SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: February 28, 1995
(Date of earliest event reported)

UAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	1-6033	36-2675207
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1200 Algonquin Road, Elk Grove Township, Illinois	60007
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS.

UAL Corporation is filing herewith Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and audited financial statements as Exhibits 99.1, 99.2 and 99.3, respectively, each of which is incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

Exhibit No.	Description
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.
23.1	Consent of Arthur Andersen LLP.
99.1	Selected Financial Data.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations.
99.3	Audited financial statements.

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 hereunto duly authorized.

UAL CORPORATION

By: /s/ Douglas A. Hacker

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

Dated: February 27, 1995

EXHIBIT INDEX

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Exhibit 11

UAL Corporation and Subsidiary Companies

Calculation of Fully Diluted Net Earnings Per Share
(In Millions, Except Per Share)

	Year Ended December 31		
	1994(1)	1993(1)	1992(1)
Earnings or loss:			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	$ 14	$ (31)	$ (417)
Interest on Air Wis convertible debentures, net of income tax	-	2	2
Earnings (loss) before cumulative effect of accounting changes for fully diluted calculation	14	(29)	(415)
Extraordinary loss on early extinguishment of debt	-	(19)	-
Cumulative effect of accounting changes	(25)	-	(540)
Net loss for fully diluted calculation	$ (11)	$ (48)	$ (955)
Shares:			
Average number of shares of common stock outstanding during the year	18.8	24.3	24.1
Average number of shares of ESOP preferred stock outstanding during the year	0.3	-	-
Additional shares assumed issued at the date of issuance for conversion of convertible preferred stock	-	3.4	-
Additional shares assumed issued at the beginning of the year (or at the date of merger) for conversion of Air Wis convertible debentures	-	0.1	0.1
Additional shares assumed issued at the beginning of the year (or at the date of issuance) for exercises of dilutive stock options and stock award plans (after deducting shares assumed purchased under the treasury stock method)	0.3	0.6	0.3
Average number of shares for fully diluted calculation	19.4	28.4	24.5
Fully diluted per share amounts:			
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	$ 0.74	$(1.02)	$(16.96)
Extraordinary loss on early extinguishment of debt	-	(0.66)	-
Cumulative effect of accounting changes	(1.33)	-	(22.00)
Net loss	$(0.59)	$(1.68)	$(38.96)

(1) This calculation is submitted in accordance with Regulation S-K item 601(b)(11), although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an antidilutive result.

Exhibit 12.1

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31 1994	1993	1992	1991	1990
	(In Millions)				
Earnings:					
Earnings (loss) before income taxes and extraordinary items	$ 170	$ (47)	$ (656)	$(508)	$164
Fixed charges, from below	1,052	1,104	1,001	749	592
Interest capitalized	(41)	(51)	(92)	(91)	(71)
Earnings	$1,181	$1,006	$ 253	$ 150	$685
Fixed charges:					
Interest expense	$ 372	$ 358	$ 329	$ 211	$193
Portion of rental expense representative of the interest factor	680	746	672	538	399
Fixed charges	$1,052	$1,104	$1,001	$ 749	$592
Ratio of earnings to fixed charges	1.12	(a)	(a)	(a)	1.16

(a) Earnings were inadequate to cover fixed charges by $98 million in 1993, $748 million in 1992 and $599 million in 1991.

Exhibit 12.2

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

and Preferred Stock Dividend Requirements

	Year Ended December 31				
	1994	1993	1992	1991	1990
	(In Millions)				
Earnings:					
Earnings (loss) before income taxes and extraordinary items	$ 170	$ (47)	$ (656)	$(508)	$164
Fixed charges and preferred stock dividend requirements, from below	1,184	1,154	1,001	749	592
Interest capitalized	(41)	(51)	(92)	(91)	(71)
Earnings	$1,313	$1,056	$ 253	$ 150	$685
Fixed charges:					
Interest expense	$ 372	$ 358	$ 329	$ 211	$193
Preferred stock dividend requirements	132	50	-	-	-
Portion of rental expense representative of the interest factor	680	746	672	538	399
Fixed charges and preferred stock dividend requirements	$1,184	$1,154	$1,001	$ 749	$592
Ratio of earnings to fixed charges and preferred stock dividend requirements	1.11	(a)	(a)	(a)	1.16

(a) Earnings were inadequate to cover fixed charges and preferred stock dividend requirements by $98 million in 1993, $748 million in 1992 and $599 million in 1991.

