laws, regulations or administrative practice with respect to (i) any payments made with respect to the Depositary Shares or (ii) the issuance, delivery, holding, transfer, redemption or exercise of rights under the Receipts or the Depositary Shares. Such compliance shall include, without limitation, the preparation and timely filing of required returns and the timely payment of all amounts required to be withheld to the appropriate taxing authority or its designated agent.

The Depositary shall comply with any direction received from the Company with respect to the application of such requirements to particular payments or holders or in other particular circumstances and may for purposes of this Agreement rely on any such direction in accordance with the provisions of Section 5.3 hereof.

The Depositary shall maintain all appropriate records documenting compliance with such requirements and shall make such records available on request to the Company or to its authorized representatives.

ARTICLE VI

AMENDMENT AND TERMINATION

SECTION 6.1 Amendment. The form of the Receipts and any provisions of

this Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect that they may deem necessary or desirable, provided that no such amendment (other than any

change in the fees of any Depositary or Registrar, which shall not go into effect sooner than three months after notice thereof to the holders of the Receipts) that materially and adversely alters the rights of the holders of Receipts shall become effective unless such amendment is approved by the holders of at least a majority of the Depositary Shares then outstanding. Every holder of an outstanding Receipt at the time any such amendment becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby.

SECTION 6.2 Termination. This Agreement may be terminated by the Company

or the Depositary only after (i) all outstanding Depositary Shares have been redeemed pursuant to Section 2.8 or (ii) there shall have been made a final distribution in respect of the Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution shall have been distributed to the holders of Receipts pursuant to Sections 4.1 or 4.2, as applicable.

If any Receipts shall remain outstanding after the date of termination of this Deposit Agreement, the Depositary thereafter shall discontinue the transfer of Receipts, shall suspend the distribution of dividends to the holders thereof and shall not give any further notices (other than notice of such termination) or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to the Stock, shall sell rights, preferences or privileges as provided in this Deposit Agreement and shall continue to deliver the Stock and any money and other property represented by Receipts upon surrender thereof by the holders thereof. At any time after the expiration of two years from the date of termination, the Depositary may sell Stock then held hereunder at public or private sale, at such places and upon such terms as it deems proper and may thereafter hold the net proceeds of any such sale, together with any money and other property held by it hereunder, without liability for interest, for the benefit, pro rata in accordance with their holdings, of the holders of Receipts that have not theretofore been surrendered. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement except to account for such net proceeds and money and other property.

Upon the termination of this Deposit Agreement, the Company shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary, the Registrar and any Depositary's Agent under Sections 5.6 and 5.7.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1 Counterparts. This Deposit Agreement may be executed in

any number of counterparts, and by each of the parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed an original, but all such counterparts taken together shall constitute one and the same instrument.

SECTION 7.2 Exclusive Benefit of Parties. This Deposit Agreement is

for the exclusive benefit of the parties hereto, and their respective successors hereunder, and shall not be deemed to give any legal or equitable right, remedy or claim to any other person whatsoever.

SECTION 7.3 Invalidity of Provisions. If one or more of the provisions

contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not be affected, prejudiced or disturbed thereby.

SECTION 7.4 Notices. Any and all notices to be given to the Company

hereunder or under the Receipts shall be in writing and shall be deemed to have been duly given if personally delivered or sent by mail, or by telegram or facsimile transmission confirmed by letter, addressed to the Company at

[if by mail]

UAL Corporation
P.O. Box 66100
Chicago, Illinois 60666
Attention: Corporate Secretary

or

[other delivery]

UAL Corporation
1200 Algonquin Road
Elk Grove Township, Illinois 60007
Attention: Corporate Secretary
Facsimile No.: (708) 952-4683

or at any other address of which the Company shall have notified the Depositary in writing.

Any and all notices to be given to the Depositary hereunder or under the Receipts shall be in writing and shall be deemed to have been duly given if personally delivered or sent by mail, or by telegram or facsimile transmission confirmed by letter, addressed to the Depositary at the Depositary's Office, at:

Attention: _____
Facsimile No.: _____

or at any other address of which the Depositary shall have notified the Company in writing.

Any and all notices to be given to any record holder of a Receipt hereunder or under the Receipts shall be in writing and shall be deemed to have been duly given if personally delivered or sent by mail, or by telegram or facsimile transmission confirmed by letter, addressed to such record holder at the address of such record holder as it appears on the books of the Depositary, or if such holder shall have filed with the Depositary a written request that notices intended for such holder be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or by telegram or facsimile transmission shall be deemed to be effected at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a telegram or facsimile transmission) is deposited, postage prepaid, in a post office letter box. The Depositary or the Company may act upon any telegram or facsimile transmission received by it from the other or from

any holder of a Receipt, notwithstanding that such telegram or facsimile transmission shall not subsequently be confirmed by letter or as aforesaid.

SECTION 7.5 Appointment of Registrar. The Company hereby also appoints

the Depositary as Registrar in respect of the Receipts and the Depositary hereby accepts such appointment.

SECTION 7.6 Holders of Receipts Are Parties. The holders of Receipts

from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance of delivery thereof.

SECTION 7.7 GOVERNING LAW. THIS DEPOSIT AGREEMENT AND THE RECEIPTS

AND ALL RIGHTS HEREUNDER AND THEREUNDER AND PROVISIONS HEREOF AND THEREOF SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.8 Inspection of Deposit Agreement. Copies of this Deposit

Agreement shall be filed with the Depositary and the Depositary's Agent and shall be open to inspection during business hours at the Depositary's Office or respective offices of the Depositary's Agent, if any, by any holder of a Receipt.

SECTION 7.9 Headings. The headings of articles and sections in this

Deposit Agreement and in the form of the Receipt set forth in Exhibit A hereto have been inserted for convenience only and are not to be regarded as a part of this Deposit Agreement or the Receipts or to have any bearing upon the meaning or interpretation of any provision contained herein or in the Receipts.

