

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:)	Chapter 11
)	
UAL Corporation, et al.,)	
)	Case No. 02-B-48191
Debtors.¹)	(Jointly Administered)
)	Honorable Eugene R. Wedoff

**DISCLOSURE STATEMENT FOR REORGANIZING DEBTORS' JOINT PLAN OF
REORGANIZATION PURSUANT TO CHAPTER 11 OF THE UNITED STATES
BANKRUPTCY CODE**

- Record Date: _____, 2005
- Voting Deadline: _____, 2005
- Date by which objections to Confirmation of the Plan must be filed and served: _____, 2005
- Hearing on Confirmation of the Plan: _____, 2006 at __:00 __.m.

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Dated: September 7, 2005

¹ The Debtors are the following entities: Air Wisconsin, Inc., Air Wis Services, Inc., BizJet Charter, Inc., BizJet Fractional, Inc., BizJet Services, Inc., Ameniti Travel Clubs, Inc., Cybergold, Inc., Domicile Management Services, Inc., Four Star Leasing, Inc., itarget.com, inc., Kion Leasing, Inc., Mileage Plus, Inc., Mileage Plus Holdings, Inc., Mileage Plus Marketing, Inc., MyPoints.com, Inc., MyPoints Offline Services, Inc., Premier Meeting and Travel Services, Inc., UAL Benefits Management, Inc., UAL Company Services, Inc., UAL Corporation, UAL Loyalty Services, LLC, United Air Lines, Inc., United Aviation Fuels Corporation, United BizJet Holdings, Inc., United Cogen, Inc., United GHS, Inc., United Vacations, Inc., and United Worldwide Corporation.

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THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE DEBTORS' PLAN OF REORGANIZATION AND CERTAIN OTHER DOCUMENTS AND FINANCIAL INFORMATION. THE INFORMATION INCLUDED HEREIN IS FOR PURPOSES OF SOLICITING ACCEPTANCE OF THE PLAN AND SHOULD NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW AND WHETHER TO VOTE ON THE PLAN. THE DEBTORS BELIEVE THAT THESE SUMMARIES ARE FAIR AND ACCURATE. THE SUMMARIES OF THE FINANCIAL INFORMATION AND THE DOCUMENTS WHICH ARE ATTACHED HERETO OR INCORPORATED BY REFERENCE HEREIN ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH INFORMATION AND DOCUMENTS. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN, OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION INCORPORATED HEREIN BY REFERENCE, THE PLAN OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION, AS THE CASE MAY BE, SHALL GOVERN FOR ALL PURPOSES.

THE STATEMENTS AND FINANCIAL INFORMATION CONTAINED HEREIN HAVE BEEN MADE AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. HOLDERS OF CLAIMS AND INTERESTS REVIEWING THIS DISCLOSURE STATEMENT SHOULD NOT INFER AT THE TIME OF SUCH REVIEW THAT THERE HAVE BEEN NO CHANGES IN THE FACTS SET FORTH HEREIN SINCE THE DATE HEREOF. EACH HOLDER OF A CLAIM OR INTEREST ENTITLED TO VOTE ON THE PLAN SHOULD CAREFULLY REVIEW THE PLAN, THIS DISCLOSURE STATEMENT, AND THE PLAN SUPPLEMENT IN THEIR ENTIRETY BEFORE CASTING A BALLOT. THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE LEGAL, BUSINESS, FINANCIAL, OR TAX ADVICE. ANY PERSONS DESIRING ANY SUCH ADVICE OR OTHER ADVICE SHOULD CONSULT WITH THEIR OWN ADVISORS.

NO PARTY IS AUTHORIZED TO GIVE ANY INFORMATION WITH RESPECT TO THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THIS DISCLOSURE STATEMENT. NO REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY HAVE BEEN AUTHORIZED BY THE DEBTORS OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATIONS OR INDUCEMENTS MADE TO OBTAIN AN ACCEPTANCE OF THE PLAN WHICH ARE OTHER THAN AS, OR INCONSISTENT WITH, THE INFORMATION CONTAINED HEREIN AND IN THE PLAN SHOULD NOT BE RELIED UPON BY ANY HOLDER OF A CLAIM OR INTEREST.