Exhibit 23.1

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 8-K dated February 28, 1995, into the Company's previously filed Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 2-67368) and Post-Effective Amendment No. 2 to Form S-8 Registration Statement (File No. 33-37613) for the Employees' Stock Purchase Plan of UAL Corporation; Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-38613) for the United Air Lines, Inc. Management and Salaried Employees' 401(k) Retirement Savings Plan; Form S-8 Registration Statement (File No. 33-57331) and Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-44552) for the United Air Lines, Inc. Ground Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-44553) for the United Air Lines, Inc., Flight Attendant Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 2 to Form S-8 Registration Statement (File No. 33-41968) and Form S-8 Registration Statement (File No. 33-10206) for the UAL Corporation 1981 Incentive Stock Plan; Form S-3 Registration Statement (File No. 33-57192), as amended; Post-Effective Amendment No. 1 to Form S-8 Registration Statement (File No. 33-59950) for the United Air Lines, Inc. Pilots' Directed Account Retirement Income Plan; and Form S-4 Registration Statement (File No. 33-57579), as amended.

/s/ Arthur Andersen LLP
Arthur Andersen LLP

Chicago, Illinois,
February 28, 1995

Exhibit 99.1

SELECTED FINANCIAL DATA

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

Exhibit 99.2

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

EMPLOYEE INVESTMENT TRANSACTION AND RECAPITALIZATION

On July 12, 1994, the shareholders of UAL Corporation ("UAL") approved a plan of recapitalization that provides an approximately 55% equity and voting interest in UAL to certain employees of United Air Lines, Inc. ("United") in exchange for wage concessions and work-rule changes. The employees' equity interest will be allocated to individual employee accounts through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization. Since the ESOP shares will be allocated over time, the current ownership interest held by employees is substantially less than 55%. The entire 55% ESOP voting interest is currently exercisable, which generally will be voted by the ESOP trustee at the direction of, and on behalf of, the employees participating in the ESOPs. The employee interest may increase to up to 63%, depending on the average market value of UAL common stock in the year after the transaction closed. Based on the average market value of UAL common stock through February 23, 1995, the market value of UAL common stock for the remainder of the measuring period would have to average at least $204 for any adjustment to be made in the ESOP percentage interest. Pursuant to the terms of the plan of recapitalization, holders of old UAL common stock received approximately $2.1 billion in cash and the remaining 45% (subject to a possible reduction to not less than 37%) of the equity in the form of new common stock. The conversion of certain convertible securities and the exercise of certain stock options could result in additional cash distributions of up to $428 million. Distributions on account of stock option exercises would be reduced by cash proceeds on the exercise of the options. In connection with the recapitalization, United issued $370 million of 10.67% debentures due in 2004 and $371 million of 11.21% debentures due in 2014 and UAL issued Series B 12 1/4% preferred stock with an aggregate liquidation preference of $410 million. Approximately $169 million of pretax costs were incurred in connection with the recapitalization, including transaction costs and severance payments to certain former United employees.

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

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

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

The employee investment transaction will reduce UAL's cash operating expenses due to wage and benefit reductions and work-rule changes. These cash expense reductions will be offset by non-cash compensation charges for stock periodically committed to be released to employees under the ESOPs, additional interest expense on the debentures and foregone interest on the cash distributed to shareholders. The amount of the non-cash compensation expense cannot be predicted, because it is based on the future fair value of UAL's stock.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity -

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

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

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

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

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

Capital Commitments -

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

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

Capital Resources -

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

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

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

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

RESULTS OF OPERATIONS

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

Summary of Results and Impact of Recapitalization -

UAL's results of operations improved in 1994 as compared to 1993. In 1994, UAL recorded net earnings of $51 million, representing a loss per share of $0.61 after preferred stock dividends, compared to a 1993 net loss of $50 million, or $3.40 per share after preferred stock dividends. Included in 1994 were $169 million of pretax expenses incurred in connection with the recapitalization, of which $48 million were recorded in operating expenses. The 1994 results also include an after tax charge of $26 million ($1.37 per share) for the cumulative effect of adopting Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which UAL adopted effective January 1, 1994. The 1993 results include an extraordinary loss of $19 million, $0.76 per share, on the early extinguishment of debt.