IN WITNESS WHEREOF, the Company and the Depositary have duly executed this Agreement as of the day and year first above set forth, and all holders of Receipts shall become parties hereto by and upon acceptance by them of delivery of Receipts issued in accordance with the terms hereof.

UAL CORPORATION

Attested by

[SEAL]

By _____

Attested by

[SEAL]

By _____

CERTIFICATE FOR
DEPOSITARY SHARES

CUSIP _____

TRANSFERABLE DEPOSITARY RECEIPT. This Certificate is transferable in [New York, New York].

SEE REVERSE FOR CERTAIN DEFINITIONS

THE DEPOSITARY SHARES REPRESENTED BY THIS RECEIPT ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF _____, THE DEPOSITARY HEREUNDER, OR OF ANY BANK OR NON-BANK DEPOSITARY OF UAL CORPORATION AND ARE NOT INSURED BY THE SAVINGS ASSOCIATION INSURANCE FUND OR THE BANK INSURANCE FUND OF THE FEDERAL DEPOSIT INSURANCE CORPORATION, OR ANY OTHER GOVERNMENT AGENCY.

UAL CORPORATION
A CORPORATION INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

_____, as Depositary (the "Depositary"), hereby certifies that

is the registered owner of _____ DEPOSITARY SHARES ("Depositary Shares"), each Depositary Share representing a one one-thousandth (1/1,000) interest in one share of ___% Series B Preferred Stock, without par value, \$25,000 liquidation value per share (the "Stock"), of UAL Corporation, a Delaware corporation (the "Corporation"), on deposit with the Depositary, subject to the terms and entitled to the benefits of the Deposit Agreement dated as of _____, 1994 (the "Deposit Agreement"), between the Corporation and the Depositary. By accepting this Depositary Receipt, the holder hereof becomes a party to and agrees to be bound by all the terms and conditions of the Deposit Agreement. This Depositary Receipt shall not be valid or obligatory for any purpose or be entitled to any benefits under the Deposit Agreement unless it shall have been executed by the Depositary by the manual signa-

ture of a duly authorized officer or, if executed in facsimile by the
Depository, countersigned by a Registrar in respect of the Depository Receipts
by a duly authorized officer thereof.

Dated:

Countersigned

Depository and Registrar

By: _____
Authorized Officer

A-2

UAL CORPORATION

UAL CORPORATION SHALL FURNISH WITHOUT CHARGE TO EACH RECEIPT HOLDER WHO SO REQUESTS A COPY OF THE DEPOSIT AGREEMENT AND A STATEMENT OR SUMMARY OF THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION THAT ESTABLISHES THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIFIED RIGHTS OF THE ___% SERIES B PREFERRED STOCK AND EACH OTHER CLASS OF PREFERRED STOCK OR SERIES THEREOF THAT THE CORPORATION IS AUTHORIZED TO ISSUE AND OF THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCE AND/OR RIGHTS. ANY SUCH REQUEST SHOULD BE ADDRESSED TO UAL CORPORATION, 1200 ALGONQUIN ROAD, ELK GROVE TOWNSHIP, ILLINOIS 60007, ATTENTION: CORPORATE SECRETARY.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Depositary Receipt, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

TEN ENT - as tenants by the entirety

JT TEN - as joint tenants with right
of survivorship and not as
tenants in common

UNIF GIFT MIN ACT - _____ Custodian _____
(Cust) (Minor)

under Uniform Gifts to
Minors Act _____
(State)

UNIF TRAN MIN ACT - _____ Custodian (until age __)
(Cust)

_____ under Uniform Transfers
(Minor)
to Minors Act _____
(State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- - - - -
- - - - -
- - - - -
- - - - -
- - - - -

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____ Depository Shares represented by the within Depository Receipt, and do(es) hereby irrevocably constitute and appoint _____ Attorney to transfer the said Depository Shares on the books of the within named Depository with full power of substitution in the premises.

Dated: _____ Signature: _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of this Depository Receipt in every particular, without alteration or enlargement or any change whatever.

SIGNATURE GUARANTEED

- - - - -

UAL CORPORATION AND SUBSIDIARY COMPANIES

CALCULATION OF PRO FORMA RATIO OF EARNINGS TO FIXED CHARGES
(DOLLARS IN MILLIONS)

| | PRO FORMA TWELVE MONTHS ENDED DECEMBER 31, 1993 | PRO FORMA THREE MONTHS ENDED MARCH 31, 1994 |
|---|---|---|
| | ----- | ----- |
| Earnings: | | |
| Earnings (loss) before income taxes.... | \$ (58) | \$(87) |
| Fixed charges, from below..... | 1,177 | 274 |
| Interest capitalized..... | (51) | (10) |
| | ----- | ----- |
| Earnings..... | \$1,184 | \$177 |
| | ===== | ===== |
| Fixed Charges: | | |
| Interest expense..... | \$ 431 | \$101 |
| Portion of rental expense representative of the interest factor. | 746 | 173 |
| | ----- | ----- |
| Fixed charges..... | \$1,177 | \$274 |
| | ===== | ===== |
| Pro forma ratio of earnings to fixed charges..... | (a) | (a) |
| | ===== | ===== |

- - - - -

(a) Earnings were inadequate to cover fixed charges by \$109 million for the twelve months ended December 31, 1993 and \$97 million for the three months ended March 31, 1994.