WITH RESPECT TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND OTHER PENDING, THREATENED OR POTENTIAL LITIGATION OR ACTIONS, THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AND MAY NOT BE CONSTRUED AS AN ADMISSION OF FACT, LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.

THE SECURITIES DESCRIBED HEREIN WILL BE ISSUED WITHOUT REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR ANY SIMILAR FEDERAL, STATE OR LOCAL LAW, GENERALLY IN RELIANCE ON THE EXEMPTIONS SET FORTH IN SECTION 1145 OF THE BANKRUPTCY CODE.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

ALTHOUGH THE DEBTORS HAVE USED THEIR BEST EFFORTS TO ENSURE THE ACCURACY OF THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT, THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THIS DISCLOSURE STATEMENT HAS NOT BEEN AUDITED, EXCEPT FOR THE FINANCIAL STATEMENTS INCLUDED IN THE PLAN SUPPLEMENT WHERE INDICATED.

THE PROJECTIONS PROVIDED IN THIS DISCLOSURE STATEMENT HAVE BEEN PREPARED BY THE MANAGEMENT OF THE DEBTORS AND THEIR FINANCIAL ADVISORS. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, MAY NOT BE REALIZED AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY, MARKET AND FINANCIAL UNCERTAINTIES, AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE PROJECTIONS OR TO THE ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. THE PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR.

SEE **ARTICLE VI** OF THIS DISCLOSURE STATEMENT, ENTITLED "CERTAIN FACTORS TO BE CONSIDERED PRIOR TO VOTING," FOR A DISCUSSION OF CERTAIN CONSIDERATIONS IN CONNECTION WITH A DECISION BY A HOLDER OF AN IMPAIRED CLAIM OR IMPAIRED INTEREST TO ACCEPT THE PLAN.

THE BANKRUPTCY COURT HAS SCHEDULED THE CONFIRMATION HEARING FOR [_____] , 2006 AT []:00 [A.M./P.M.] BEFORE THE HONORABLE EUGENE R. WEDOFF, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION, LOCATED AT THE EVERETT MCKINLEY DIRKSEN BUILDING, 219 S. DEARBORN, CHICAGO, ILLINOIS 60604. THE CONFIRMATION HEARING MAY BE ADJOURNED FROM TIME TO TIME BY THE BANKRUPTCY COURT WITHOUT FURTHER NOTICE EXCEPT FOR AN ANNOUNCEMENT OF THE ADJOURNED DATE MADE AT THE CONFIRMATION HEARING OR ANY ADJOURNMENT THEREOF.

OBJECTIONS TO CONFIRMATION OF THE PLAN MUST BE FILED AND SERVED ON OR BEFORE [_____] , 2005, IN ACCORDANCE WITH THE SOLICITATION NOTICE FILED AND SERVED ON CREDITORS, EQUITY INTEREST HOLDERS, AND OTHER PARTIES IN INTEREST. UNLESS OBJECTIONS TO CONFIRMATION ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE SOLICITATION NOTICE, THEY WILL NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

ARTICLE I. SUMMARY

The following summary is qualified in its entirety by the more detailed information contained in the Plan and elsewhere in this Disclosure Statement. **Capitalized terms used but not otherwise defined herein have the meaning given to such terms in the Plan.**

UAL Corporation (“UAL”) is a holding company whose principal, wholly-owned subsidiary is United Air Lines, Inc. (“United”). United’s operations, which consist primarily of the transportation of persons, property, and mail throughout the U.S. and abroad, accounted for most of UAL’s revenues and expenses in 2004. United is one of the largest scheduled passenger airlines in the world with over 1,500 daily departures to more than 120 destinations in 26 countries and two U.S. territories. Through United’s global route network, United serves virtually every major market around the world, either directly or through the Star Alliance, which is the world’s largest airline network. In addition to the Star Alliance, United provides regional service into United’s domestic hubs through marketing relationships with “United Express[®]” carriers. In 2004, United added a new low-fare brand, called Ted, designed to serve select leisure markets and to more effectively compete with low-fare carriers.