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

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

Other Factors Affecting Comparability -

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

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

1994 Compared with 1993 -

Operating Revenues. Operating revenues increased $625 million (5%). United's revenue per available seat mile increased 4% to 9.12 cents. Passenger revenues increased $337 million (3%) due primarily to a 7% increase in United's revenue passenger miles, partially offset by a 3%

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

Cargo revenues increased $26 million (4%), due to increased freight revenues partially offset by decreased mail revenues. Freight and mail revenue ton miles increased 3%; however, freight yield increased 5% while mail yield decreased 8%. Other operating revenues increased $262 million (37%) primarily as a result of the consolidation of ATS, revenues resulting from the lease of Air Wisconsin, Inc. assets to other parties and an increase in fuel sales.

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

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

Other Income and Expense. Other expense amounted to $350 million in 1994 compared to $310 million in 1993. Interest expense increased $14 million (4%) due to higher average interest rates resulting from the debentures issued in July 1994, partially offset by the benefit of the extinguishment of $500 million of subordinated debt in 1993. Interest capitalized decreased $10 million (20%) as a result of lower average advance payments on new aircraft and lower capitalized interest rates. Interest income decreased $13 million (13%) due primarily to interest received in 1993 in connection with the final settlement of certain pension benefits. United's equity in results of affiliates changed from a loss of $30 million in 1993 to earnings of $23 million in 1994 due primarily to a charge recorded by Galileo International in 1993 for the cost of eliminating duplicate facilities and operations after the merger of Covia and Galileo Ltd. Included in "Miscellaneous, net" in 1994 were charges of $121 million for fees and costs incurred in connection with the employee investment transaction and recapitalization, a $22 million charge for minority interests in ATS and foreign exchange gains of $15 million. Included in 1993 was a $59 million charge to reduce the net book value of 15 DC-10 aircraft to estimated realizable value, a $17 million gain resulting from the final settlement of certain pension benefits and foreign exchange losses of $20 million.

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

1993 Compared with 1992 -

Operating Revenues. Operating revenues increased $1.472 billion (12%). Passenger revenues increased $1.280 billion (12%) due to a 9% increase in United's revenue passenger miles and a 3% increase in yield to 11.61 cents. United's domestic revenue passenger miles increased 6% on an increase of 8% in domestic available seat miles, resulting in a decrease of 1.0 point in domestic passenger load factor to 65.2%. International revenue passenger miles increased 14%. Passenger traffic increased in substantially all international markets, especially in Latin America, where United began service in the first quarter of 1992. Passenger load factors increased in Latin America, the Atlantic and the Pacific. On a system basis, United's available seat miles increased 10% and passenger load factor decreased 0.2 points to 67.2%.

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

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

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

OTHER INFORMATION

Deferred Tax Asset -

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

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

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

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

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

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

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

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

Contingencies -

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

UAL has certain other contingencies resulting from litigation and claims incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the views of legal counsel, the nature of such contingencies and prior experience, that the ultimate disposition of these contingencies is not likely to materially affect UAL's financial condition, operating results or liquidity.

Energy Tax -

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

Foreign Currency Transactions -

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

Changes Expected to Impact 1995 -

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

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

Exhibit 99.3

AUDITED FINANCIAL STATEMENTS

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, 1994 and 1993, and the related statements of consolidated operations, consolidated cash flows and consolidated shareholders' equity for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 23, 1995

UAL CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED OPERATIONS

(In Millions, Except Per Share)

	Year Ended December 31		
	1994	1993	1992
Operating revenues:			
Passenger	$12,295	$11,958	$10,678
Cargo	685	659	605
Other operating revenues	970	708	570
	13,950	13,325	11,853
Operating expenses:			
Salaries and related costs	4,679	4,760	4,562
ESOP compensation expense	182	-	-
Aircraft fuel	1,585	1,733	1,699

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

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(In Millions)