UAL CORPORATION AND SUBSIDIARY COMPANIES
 CALCULATION OF PRO FORMA RATIO OF EARNINGS TO FIXED CHARGES
 AND PREFERRED STOCK DIVIDEND REQUIREMENTS
 (DOLLARS IN MILLIONS)

| | PRO FORMA TWELVE MONTHS ENDED DECEMBER 31, 1993 | PRO FORMA THREE MONTHS ENDED MARCH 31, 1994 |
|---|---|---|
| | | |
| Earnings: | | |
| Earnings (loss) before income taxes.. | \$ (58) | \$(87) |
| Fixed charges, from below..... | 1,359 | 331 |
| Interest capitalized..... | (51) | (10) |
| | ----- | ---- |
| Earnings..... | \$1,250 | \$234 |
| | ===== | ===== |
| Fixed Charges: | | |
| Interest expense..... | \$ 431 | \$101 |
| Preferred stock dividend require- ments..... | 182 | 57 |
| Portion of rental expense representa- tive of the interest factor..... | 746 | 173 |
| | ----- | ---- |
| Fixed charges and preferred stock dividend requirements..... | \$1,359 | \$331 |
| | ===== | ===== |
| Pro forma ratio of earnings to fixed charges and preferred stock dividend requirements..... | (a) | (a) |
| | ===== | ===== |

(a) Earnings were inadequate to cover fixed charges and preferred stock dividends by \$109 million for the twelve months ended December 31, 1993 and \$97 million for the three months ended March 31, 1994.

UNITED AIR LINES, INC. AND SUBSIDIARY COMPANIES

CALCULATION OF PRO FORMA RATIO OF EARNINGS TO FIXED CHARGES
(DOLLARS IN MILLIONS)

| | PRO FORMA TWELVE MONTHS ENDED DECEMBER 31, 1993 | PRO FORMA THREE MONTHS ENDED MARCH 31, 1994 |
|--|---|---|
| | ----- | ----- |
| Earnings: | | |
| Earnings (loss) before income taxes... | \$ (12) | \$(92) |
| Fixed charges, from below..... | 1,145 | 272 |
| Interest capitalized..... | (51) | (10) |
| | ----- | ----- |
| Earnings..... | \$1,082 | \$170 |
| | ===== | ===== |
| Fixed Charges: | | |
| Interest expense..... | \$ 420 | \$ 99 |
| Portion of rental expense representative of the interest factor..... | 725 | 173 |
| | ----- | ----- |
| Fixed charges..... | \$1,145 | \$272 |
| | ===== | ===== |
| Pro forma ratio of earnings to fixed charges..... | (a) | (a) |
| | ===== | ===== |

- - - - -

(a) Earnings were inadequate to cover fixed charges by \$63 million for the twelve months ended December 31, 1993 and \$102 million for the three months ended March 31, 1994.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports dated February 23, 1994 (and to all references to our firm) included in or made a part of this registration statement.

Arthur Andersen & Co.

Chicago, Illinois

May 27, 1994

I consent to being named as a nominee for director of UAL in the Proxy Statement and to serve as a director if elected.

Very truly yours,

/s/ Roger D. Hall

Roger D. Hall

Dated: May 5, 1994

I consent to serve as a director of UAL. I understand that the information (set forth above) will be used by UAL in preparation of its Proxy Statement.

Very truly yours,

/s/ John F. Peterpaul

John F. Peterpaul

Dated: April 27, 1994

FORM T-1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE
ELIGIBILITY OF A TRUSTEE PURSUANT TO
SECTION 305(b)(2)

THE BANK OF NEW YORK
(Exact name of trustee as specified in its charter)

| | |
|--|---|
| New York (State of incorporation if not a U.S. national bank) | 13-5160382 (I.R.S. employer identification no.) |
| 48 Wall Street, New York, N.Y. (Address of principal executive offices) | 10286 (Zip code) |

UNITED AIR LINES, INC.
(Exact name of obligor as specified in its charter)

| | |
|---|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 36-2675206 (I.R.S. employer identification no.) |
| 1200 Algonquin Road Elk Grove Township, Illinois (Address of principal executive offices) | 60007 (Zip code) |

___% Series B Debentures due 2014
(Title of the indenture securities)

1. General information. Furnish the following information as to the Trustee:

(a) Name and address of each examining or supervising authority to which it is subject.

Name Address

| | |
|--|---|
| Superintendent of Banks of the State of New York | 2 Rector Street, New York, N.Y. 10006, and Albany, N.Y. 12203 |
| Federal Reserve Bank of New York | 33 Liberty Plaza, New York, N.Y. 10045 |
| Federal Deposit Insurance Corporation | Washington, D.C. 20549 |
| New York Clearing House Association | New York, New York |

(b) Whether it is authorized to exercise corporate trust powers.

Yes.

2. Affiliations with Obligor.

If the obligor is an affiliate of the trustee, describe each such affiliation.

None. (See Note on page 3.)

16. List of Exhibits.

Exhibits identified in parentheses below, on file with the Commission, are incorporated herein by reference as an exhibit hereto, pursuant to Rule 7a-29 under the Trust Indenture Act of 1939 (the "Act") and Rule 24 of the Commission's Rules of Practice.

1. A copy of the Organization Certificate of The Bank of New York (formerly Irving Trust Company) as now in effect, which contains the authority to commence business and a grant of powers to exercise corporate trust powers. (Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 33-6215, Exhibits 1a and 1b to Form T-1 filed with Registration Statement No. 33-21672 and Exhibit 1 to Form T-1 filed with Registration Statement No. 33-29637.)
4. A copy of the existing By-laws of the Trustee. (Exhibit 4 to Form T-1 filed with Registration Statement No. 33-31019.)

6. The consent of the Trustee required by Section 321(b) of the Act. (Exhibit 6 to Form T-1 filed with Registration Statement No. 33-44051.)
7. A copy of the latest report of condition of the Trustee published pursuant to law or to the requirements of its supervising or examining authority.

NOTE

Inasmuch as this Form T-1 is filed prior to the ascertainment by the Trustee of all facts on which to base a responsive answer to Item 2, the answer to said Item is based on incomplete information.

Item 2 may, however, be considered as correct unless amended by an amendment to this Form T-1.

SIGNATURE

Pursuant to the requirements of the Act, the Trustee, The Bank of New York, a corporation organized and existing under the laws of the State of New York, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in The City of New York, and State of New York, on the 16th day of May, 1994.