As discussed more fully below, on December 9, 2002 (the “Petition Date”), UAL, United, and 26 other direct and indirect wholly-owned subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the “Bankruptcy Court”). The foregoing entities are sometimes referred to collectively as the “Debtors” and each individually as a “Debtor” and, on or after the Effective Date, collectively as the “Reorganized Debtors” and each individually as a “Reorganized Debtor.”

This Disclosure Statement is being furnished by the Debtors as proponents of the Debtors’ Joint Plan of Reorganization pursuant to Chapter 11 of the United States Bankruptcy Code (as may be amended from time to time, the “Plan,” a copy of which is attached hereto as Appendix A), pursuant to Section 1125 of the Bankruptcy Code and in connection with the solicitation of votes for the acceptance or rejection of the Plan, as it may be amended or supplemented from time to time in accordance with the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

This Disclosure Statement describes certain aspects of the Plan, including the treatment of Holders of Claims against, and Interests in, the Debtors, and also describes certain aspects of the Debtors’ operations, projections and other related matters.

A. The Purpose of the Plan

The Debtors have concluded, after careful review of their current business operations, their prospects as ongoing business enterprises, and the estimated recoveries of Creditors in various liquidation scenarios, that the recovery of Holders of Allowed Claims will be maximized by the Debtors’ continued operation as a going concern. The Debtors believe that their businesses and assets have significant value that would not be realized in a liquidation scenario, either in whole or in substantial part. According to the liquidation analysis described herein (the “Liquidation Analysis”) and the other analyses prepared by the Debtors and their advisors, the value of the Debtors’ Estates is considerably greater as a going concern than if they were liquidated.

Accordingly, the Debtors believe that the Plan provides the best recoveries possible for the Holders of Allowed Claims and strongly recommend that, if you are entitled to vote, you vote to accept the Plan. The Debtors believe that any alternative to Confirmation of the Plan, such as liquidation or

attempts by another party in interest to file a plan of reorganization, could result in significant delays, litigation, and additional costs. For more information, see ARTICLE V hereof and the Liquidation Analysis set forth as Appendix B hereto and in the Plan Supplement to the Debtors' Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code (the "Plan Supplement"), as Exhibit 27.²

B. Debtors' Principal Assets and Indebtedness

UAL's principal asset is the stock of United and the other Debtor-subidiaries. UAL's principal indebtedness is: (i) its guarantee of the indebtedness under the DIP Facility; (ii) guarantees of certain aircraft-related indebtedness of Air Wisconsin; (iii) guarantees of two municipal bond issuances (the Regional Airports Improvement Corporation ("RAIC") Adjustable-Rate Facilities Lease Refunding Revenue Bonds, Issue of 1984, United Air Lines, Inc. (Los Angeles International Airport) and RAIC Facilities Lease Refunding Revenue Bonds, Issue of 1992, United Air Lines, Inc. (Los Angeles International Airport)); and (iv) its indebtedness with respect to the TOPrS.

For the 12 months ended December 2004, United accounted for approximately 95.1% of the Debtors' operating revenues on a consolidated basis. United's principal assets are its airline business and the stock of its subsidiaries. United's principal indebtedness is: (i) its indebtedness under the DIP Facility; (ii) its aircraft-related indebtedness; (iii) its indebtedness under the Unsecured Debentures; and (iv) its indebtedness in connection with issuances of municipal bonds.