Assets	December 31 1994	1993
Current assets:		
Cash and cash equivalents	$ 500	$ 437
Short-term investments	1,032	1,391
Receivables, less allowance for doubtful accounts (1994 - $22; 1993 - $22)	889	1,095
Aircraft fuel, spare parts and supplies, less obsolescence allowance (1994 - $44; 1993 - $70)	285	278
Refundable income taxes	-	26
Deferred income taxes	151	124
Prepaid expenses	335	362

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

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

UAL CORPORATION AND SUBSIDIARY COMPANIES

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

	December 31	
Liabilities and Shareholders' Equity	1994	1993
Current liabilities:		
Short-term borrowings	$ 269	$ 315
Long-term debt maturing within one year	384	144
Current obligations under capital leases	76	62
Advance ticket sales	1,020	1,036
Accounts payable	651	599
Accrued salaries, wages and benefits	843	943
Accrued aircraft rent	825	893
Other accrued liabilities	838	904
	4,906	4,896
Long-term debt	2,887	2,702
Long-term obligations under capital leases	730	827
Other liabilities and deferred credits:		
Deferred pension liability	520	571
Postretirement benefit liability	1,148	1,058
Deferred gains	1,363	1,400
Other	477	148
	3,508	3,177
Minority interest	49	35
Shareholders' equity:		
Preferred stock (Note 12) -		
Series A convertible preferred stock, $600 million aggregate liquidation value	-	30
Series B preferred stock, $327 million aggregate liquidation value	-	-
Class 1 ESOP convertible preferred stock, $227 million aggregate liquidation value	-	-
Common stock, $0.01 par value in 1994 and $5 par value in 1993; authorized, 100,000,000 shares; issued, 13,013,217 shares in 1994 and		

25,489,745 shares in 1993	-	127
Additional capital invested	1,287	932
Retained earnings (deficit)	(1,335)	249
Unearned ESOP preferred stock	(83)	-
Stock held in treasury-		
Preferred (Note 12)	(87)	-
Common, 574,111 shares in 1994 and 920,808 shares in 1993	(74)	(65)
Other	(24)	(70)
	(316)	1,203
Commitments and contingent liabilities (Note 19)		
	$11,764	$12,840

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation-

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

(b) Accounting Changes-

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

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

(c) Reclassification-

In 1994, United began recording certain air transportation price adjustments, which were previously recorded as commissions, as adjustments to revenue. Certain amounts in the Statements of Consolidated Operations for 1993 and 1992 and these Notes to Consolidated Financial Statements have been reclassified to conform with the current presentation.

(d) Airline Revenues-

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

(e) Foreign Currency Transactions-

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

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

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

(g) Aircraft Fuel, Spare Parts and Supplies-

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

(h) Operating Property and Equipment-

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

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

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

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

(i) Intangibles-

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

(j) Mileage Plus Awards-

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

(k) Deferred Gains-

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

(l) Interest Rate Swap Agreements-

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

(2) Employee Investment Transaction and Recapitalization

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

(3) Employee Stock Ownership Plans

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

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

The Leveraged ESOP and Non-Leveraged ESOP are being accounted for under AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, as shares of the Class 1 ESOP Preferred Stock are sold to an ESOP trust, the Company reports the issuance as a credit to additional capital invested and a corresponding charge to unearned ESOP preferred stock. As the shares are earned by employees in exchange for services performed, the shares are committed to be released. ESOP compensation expense is recorded for the average fair value of the shares committed to be released during the period with a corresponding credit to unearned ESOP preferred stock for the cost of the shares. Any difference between the fair value of the shares and the cost of the shares is charged or credited to additional capital invested. For the Non-Leveraged ESOP, the Class 2 ESOP Preferred Stock is recorded as additional capital invested as the shares are committed to be contributed in exchange for employee services, with the offsetting entry to ESOP compensation expense. The ESOP compensation expense is based on the average fair value of the shares committed to be contributed, in accordance with the SOP. The Supplemental ESOP is being accounted for under Accounting Principle Board Opinion 25, "Accounting for Stock Issued to Employees."