THE BANK OF NEW YORK

By: MARY JANE MORRISSEY

Name: Mary Jane Morrissey
Title: Assistant Vice President

Consolidated Report of Condition of

THE BANK OF NEW YORK

Exhibit 7

of 48 Wall Street, New York, N.Y. 10286
 And Foreign and Domestic Subsidiaries,
 a member of the Federal Reserve System, at the close of business
 December 31, 1993, published in accordance with a call made by the
 Federal Reserve Bank of this District pursuant to the provisions
 of the Federal Reserve Act.

| ASSETS | Dollar Amounts in Thousands |
|---|--------------------------------|
| Cash and balances due from depository institutions: | |
| Noninterest-bearing balances and currency and coin | \$ 4,393,393 |
| Interest-bearing balances | 652,315 |
| Securities | 3,809,834 |
| Federal funds sold in domestic offices of the bank | 331,075 |
| Loans and lease financing receivables: | |
| Loans and leases, net of unearned income | 23,708,678 |
| LESS: Allowance for loan and lease losses | 773,597 |
| LESS: Allocated transfer risk reserve | 28,427 |
| Loans and leases, net of unearned income, allowance and reserve | 22,906,654 |
| Assets held in trading accounts | 851,615 |
| Premises and fixed assets (including capitalized leases) | 657,247 |
| Other real estate owned | 60,806 |
| Investments in unconsolidated subsidiaries and associated companies | 170,378 |
| Customers liability to this bank on acceptances outstanding | 885,751 |
| Intangible assets | 42,689 |
| Other assets..... | 1,326,362 |
| | ----- |
| Total assets | \$36,088,119 |
| | ===== |

| LIABILITIES | |
|---|--------------|
| Deposits: | |
| In domestic offices | \$19,486,153 |
| Noninterest-bearing | 7,388,636 |
| Interest-bearing | 12,097,517 |
| In foreign offices, Edge and Agreement Subsidiaries, and IBFs | 8,230,444 |
| Noninterest-bearing | 53,571 |
| Interest-bearing | 8,176,873 |
| Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs: | |
| Federal funds purchased | 1,207,881 |
| Securities sold under agreements to repurchase | 350,492 |
| Demand notes issued to the U.S. | |
| Treasury | 300,000 |
| Other borrowed money | 530,559 |
| Bank's liability on acceptances executed and outstanding | 897,899 |
| Subordinated notes and debentures | 1,064,780 |
| Other liabilities | 1,139,025 |
| | ----- |
| Total liabilities | 33,207,233 |
| | ===== |

| EQUITY CAPITAL | |
|---|-----------|
| Perpetual preferred stock and related surplus | 75,000 |
| Common stock | 942,284 |
| Surplus | 525,666 |
| Undivided profits and capital reserves | 1,342,860 |

| | |
|--|--------------|
| Cumulative foreign currency translation adjustments | (4,924) |
| | ----- |
| Total equity capital | 2,880,886 |
| | ----- |
| Total liabilities, limited-life preferred stock, and equity capital .. | \$36,088,119 |
| | ===== |

I, Robert E. Keilman, Senior Vice President and Comptroller of the above-named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

Robert E. Keilman

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

J. Carter Bacot ++
 +
 Alan R. Griffith ++ Directors
 Samuel F. Chevalier +
 ++

=====

=====

FORM T-1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE
ELIGIBILITY OF A TRUSTEE PURSUANT TO
SECTION 305(b)(2)

THE BANK OF NEW YORK
(Exact name of trustee as specified in its charter)

New York 13-5160382
(State of incorporation (I.R.S. employer
if not a U.S. national bank) identification no.)

48 Wall Street, New York, N.Y. 10286
(Address of principal executive offices) (Zip code)

UNITED AIR LINES, INC.
(Exact name of obligor as specified in its charter)

Delaware 36-2675206
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

1200 Algonquin Road 60007
Elk Grove Township, Illinois (Zip code)
(Address of principal executive offices)

___% Series A Debentures due 2004
(Title of the indenture securities)

=====

1. General information. Furnish the following information as to the Trustee:

(a) Name and address of each examining or supervising authority to which it is subject.

| Name | Address |
|--|---|
| Superintendent of Banks of the State of New York | 2 Rector Street, New York, N.Y. 10006, and Albany, N.Y. 12203 |
| Federal Reserve Bank of New York | 33 Liberty Plaza, New York, N.Y. 10045 |
| Federal Deposit Insurance Corporation | Washington, D.C. 20549 |
| New York Clearing House Association | New York, New York |

(b) Whether it is authorized to exercise corporate trust powers.

Yes.

2. Affiliations with Obligor.

If the obligor is an affiliate of the trustee, describe each such affiliation.

None. (See Note on page 3.)

16. List of Exhibits.

Exhibits identified in parentheses below, on file with the Commission, are incorporated herein by reference as an exhibit hereto, pursuant to Rule 7a-29 under the Trust Indenture Act of 1939 (the "Act") and Rule 24 of the Commission's Rules of Practice.

1. A copy of the Organization Certificate of The Bank of New York (formerly Irving Trust Company) as now in effect, which contains the authority to commence business and a grant of powers to exercise corporate trust powers. (Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 33-6215, Exhibits 1a and 1b to Form T-1 filed with Registration Statement No. 33-21672 and Exhibit 1 to Form T-1 filed with Registration Statement No. 33-29637.)
4. A copy of the existing By-laws of the Trustee. (Exhibit 4 to Form T-1 filed with Registration Statement No. 33-31019.)

6. The consent of the Trustee required by Section 321(b) of the Act.
(Exhibit 6 to Form T-1 filed with Registration Statement
No. 33-44051.)
7. A copy of the latest report of condition of the Trustee published
pursuant to law or to the requirements of its supervising or examining
authority.

NOTE

Inasmuch as this Form T-1 is filed prior to the ascertainment by the Trustee of all facts on which to base a responsive answer to Item 2, the answer to said Item is based on incomplete information.