C. Treatment of Claims and Interests

The Plan divides all Claims and Interests against each Debtor into various Classes. As the Plan contemplates substantive consolidation of the United Debtors (i.e., all Debtors other than UAL), the United Debtor Classes will be consolidated as set forth in ARTICLE I.E below. Except as such Classes may be consolidated under the Plan, each Class of Claims and Interests will be treated separately in the Plan. Certain Classes may receive distributions under the Plan, and substantive consolidation will not affect the treatment and distributions received by the various Classes. The following tables summarize the Classes of Claims and Interests under the Plan, the treatment of such Classes and the projected recovery under the Plan, if any, for such Classes. The projected recoveries are based upon certain assumptions contained in the valuation analysis set forth as Appendix C hereto and in the Plan Supplement, as Exhibit 29 (the "Valuation Analysis"), including an assumed reorganization value of the New UAL Common Stock equal to approximately \$15 per share. As more fully described herein, the assumed reorganization values of the New UAL Common Stock were derived from commonly accepted valuation techniques and are not estimates of trading values for such securities. The range listed below of a 4-7 percent recovery for Holders of Unsecured Claims is based on various assumptions, including, but not limited to (i) final Unsecured Claims ranging between \$20-30 billion and (ii) an equity value of the Debtors of \$1.9 billion.

² Several documents that are included in the Plan Supplement are described herein, but these summaries are not a substitute for a complete understanding of the underlying documents. You are urged to review the full text of all such documents in the Plan Supplement.

Claims against all of the Debtors:

<u>Claim</u>	<u>Plan Treatment</u>	<u>Projected Recovery Under the Plan</u>
Administrative Claims	Paid in full	100.0%
Priority Tax Claims	Paid in full in cash; paid in cash on a deferred quarterly basis over a period not exceeding six years after the date of assessment of such Priority Tax Claim; or paid on such other amount and terms as agreed by the Debtor and the Holder	100.0%

UAL Corporation: Summary of Classification and Treatment of Claims and Interests

<u>Class</u>	<u>Claim</u>	<u>Plan Treatment of Class</u>	<u>Projected Recovery Under the Plan³</u>	<u>Status</u>	<u>Voting Rights</u>
1A	DIP Facility Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
1B-1	Secured Aircraft Claims	Reinstated; such treatment as to which UAL or Reorganized UAL and the Secured Aircraft Creditor shall have agreed in writing; return of collateral; or treatment otherwise rendering such Secured Aircraft Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
1B-2	Other Secured Claims	Reinstated; paid in full in Cash; return of collateral; or treatment otherwise rendering such Other Secured Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
1C	Other Priority Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
1D	Unsecured Convenience Class Claims	Cash equal to the gross proceeds from the sale of such Holder's pro rata share of the Unsecured Distribution less the amount of any discount, commission, or fee paid or incurred on such sale and any taxes withheld or paid on account of such sale	4-7%	Impaired	Entitled to Vote

³ Failure by the Bankruptcy Court to order substantive consolidation of the United Debtors does not affect the projected recoveries under the Plan.

Class	Claim	Plan Treatment of Class	Projected Recovery Under the Plan³	Status	Voting Rights
1E-1	Unsecured Retained Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
1E-2	Unsecured Rejected Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
1E-3	Other Unsecured Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
1F	TOPrS Claims	Not entitled to receive any distribution or retain any property under the Plan	0%	Impaired	Deemed to Reject
1G	Preferred Stock Interests	Not entitled to receive any distribution or retain any property under the Plan	0%	Impaired	Deemed to Reject
1H	Common Stock Interests	Not entitled to receive any distribution or retain any property under the Plan	0%	Impaired	Deemed to Reject
1I	Subordinated Securities Claims	Not entitled to receive any distribution or retain any property under the Plan	0%	Impaired	Deemed to Reject

United Air Lines, Inc.: Summary of Classification and Treatment of Claims and Interests

Class	Claim	Plan Treatment of Class	Projected Recovery Under the Plan	Status	Voting Rights
2A	DIP Facility Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
2B-1	Secured Aircraft Claims	Reinstated; such treatment as to which United or Reorganized United and the Secured Aircraft Creditor shall have agreed in writing; return of collateral; or treatment otherwise rendering such Secured Aircraft Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
2B-2	Other Secured Claims	Reinstated; paid in full in Cash; return of collateral; or treatment otherwise rendering such Other Secured Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
2C	Other Priority Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept

Class	Claim	Plan Treatment of Class	Projected Recovery Under the Plan	Status	Voting Rights
2D-1	Unsecured Convenience Class Claims	Cash equal to the gross proceeds from the sale of such Holder's pro rata share of the Unsecured Distribution less the amount of any discount, commission, or fee paid or incurred on such sale and any taxes withheld or paid on account of such sale	4-7%	Impaired	Entitled to Vote
2D-2	Unsecured Retiree Convenience Class Claims	Cash equal to the gross proceeds from the sale of such Holder's pro rata share of the Unsecured Distribution less the amount of any discount, commission, or fee paid or incurred on such sale and any taxes withheld or paid on account of such sale	4-7%	Impaired	Entitled to Vote
2E-1	Unsecured Retained Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
2E-2	Unsecured Rejected Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
2E-3	Unsecured PBGC Claims	New UAL PBGC Securities and pro rata share of the Unsecured Distribution	Value of securities plus 4-7%	Impaired	Entitled to Vote
2E-4	Unsecured Chicago Municipal Bond Claims	New UAL O'Hare Municipal Bonds and pro rata share of the Unsecured Distribution	Value of securities plus 4-7%	Impaired	Entitled to Vote
2E-5	Unsecured Public Debt Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
2E-6	Other Unsecured Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
2H	Common Stock Interests	Not entitled to receive any distribution under the Plan; <u>provided, however</u> , that Debtors reserve the right to reinstate at any time	0%	Impaired	Deemed to Reject
2I	Subordinated Securities Claims	Not entitled to receive any distribution or retain any property under the Plan	0%	Impaired	Deemed to Reject

Air Wisconsin, Inc.: Summary of Classification and Treatment of Claims and Interests

Class	Claim	Plan Treatment of Class	Projected Recovery Under the Plan	Status	Voting Rights
3A	DIP Facility Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
3B-1	Secured Aircraft Claims	Reinstated; such treatment as to which United or Reorganized United and the Secured Aircraft Creditor shall have agreed in writing; return of collateral; or treatment otherwise rendering such Secured Aircraft Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
3B-2	Other Secured Claims	Reinstated; paid in full in Cash; return of collateral; or treatment otherwise rendering such Other Secured Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
3C	Other Priority Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
3D	Unsecured Convenience Class Claims	Cash equal to the gross proceeds from the sale of such Holder's pro rata share of the Unsecured Distribution less the amount of any discount, commission, or fee paid or incurred on such sale and any taxes withheld or paid on account of such sale	4-7%	Impaired	Entitled to Vote
3E-1	Unsecured Retained Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
3E-2	Unsecured Rejected Aircraft Claims	Pro rata share of the Unsecured Distribution	4-7%	Impaired	Entitled to Vote
3E-3	Other Unsecured Claims	Pro rata share of Unsecured Distribution	4-7%	Impaired	Entitled to Vote
3H	Common Stock Interests	Not entitled to receive any distribution under the Plan; <u>provided, however</u> , that Debtors reserve the right to reinstate at any time	0%	Impaired	Deemed to Reject