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

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

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

(4) Affiliates

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

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

Summarized financial information of Galileo follows (in millions):

	December 31, 1994	December 31, 1993
Current assets	$134	$141
Non-current assets	421	467
Total assets	555	608
Current liabilities	195	173
Long-term liabilities	321	440
Total liabilities	516	613
Net assets	$ 39	$ (5)

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

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

(5) Other Income (Expense) - Miscellaneous
<TABLE
[CAPTION]

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

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

[/TABLE]

(6) Per Share Amounts

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

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

(7) Income Taxes

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

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

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

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

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

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

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

	1994		1993	
	Deferred Tax Assets	Deferred Tax Liabilities (In Millions)	Deferred Tax Assets	Deferred Tax Liabilities
Employee benefits, including postretirement medical	$ 537	$ 13	$ 599	$ 31
Prepaid commissions	-	52	-	49
Depreciation, capitalized interest and transfers of tax benefits	-	1,074	-	1,119
Gains on sale and leasebacks	472	-	480	-
Rent expense	254	-	207	-
AMT credit carryforward	262	-	195	-
Foreign exchange gains and losses	98	-	84	-

Frequent flyer accrual	70	-	72	-
Net operating loss carryforwards	58	-	74	-
Other	134	115	272	70
	$1,885	$1,254	$1,983	$1,269

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

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

(8) Short-Term Borrowings

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

(9) Long-Term Debt

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

	1994	1993
	(In Millions)	
Secured notes, 5.525% to 11.54%, averaging 8.38%, due through 2014	$ 1,087	$ 1,462
Debentures, 6.75% to 11.21%, averaging 10.03%, due 1997 to 2021	1,591	1,000
Deferred purchase certificates, Japanese yen-denominated, 7.75%, due through 1998	169	178
Convertible debentures, 7.75%, due 2000 through 2010	26	36
Promissory notes, 5.83% to 6.82%, averaging 6.04%, due through 1998	34	41
	2,907	2,717
Unamortized discount on debt	(20)	(15)
	$ 2,887	$ 2,702

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

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

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

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

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

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

(10) Lease Obligations

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

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

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

As of December 31, 1994, United leased 315 aircraft, 45 of which were under capital leases. These leases have terms of four to 26 years, and expiration dates range from 1996 through 2018. Under the terms of leases for 306 of the aircraft, United has the right of first refusal to purchase, at the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of cost. United has 21 Airbus A320-200 aircraft under 24-year operating leases which are cancelable upon eleven months notice during the initial 10 years of the leases.

Amounts charged to rent expense, net of minor amounts of sublease rentals, were $1.230 billion in 1994, $1.208 billion in 1993, and $1.060 billion in 1992. Included in rent expense were insignificant amounts of contingent rentals, resulting from changes in interest rates for operating leases under which the rent payments are based on variable interest rates. In connection with certain of these leases, United has entered interest rate swap agreements (See Note 18).

(11) Foreign Operations

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

(12) Preferred Stock

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

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

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

In connection with the July 1994 recapitalization, UAL issued 16,416,000 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock, resulting in net proceeds of $400 million, which was recorded as additional capital invested. The shares issued had an aggregate liquidation preference of $410 million, or $25 per depositary share ($25,000 per Series B preferred share), and a stated capital of $164 ($0.01 per Series B preferred share). Under its terms, any portion of the Series B preferred stock or the depositary shares is redeemable for cash after July 11, 2004, at UAL's option, at the equivalent of $25 per depositary share, plus accrued dividends. The Series B preferred stock is not convertible into any other securities, has no stated maturity and is not subject to mandatory redemption. In the fourth quarter of 1994, UAL repurchased 3,336,400 depositary shares, representing 3,336.4 shares of Series B preferred stock, at an aggregate cost of $87 million to be held in treasury. At December 31, 1994, there were outstanding 13,079,600 depositary shares representing 13,079.6 shares of Series B preferred stock.