Item 2 may, however, be considered as correct unless amended by an amendment to this Form T-1.

SIGNATURE

Pursuant to the requirements of the Act, the Trustee, The Bank of New York, a corporation organized and existing under the laws of the State of New York, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in The City of New York, and State of New York, on the 16th day of May, 1994.

THE BANK OF NEW YORK

By: MARY JANE MORRISSEY

Name: Mary Jane Morrissey
Title: Assistant Vice President

Consolidated Report of Condition of

THE BANK OF NEW YORK

Exhibit 7

of 48 Wall Street, New York, N.Y. 10286
 And Foreign and Domestic Subsidiaries,
 a member of the Federal Reserve System, at the close of business
 December 31, 1993, published in accordance with a call made by the
 Federal Reserve Bank of this District pursuant to the provisions
 of the Federal Reserve Act.

| ASSETS | Dollar Amounts in Thousands |
|---|--------------------------------|
| Cash and balances due from depository institutions: | |
| Noninterest-bearing balances and currency and coin | \$ 4,393,393 |
| Interest-bearing balances | 652,315 |
| Securities | 3,809,834 |
| Federal funds sold in domestic offices of the bank | 331,075 |
| Loans and lease financing receivables: | |
| Loans and leases, net of unearned income | 23,708,678 |
| LESS: Allowance for loan and lease losses | 773,597 |
| LESS: Allocated transfer risk reserve | 28,427 |
| Loans and leases, net of unearned income, allowance and reserve | 22,906,654 |
| Assets held in trading accounts | 851,615 |
| Premises and fixed assets (including capitalized leases) | 657,247 |
| Other real estate owned | 60,806 |
| Investments in unconsolidated subsidiaries and associated companies | 170,378 |
| Customers liability to this bank on acceptances outstanding | 885,751 |
| Intangible assets | 42,689 |
| Other assets..... | 1,326,362 |
| | ----- |
| Total assets | \$36,088,119 ===== |

| | |
|---|---------------------|
| LIABILITIES | |
| Deposits: | |
| In domestic offices | \$19,486,153 |
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| Interest-bearing | 8,176,873 |
| Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs: | |
| Federal funds purchased | 1,207,881 |
| Securities sold under agreements to repurchase | 350,492 |
| Demand notes issued to the U.S. | |
| Treasury | 300,000 |
| Other borrowed money | 530,559 |
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| Subordinated notes and debentures | 1,064,780 |
| Other liabilities | 1,139,025 |
| | ----- |
| Total liabilities | 33,207,233 ===== |

| | |
|---|-----------|
| EQUITY CAPITAL | |
| Perpetual preferred stock and related surplus | 75,000 |
| Common stock | 942,284 |
| Surplus | 525,666 |
| Undivided profits and capital reserves | 1,342,860 |

| | |
|--|--------------|
| Cumulative foreign currency translation adjustments | (4,924) |
| | ----- |
| Total equity capital | 2,880,886 |
| | ----- |
| Total liabilities, limited-life preferred stock, and equity capital .. | \$36,088,119 |
| | ===== |

I, Robert E. Keilman, Senior Vice President and Comptroller of the above-named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

Robert E. Keilman

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

J. Carter Bacot ++
 +
 Alan R. Griffith ++ Directors
 Samuel F. Chevalier +
 ++

=====

P R O X Y

UAL CORPORATION
THIS PROXY IS SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS OF UAL CORPORATION

=====
The undersigned, having received the Notice of Meeting and Proxy Statement/Joint Prospectus, hereby appoints _____, _____ and _____, and each of them, as proxies with full power of substitution, for and in the name of the undersigned, to vote all shares of Common Stock of UAL Corporation owned of record by the undersigned on the matters listed on the reverse side hereof and, in their discretion, on such other matters as may properly come before the Meeting of Stockholders to be held at the _____ on _____, 1994, at _____ a.m., local time, and any adjustments thereof, unless otherwise specified herein. The proxies, in their discretion, are further authorized to vote for the election of a person as a Public Director to the Board of Directors in substitution for any nominee named herein who becomes unable to serve, are further authorized to vote on matters which the Board of Directors does not know a reasonable time before making the proxy solicitation will be presented at the meeting, and are further authorized to vote on other matters which may properly come before the Meeting of Stockholders and any adjournments thereof.

You are encouraged to specify your choices by marking the appropriate boxes (SEE REVERSE SIDE), but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendations. The proxies cannot vote your shares unless you sign and return this card.

SEE REVERSE
SIDE

FOLD AND DETACH HERE

PLEASE MARK YOUR
[X] VOTES AS IN THIS
EXAMPLE.

1447

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN.
IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" ALL OF THE BOARD OF
DIRECTORS' NOMINEES FOR PUBLIC DIRECTOR, "FOR" PROPOSALS 1, 2, 3, 5, 6, 7 AND 8
AND "AGAINST" PROPOSALS 9, 10 AND 11.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1, 2, 3, 4, 5, 6, 7 AND
8.

.....

| | | | |
|--|------------|----------------|-----------------|
| 1. Approval of the Agreement and Plan of Recapitalization. | FOR [] | AGAINST [] | ABSTAIN [] |
| 2. Adoption of the Restated Certificate of Incorporation and Bylaws, as amended. | [] | [] | [] |
| 3. Approval of the issuance of certain classes of preferred stock* | [] | [] | [] |
| 4. Election of four Public Directors. | FOR [] | | WITHHELD [] |

Nominees:

John F. McGillicuddy, James J. O'Connor, Paul E. Tierney and Gerald Greenwald.