Air Wis (Classes 4A, 4B, 4C, 4D, 4E, and 4H), Ameniti Travel Clubs, Inc. (Classes 5A, 5B, 5C, 5D, 5E, and 5H), BizJet Charter (Classes 6A, 6B, 6C, 6D, 6E, and 6H), BizJet Fractional (Classes 7A, 7B, 7C, 7D, 7E, and 7H), BizJet Services (Classes 8A, 8B, 8C, 8D, 8E, and 8H), Cybergold (Classes 9A, 9B, 9C, 9D, 9E, and 9H), DMS (Classes 10A, 10B, 10C, 10D, 10E, and 10H), Four Star (Classes 11A, 11B, 11C, 11D, 11E, and 11H), itarget (Classes 12A, 12B, 12C, 12D, 12E, and 12H), Kion Leasing (Classes 13A, 13B, 13C, 13D, 13E, and 13H), Mileage Plus Holdings (Classes 14A, 14B, 14C, 14D, 14E, and 14H), Mileage Plus, Inc. (Classes 15A, 15B, 15C, 15D, 15E, and 15H), Mileage Plus Marketing (Classes 16A, 16B, 16C, 16D, 16E, and 16H), MyPoints.com (Classes 17A, 17B, 17C, 17D, 17E, and 17H), MyPoints Offline (Classes 18A, 18B, 18C, 18D, 18E, and 18H), Premier Marketing (Classes 19A, 19B, 19C, 19D, 19E, and 19H), UAFC (Classes 20A, 20B, 20C, 20D, 20E, and 20H), UAL BMI (Classes 21A, 21B, 21C, 21D, 21E, and 21H), UAL Company Services (Classes 22A, 22B, 22C, 22D, 22E, and 22H), ULS (Classes 23A, 23B, 23C, 23D, 23E, and 23H), United BizJet (Classes 24A, 24B, 24C, 24D, 24E, and 24H), United Cogen (Classes 25A, 25B, 25C, 25D, 25E, and 25H), United GHS (Classes 26A, 26B, 26C, 26D, 26E, and 26H), United Vacations (Classes 27A, 27B, 27C, 27D, 27E, and 27H), and United Worldwide (Classes 28A, 28B, 28C, 28D, 28E, and 28H)

Class	Claim	Plan Treatment of Class	Projected Recovery Under the Plan	Status	Voting Rights
4A through 28A	DIP Facility Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
4B through 28B	Other Secured Claims	Reinstated; paid in full in Cash; return of collateral; or treatment otherwise rendering such Other Secured Claim Unimpaired	100.0%	Unimpaired	Deemed to Accept
4C through 28C	Other Priority Claims	Paid in full	100.0%	Unimpaired	Deemed to Accept
4D through 28D	Unsecured Convenience Class Claims	Cash equal to the gross proceeds from the sale of such Holder's pro rata Distribution less the amount of any discount, commission, or fee paid or incurred on such sale and any taxes withheld or paid on account of such sale	4-7%	Impaired	Entitled to Vote
4E through 28E	Unsecured Claims	Pro rata share of Unsecured Distribution	4-7%	Impaired	Entitled to Vote
4H through 28H	Common Stock Interests	Not entitled to receive any distribution under the Plan; <u>provided, however,</u> that Debtors reserve the right to reinstate at any time	0%	Impaired	Deemed to Reject

D. Intercompany Claims and Contracts

Except as otherwise set forth in the Plan, there shall be no distributions on account of Intercompany Claims. Pursuant to Sections 1126(f) and 1126(g) of the Bankruptcy Code, Holders of Intercompany Claims are not entitled to vote to accept or reject the Plan. Notwithstanding the foregoing, the Reorganized Debtors reserve the right to Reinstate, extinguish, or cancel, as applicable, all Intercompany Claims, including, without limitation, all relevant agreements, instruments, and documents underlying such Intercompany Claims as of the Effective Date or such other date as is appropriate.

Except as set forth in the Plan, however, each Intercompany Contract to which any Debtor is a party shall be deemed automatically assumed in accordance with the provisions and requirements of Sections 365 and 1123 of the Bankruptcy Code as of the Effective Date to the extent such contracts and leases are executory.

E. Substantive Consolidation

The Plan contemplates substantive consolidation of the Estates of the United Debtors into the United Estate. The foregoing non-UAL Classes shall be consolidated as follows.