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

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

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

(13) Common Shareholders' Equity

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

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

	1994	1993	1992
Old shares -			
Shares outstanding at beginning of year	24,568,937	24,238,482	23,758,106
Shares issued in connection with Air Wis merger	-	-	443,593
Stock options exercised	79,764	205,075	40,464
Shares issued from treasury under compensation arrangements	1,100	142,003	3,165
Shares acquired for treasury	(88,261)	(7,623)	(346)
Forfeiture of restricted stock	(9,800)	(9,000)	(6,500)
Other	(379)	-	-
	24,551,361	24,568,937	24,238,482

Effect of recapitalization	(12,275,680)	-	-
New shares -			
Stock options exercised	237,505	-	-
Shares issued from treasury under compensation arrangements	112,767	-	-
Shares acquired for treasury	(186,898)	-	-
Other	51	-	-
Shares outstanding at end of year	12,439,106	24,568,937	24,238,482

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

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

(14) Stock Options and Awards

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

Prior to 1992, stock appreciation rights ("SARs") were granted in tandem with certain stock options. On exercise of these SARs, holders would receive, in cash, 100% of the appreciation in fair market value of the shares subject to the SAR. The estimated payment value of SARs, net of market value adjustments, was charged to earnings over the vesting period. In 1992, all active officers relinquished their SARs but retained the tandem stock options. As a result of the 1994 recapitalization, all outstanding options became fully vested at the time of the transaction and the holders of such options became eligible to exercise the cashless exercise features of stock options. Under a cashless exercise, the Company withholds, at the election of the optionee, from shares that would otherwise be issued upon exercise that number of shares having a fair market value equal to the exercise price and related income taxes. For outstanding options eligible for cashless exercise, changes in the market price of the stock are charged to earnings currently. At December 31, 1994, 12,927 SARs were outstanding with an average exercise price of $75.70 per old share and option holders were eligible for cashless exercise in connection with 1,068,173 outstanding options with an average exercise price of $133.76 per old share. The expense (credit) recorded for SARs and cashless exercises was $15 million in 1994, $1 million in 1993 and $(1) million in 1992.

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

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

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

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

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

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

(15) Retirement Plans

The Company has various retirement plans which cover substantially all employees. Defined benefit plans covering certain employees (primarily union ground employees) provide a stated benefit for specified periods of service, while defined benefit plans for other employees provide benefits based on employees' years of service and average compensation for a specified period of time before retirement. Pension costs are funded to at least the minimum level required by the Employee Retirement Income Security Act of 1974. The company also provides several defined contribution plans which cover substantially all U. S. employees who have completed one year of service. For certain groups of employees (primarily pilots), the company contributes an annual amount on behalf of each participant, calculated as a percentage of the participants' earnings or a percentage of the participants' contributions.

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

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

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

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

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

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

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

(16) Other Employee Benefits

The Company provides certain health care benefits, primarily in the

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

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

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

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

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

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

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

The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1994. SFAS No. 112 requires recognition of the liability for postemployment benefits during the period of employment. Such benefits include company paid continuation of group life insurance and medical and dental coverage for certain employees after employment but before retirement. The effect of adopting SFAS No. 112 was a cumulative charge for recognition of the transition liability of $42 million, before tax benefits of $16 million. The ongoing expenses related to postemployment benefits will vary based on actual claims experience.

(17) Investments in Debt Securities

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

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

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

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

Balance Sheet Financial Instruments: Fair Values

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

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

Off Balance Sheet Financial Instruments: Risks and Fair Values

United has entered interest rate swap agreements in order to manage the interest rate exposure associated with certain variable rate debt and leases. The swap agreements have remaining terms averaging 16 years, corresponding to the terms of the related debt or lease obligations. Under the agreements, United makes payments to counterparties at fixed rates and in return receives payments based on LIBOR. United's theoretical risk in the swaps is the cost of replacing the contracts at current market interest rates in the event of default by any of the counterparties; however, United does not anticipate such default since the counterparties are major financial institutions with investment grade ratings by all rating agencies. In addition, the risk of such default is mitigated by provisions in the contracts which require either party to post increasing amounts of collateral as the value of the contract moves against them. Counterparty credit risk is further minimized by periodic settlements throughout the duration of the contract. At December 31, 1994, a notional amount of $479 million of interest rate swap agreements effectively fixed interest rates between 8.02% and 8.65% on such obligations. The fair values to United of interest rate swap agreements at December 31, 1994 and 1993 were $26 million and $(8) million, respectively, taking into account interest rates in effect at the time.