For, except vote withheld from the following nominee(s):

* The classes of preferred stock to be issued are: (a) shares of Class 1 ESOP Convertible Preferred Stock, (b) shares of Class 2 ESOP Convertible Preferred Stock, (c) shares of Class P ESOP Voting Preferred Stock, Class M ESOP Voting Preferred Stock and Class S ESOP Voting Preferred Stock, (d) shares of Class I Junior Preferred Stock, (e) a share of Class Pilot MEC Junior Preferred Stock, (f) a share of Class IAM Junior Preferred Stock and (g) shares of Class SAM Preferred Stock.

| | | | |
|---|------------|----------------|----------------|
| 5. Amendment of the 1981 Incentive Stock Program. | FOR [] | AGAINST [] | ABSTAIN [] |
| 6. Amendment of the 1988 Restricted Stock Plan. | [] | [] | [] |
| 7. Amendment of the Incentive Compensation Plan. | [] | [] | [] |
| 8. Ratification of the selection of Arthur Andersen & Co. as the independent accountants. | [] | [] | [] |

Proposals 2 and 7 are subject to and conditioned upon approval of Proposal 1, and Proposals 3, 4, 5 and 6 are subject to and conditioned upon approval of Proposals 1 and 2.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST PROPOSALS 9, 10 AND 11.

.....

| | | | |
|---|------------|----------------|----------------|
| 9. Proposal on cumulative voting. | FOR [] | AGAINST [] | ABSTAIN [] |
| 10. Proposal on contingent executive compensation agreements. | [] | [] | [] |

11. Proposal on confidential
voting.

DO YOU PLAN TO ATTEND THE MEETING OF STOCKHOLDERS IN PERSON?

YES NO

The signer hereby revokes all proxies heretofore given by the signer to vote at said meeting or any adjournments thereof.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person. To make sure your shares are represented, we urge you to complete and mail this proxy card.

SIGNATURE(S) _____ DATE _____, 1994

Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

FOLD AND DETACH HERE

ADMISSION TICKET

(LOGO)

MEETING OF STOCKHOLDERS
OF UAL CORPORATION

, 1994

a.m.

You must present this ticket to the UAL Corporation representative at the entrance to the _____ to be admitted to the Meeting of Stockholders.

IF YOU PLAN TO ATTEND THE MEETING OF STOCKHOLDERS,
PLEASE MARK THE APPROPRIATE BOX ON THE PROXY CARD ABOVE.

May 20, 1994

Board of Directors
UAL Corporation
1200 East Algonquin Road
Elk Grove Township, IL 60007

Gentlemen and Madam:

You have requested our opinion as to the fairness, from a financial point of view, to the holders (the "Common Stockholders") of shares of common stock, par value \$5.00 per share ("Old Shares"), of UAL Corporation, a Delaware corporation ("UAL"), of the consideration to be received by such Common Stockholders in connection with the proposed recapitalization of UAL (the "Transaction"), as set forth in, and pursuant to the terms of, the Agreement and Plan of Recapitalization dated as of March 25, 1994, as proposed to be amended and restated (the "Recapitalization Agreement"), among UAL and the Airline Pilots Association, International, and the International Association of Machinists and Aerospace Workers (together with other participating employees, the "Participating Employees").

We understand that the Transaction, as more specifically set forth in the Recapitalization Agreement, provides that, in exchange for certain labor concessions by the Participating Employees, UAL will issue common stock to certain employee trusts/ESOPs equal to a minimum of 55% and a maximum of 63% of the common stock of UAL. We also understand that in the Transaction the current Common Stockholders of UAL will receive, for each Old Share held, one-half of a new share of common stock, par value \$.01 per share, of UAL (representing an equity interest immediately after the Transaction is completed of approximately 45% of one Old Share's current percentage equity interest in UAL, subject to possible reduction) and one-thousandth of a share of redeemable preferred stock of UAL, which will be redeemed immediately after issuance for \$25.80 in cash, \$15.55 face amount of Series A Debentures due 2004 ("Series A Debentures") of United Air Lines, Inc. ("United") and \$15.55 face amount of Series B Debentures due 2014 ("Series B Debentures"; together with the Series A Debentures, the "Debentures") of United and Depositary Preferred Shares ("Depositary Preferred Shares") representing \$31.10 liquidation preference of Series B Preferred Stock, without par value, of UAL ("Series B Preferred Stock"). The Depositary Preferred Shares, the Series A Debentures and the Series B Debentures are referred to herein as the "Securities".

We also understand that United intends to offer for sale in a public offering \$ principal amount of the Series A Debentures and \$ principal amount of the Series B Debentures (the "United Debt Offering") and that UAL intends to offer for sale in a public offering Depositary Preferred Shares (the "UAL Preferred Offering" and, together with the United Debt Offering, the "Offerings"). If the Offerings are consummated, the current Common Stockholders of UAL will receive, for each Old Share held, in lieu of the Securities described in the preceding paragraph, (a) the gross proceeds from the sale by United of \$15.55 principal amount of the Series A Debentures and \$15.55 principal amount of the Series B Debentures pursuant to the United Debt Offering and (b) the gross proceeds from the sale by UAL of Depositary Preferred

Shares representing \$31.10 liquidation preference of its Series B Preferred Stock. As described below, the principal amounts of the Debentures and the liquidation preference of the Series B Preferred Stock could be reduced if the Offerings are consummated and the interest rates or dividend rate, as the case may be, on such Securities were to exceed certain limitations contained in the Recapitalization Agreement.

In arriving at our opinion, we have reviewed and analyzed the Recapitalization Agreement, as well as certain publicly available business and financial information relating to UAL. We have also reviewed certain other information, including financial forecasts provided to us by UAL. We have met with UAL's management to discuss the past and current operations and financial condition and prospects of UAL. We have also considered certain financial and stock market data for UAL and we have compared that data with similar data for other publicly held companies in businesses similar to those of UAL, and we have considered the financial terms of certain other business combinations that have recently been effected. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that we deemed relevant. In addition, we have reviewed the alternative of not effecting a reorganization or similar transaction and UAL implementing various operating strategies considered by it which, if fully implemented, might result in a greater value to Common Stockholders than the Transaction; however, we understand and have assumed for purposes of this opinion that the Board of Directors of UAL has determined, in light of various factors relating to the implementation of such operating strategies and the availability of the Transaction, not to pursue such implementation.