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

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

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

Financial Guarantees

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

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

Transfers of the tax benefits of accelerated depreciation and investment tax credits associated with the acquisition of certain equipment have been made previously by United to various tax lessors through tax lease transactions. Proceeds from tax benefit transfers were recognized as income in the year the lease transactions were consummated. The subject equipment is being depreciated for book purposes. United has agreed to indemnify (guaranteed in some cases by UAL) the tax lessors against loss of such benefits in certain circumstances and has agreed to indemnify others for loss of tax benefits in limited circumstances for certain used aircraft purchased by

United subject to previous tax lease transactions. Certain tax lessors have required that letters of credit be issued in their favor by financial institutions as security for United's indemnity obligations under the leases. The outstanding balance of such letters of credit totaled $58 million at December 31, 1994. At that date, United had granted mortgages on aircraft and engines having a total book value of $238 million as security for indemnity obligations under tax leases and letters of credit.

Concentration of Credit Risk

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

(19) Commitments and Contingent Liabilities

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

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

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

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

United's Indianapolis Maintenance Center began operation in March 1994, initially performing maintenance on B737 aircraft. In December 1994, the UAL Board of Directors approved the relocation of B757 and B767 airframe maintenance to the Indianapolis Maintenance Center. Construction of certain B737 airframe facilities is still in process and construction of facilities for the other fleet types will begin in 1995. The facilities are being financed primarily with tax-exempt bonds and other capital sources. In connection with incentives received, United has agreed to reach an $800 million capital spending target and employ at least 7,500 individuals.

(20) Statement of Consolidated Cash Flows - Supplemental Disclosures

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

	1994	1993	1992
		(In Millions)	
Cash paid during the year for:			

Interest (net of amounts capitalized)	$302	$330	$200
Income taxes	$ 69	$135	$ 30
Non-cash transactions:			
Capital lease obligations incurred	$ -	$ 70	$276
Long-term debt incurred in connection with additions to equipment	$ 21	$487	$755
Increase in pension intangible	$ 20	$ 19	$ 8
Net unrealized loss on investments	$ 3	$ -	$ -
Issuance of treasury stock in exchange for Air Wis common stock	$ -	$ -	64

(21) Other Matters

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

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

(22) Selected Quarterly Financial Data (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
		(In Millions)			
1994:					
Operating revenues	$3,195	$3,502	$3,814	$3,439	$13,950
Earnings (loss) from operations	(36)	167	312	78	521
Earnings (loss) before cumulative effect of accounting changes	(71)	55	82	11	77
Cumulative effect of accounting changes	(26)	-	-	-	(26)
Net earnings (loss)	$ (97)	$ 55	$ 82	$ 11	$ 51
Per share amounts, primary:					
Earnings (loss) before cumulative effect of accounting changes	$(3.31)	$ 1.89	$ 4.24	$(0.98)	$ 0.76
Cumulative effect of accounting changes	(1.06)	-	-	-	(1.37)
Net earnings (loss)	$(4.37)	$ 1.89	$ 4.24	$(0.98)	$ (0.61)
Net earnings (loss) per share, fully diluted	$(4.37)	$ 1.89	$ 4.21	$(0.98)	$ (0.61)
1993:					
Operating revenues	$3,053	$3,296	$3,629	$3,347	$13,325
Earnings (loss) from operations	(121)	84	281	19	263
Earnings (loss) before extraordinary item	(138)	22	149	(64)	(31)
Extraordinary loss on					

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

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

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

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

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

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

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

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

Earnings available to common stockholders were also reduced by $3 million in the 1994 fourth quarter and twelve-month period for the excess of amounts paid to reacquire UAL preferred stock over the liquidation preference of such stock. In the 1994 and 1993 third quarters, primary per share amounts were based on weighted average common shares and common equivalents outstanding, including ESOP shares committed to be released. Fully diluted per share amounts assume the exercise of stock options and vesting of restricted stock at the beginning of the periods and, for the 1993 third quarter, the conversion of convertible preferred stock and elimination of related dividends. The fully diluted per share amount for the 1994 third quarter does not assume conversion of convertible preferred stock since the effect is antidilutive. In the computations for the 1994 and 1993 first, second and fourth quarters and year, common stock equivalents were not included as they did not have a dilutive effect.

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

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