In connection with our review, we have not independently verified any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of UAL's management as to the future financial performance of UAL. We express no view as to such forecasts or the assumptions on which they are based. We have not made an independent evaluation or appraisal of the assets or liabilities of UAL, nor have we been furnished with any such appraisals. We were not requested to, and did not, solicit third party offers to acquire all or any part of UAL, nor, to our knowledge, has any interest in making such an offer been presented by any third party, including in response to the public disclosure regarding discussions between UAL and the Participating Employees. We have assumed that the results expected by UAL's management to be obtained from the Transaction, including those arising from the Participating Employees' labor concessions, will be realized. Our opinion is necessarily based solely upon information available to us and business, market, economic and other conditions as they exist on, and can be evaluated as of, the date hereof. Our opinion does not address UAL's underlying business decision to effect the Transaction.

Pursuant to the Recapitalization Agreement, the interest and dividend rates for the Securities were initially set upon the execution of the Recapitalization Agreement. The interest or dividend rate on each such Security will be reset, as of a date to be determined that is not fewer than five calendar days and not greater than ten calendar days prior to the meeting of the Common Stockholders of UAL at which the Transaction will be voted upon, to the rate required to cause

each such security to trade at 100% of its aggregate principal amount (in the case of the Debentures) or at 100% of its aggregate liquidation preference (in the case of the Series B Preferred Stock) (collectively, "par"), on a fully distributed basis, as of such date, subject to a limitation specified in the Recapitalization Agreement on the amount that such rates can increase. If the Offerings are not consummated, our opinion is based on such final rates being set so that the Securities would trade, as of such date, on a fully distributed basis, at par. It should be noted that our opinion does not purport to represent any view as to what the trading value of the Securities actually will be when the Securities are issued to the Common Stockholders following consummation of the Transaction. The actual trading value of such Securities could be higher or lower depending upon changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. Because of the large aggregate amount of Securities that would be issued to Common Stockholders of UAL if the Offerings are not consummated and other factors, such Securities may trade initially, and for an extended period thereafter, at prices below those at which they would trade on a fully distributed basis. Furthermore, any valuation of securities is only an approximation, subject to uncertainties and contingencies all of which are difficult to predict and beyond our control.

If the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Series B Preferred Stock may be set at rates that are in excess of the limitation contained in the Recapitalization Agreement, in which event the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares, as the case may be, will be reduced so that the aggregate amount of interest payable by United or dividends payable by UAL, as the case may be, with respect to such Security will not exceed amounts specified in the Recapitalization Agreement, and the amount of the proceeds from the sale of such Securities to be received by the current Common Stockholders of UAL in respect of each Old Share will be reduced accordingly. In addition, in certain other circumstances, such proceeds could be less than the stated face amount or liquidation preference of the Securities. Our opinion is based on the assumption that, if the Offerings are consummated, the proceeds of the Debentures and the Depositary Preferred Shares to be received by the current Common Stockholders of UAL in respect of each Old Share will not be less than the principal amounts of the Debentures and the number of Depositary Preferred Shares that would have been distributed to such Common Stockholders of UAL had the Offerings not been consummated.

We have acted as financial advisor to UAL in connection with the Transaction and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Transaction. A portion of this fee relates to the rendering of this opinion.

It is understood that this opinion is only for the information of the Board of Directors of UAL. However, this opinion may be included in its entirety in any proxy statement from UAL to its Common Stockholders. This opinion may not, however, be summarized, excerpted from or otherwise publicly referred to without our prior written consent, which will not unreasonably be withheld. In addition, we may not be otherwise publicly referred to without our prior consent, which will not unreasonably be withheld.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the consideration to be received by the Common Stockholders of UAL in the Transaction, taken as a whole, is fair to such Common Stockholders from a financial point of view.

Very truly yours,

- - - - -
Lazard Freres & Co.

May 20, 1994

Board of Directors
 UAL Corporation
 1200 East Algonquin Road
 Elk Grove Township, IL 60007

Gentlemen and Madam:

You have requested our opinion as to the fairness, from a financial point of view, to the holders (the "Common Stockholders") of shares of common stock, par value \$5.00 per share ("Old Shares"), of UAL Corporation, a Delaware corporation ("UAL"), of the consideration to be received by such Common Stockholders in connection with the proposed recapitalization of UAL (the "Transaction"), as set forth in, and pursuant to the terms of, the Agreement and Plan of Recapitalization dated as of March 25, 1994, as proposed to be amended and restated (the "Recapitalization Agreement"), among UAL and the Airline Pilots Association, International, and the International Association of Machinists and Aerospace Workers (together with other participating employees, the "Participating Employees").

We understand that the Transaction, as more specifically set forth in the Recapitalization Agreement, provides that, in exchange for certain labor concessions by the Participating Employees, UAL will issue common stock to certain employee trusts/ESOPs equal to a minimum of 55% and a maximum of 63% of the common stock of UAL. We also understand that in the Transaction the current Common Stockholders of UAL will receive, for each Old Share held, one-half of a new share of common stock, par value \$.01 per share, of UAL (representing an equity interest immediately after the Transaction is completed of approximately 45% of one Old Share's current percentage equity interest in UAL, subject to possible reduction) and one-thousandth of a share of redeemable preferred stock of UAL, which will be redeemed immediately after issuance for \$25.80 in cash, \$15.55 face amount of Series A Debentures due 2004 ("Series A Debentures") of United Air Lines, Inc. ("United") and \$15.55 face amount of Series B Debentures due 2014 ("Series B Debentures"; together with the Series A Debentures, the "Debentures") of United and Depositary Preferred Shares ("Depositary Preferred Shares") representing \$31.10 liquidation preference of Series B Preferred Stock, without par value, of UAL ("Series B Preferred Stock"). The Depositary Preferred Shares, the Series A Debentures and the Series B Debentures are referred to herein as the "Securities".

We also understand that United intends to offer for sale in a public offering \$ principal amount of the Series A Debentures and \$ principal amount of the Series B Debentures (the "United Debt Offering") and that UAL intends to offer for sale in a public offering Depositary Preferred Shares (the "UAL Preferred Offering" and, together with the United

Debt Offering, the "Offerings"). If the Offerings are consummated, the current Common Stockholders of UAL will receive, for each Old Share held, in lieu of the Securities described in the preceding paragraph, (a) the gross proceeds from the sale by United of \$15.55 principal amount of the Series A Debentures and \$15.55 principal amount of the Series B Debentures pursuant to the United Debt Offering and (b) the gross proceeds from the sale by UAL of Depositary Preferred Shares representing \$31.10 liquidation preference of its Series B Preferred Stock. As described below, the principal amounts of the Debentures and the liquidation preference of the Series B Preferred Stock could be reduced if the Offerings are consummated and the interest rates or dividend rate, as the case may be, on such Securities were to exceed certain limitations contained in the Recapitalization Agreement.

In arriving at our opinion, we have reviewed and analyzed the Recapitalization Agreement, as well as certain publicly available business and financial information relating to UAL. We have also reviewed certain other information, including financial forecasts provided to us by UAL. We have met with UAL's management to discuss the past and current operations and financial condition and prospects of UAL. We have also considered certain financial and stock market data for UAL and we have compared that data with similar data for other publicly held companies in businesses similar to those of UAL, and we have considered the financial terms of certain other business combinations that have recently been effected. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that we deemed relevant. In addition, we have reviewed the alternative of not effecting a reorganization or similar transaction and UAL implementing various operating strategies considered by it which, if fully implemented, might result in a greater value to Common Stockholders than the Transaction; however, we understand and have assumed for purposes of this opinion that the Board of Directors of UAL has determined, in light of various factors relating to the implementation of such operating strategies and the availability of the Transaction, not to pursue such implementation.

In connection with our review, we have not independently verified any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of UAL's management as to the future financial performance of UAL. We express no view as to such forecasts or the assumptions on which they are based. We have not made an independent evaluation or appraisal of the assets or liabilities of UAL, nor have we been furnished with any such appraisals. We were not requested to, and did not, solicit third party offers to acquire all or any part of UAL, nor, to our knowledge, has any interest in making such an offer been presented by any third party, including in response to the public disclosure regarding discussions between UAL and the Participating Employees. We have assumed that the results expected by UAL's management to be obtained from the Transaction, including those arising from the Participating Employees' labor concessions, will be realized. Our opinion is necessarily based solely upon information available to us and business, market, economic and other conditions as they exist on, and can be evaluated as of, the date hereof. Our opinion does not address UAL's underlying business decision to effect the Transaction.

Pursuant to the Recapitalization Agreement, the interest and dividend rates for the Securities were initially set upon the execution of the Recapitalization Agreement. The interest or dividend rate on each such Security will be reset, as of a date to be determined that is not fewer than five calendar days and not greater than ten calendar days prior to the meeting of the Common Stockholders of UAL at which the Transaction will be voted upon, to the rate required to cause each such security to trade at 100% of its aggregate principal amount (in the case of the Debentures) or at 100% of its aggregate liquidation preference (in the case of the Series B Preferred Stock) (collectively, "par"), on a fully distributed basis, as of such date, subject to a limitation specified in the Recapitalization Agreement on the amount that such rates can increase. If the Offerings are not consummated, our opinion is based on such final rates being set so that the Securities would trade, as of such date, on a fully distributed basis, at par. It should be noted that our opinion does not purport to represent any view as to what the trading value of the Securities actually will be when the Securities are issued to the Common Stockholders following consummation of the Transaction. The actual trading value of such Securities could be higher or lower depending upon changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. Because of the large aggregate amount of Securities that would be issued to Common Stockholders of UAL if the Offerings are not consummated and other factors, such Securities may trade initially, and for an extended period thereafter, at prices below those at which they would trade on a fully distributed basis. Furthermore, any valuation of securities is only an approximation, subject to uncertainties and contingencies all of which are difficult to predict and beyond our control.

If the Offerings are consummated, the interest rates on the Debentures and the dividend rate on the Series B Preferred Stock may be set at rates that are in excess of the limitation contained in the Recapitalization Agreement, in which event the principal amount of the series of Debentures affected or the number of Depositary Preferred Shares, as the case may be, will be reduced so that the aggregate amount of interest payable by United or dividends payable by UAL, as the case may be, with respect to such Security will not exceed amounts specified in the Recapitalization Agreement, and the amount of the proceeds from the sale of such Securities to be received by the current Common Stockholders of UAL in respect of each Old Share will be reduced accordingly. In addition, in certain other circumstances, such proceeds could be less than the stated face amount or liquidation preference of the Securities. Our opinion is based on the assumption that, if the Offerings are consummated, the proceeds of the Debentures and the Depositary Preferred Shares to be received by the current Common Stockholders of UAL in respect of each Old Share will not be less than the principal amounts of the Debentures and the number of Depositary Preferred Shares that would have been distributed to such Common Stockholders of UAL had the Offerings not been consummated.

We have acted as financial advisor to UAL in connection with the Transaction and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Transaction. We will also receive a fee for rendering this opinion and other additional services currently being rendered to UAL. In the ordinary course of our business, we actively trade the debt and equity securities of UAL for our own account and for

the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this opinion is only for the information of the Board of Directors of UAL. However, this opinion may be included in its entirety in any proxy statement from UAL to its Common Stockholders. This opinion may not, however, be summarized, excerpted from or otherwise publicly referred to without our prior written consent, which will not unreasonably be withheld. In addition, we may not be otherwise publicly referred to without our prior consent, which will not unreasonably be withheld.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the consideration to be received by the Common Stockholders of UAL in the Transaction, taken as a whole, is fair to such Common Stockholders from a financial point of view.

Very truly yours,

CS FIRST BOSTON CORPORATION

By: _____