<u>Classes</u>	<u>Claims and Interests</u>
DIP Facility Claims	2A, 3A, 4A, 5A, 6A, 7A, 8A, 9A, 10A, 11A, 12A, 13A, 14A, 15A, 16A, 17A, 18A, 19A, 20A, 21A, 22A, 23A, 24A, 25A, 26A, 27A, and 28A
Secured Aircraft Claims	2B-1 and 3B-1
Other Secured Claims	2B-2, 3B-2, 3B, 5B, 6B, 7B, 8B, 9B, 10B, 11B, 12B, 13B, 14B, 15B, 16B, 17B, 18B, 19B, 20B, 21B, 22B, 23B, 24B, 25B, 26B, 27B, and 28B
Other Priority Claims	2C, 3C, 4C, 5C, 6C, 7C, 8C, 9C, 10C, 11C, 12C, 13C, 14C, 15C, 16C, 17C, 18C, 19C, 20C, 21C, 22C, 23C, 24C, 25C, 26C, 27C, and 28C
Unsecured Convenience Class Claims	2D-1, 3D, 4D, 5D, 6D, 7D, 8D, 9D, 10D, 11D, 12D, 13D, 14D, 15D, 16D, 17D, 18D, 19D, 20D, 21D, 22D, 23D, 24D, 25D, 26D, 27D, and 28D
Unsecured Retiree Convenience Class Claims	2D-2
Unsecured Retained Aircraft Claims	2E-1 and 3E-1
Unsecured Rejected Aircraft Claims	2E-2 and 3E-2
Unsecured PBGC Claim	2E-3
Unsecured Chicago Municipal Bond Claim	2E-4
Unsecured Public Debt Aircraft Claims	2E-5
Other Unsecured Claims	2E-6, 3E-3, 4E, 5E, 6E, 7E, 8E, 9E, 10E, 11E, 12E, 13E, 14E, 15E, 16E, 17E, 18E, 19E, 20E, 21E, 22E, 23E, 24E, 25E, 26E, 27E, and 28E
Common Stock Interests	2H, 3H, 4H, 5H, 6H, 7H, 8H, 9H, 10H, 11H, 12H, 13H, 14H, 15H, 16H, 17H, 18H, 19H, 20H, 21H, 22H, 23H, 24H, 25H, 26H, 27H, and 28H
Subordinated Securities Claims	2I

F. Claims Estimates

As of September 1, 2005, the Debtors' Claims Agent had received approximately 44,716 Proofs of Claim. As of September 1, 2005, the total amounts of remaining Claims filed against the Debtors were as follows: 319 Secured Claims in the total amount of \$13,545,350,698.99; 95 Administrative Claims in the total amount of \$319,766,767.14; 256 Claims asserting Priority Claims in the total amount of \$10,470,875,378.18; and 6,208 Unsecured Claims in the total amount of \$20,422,648,792.51. The Debtors believe that many of the filed Proofs of Claim are invalid, untimely, duplicative, overstated, and therefore are in the process of objecting to such Claims. Through such objections, the Bankruptcy Court has to date disallowed a total of approximately \$3.618 trillion in Claims (including reduced retroactive pay claims of \$3.375 trillion (the "Retroactive Pay Claims")).⁴

The Debtors estimate that at the conclusion of the Claims objection, reconciliation and resolution process, the aggregate amount of estimated Allowed Secured Claims against the Debtors will aggregate approximately \$8 billion, estimated Allowed Priority Tax Claims against the Debtors will aggregate approximately \$60 million, and estimated Allowed Unsecured Claims against the Debtors will aggregate approximately \$28 billion.⁵ These estimates are based upon a number of assumptions made by the Debtors. There is no guarantee that the ultimate amount of each of such categories of Claims will conform to the estimates stated herein, and most of the Claims underlying such estimates are subject to challenge.

The Debtors estimate that at the conclusion of the Claims objection, reconciliation and resolution process, the aggregate amount of estimated Allowed Administrative Claims against the Debtors will aggregate approximately \$81 million. The estimate of Allowed Administrative Claims includes, *inter alia*, Claims associated with the cure of assumed executory contracts and unexpired leases, Claims related to aircraft subject to Section 1110(a) elections and/or Section 1110(b) stipulations (but not any Claims asserted by parties seeking allowance of administrative claims under Sections 503(b) and 365(d)(10) of the Bankruptcy Code for aircraft), Claims arising from a right of reclamation, and certain Administrative Claim requests reflected on the Claims Register and docket for which the Debtors reasonably expect there to be a recovery. The estimate of Allowed Administrative Claims does not include ordinary course obligations incurred post-petition such as trade payables, the Debtors' key employee retention plans, or Professional fees.

G. Reorganized Debtors and the Post-Confirmation Estate

Except as otherwise provided in the Plan, each Debtor shall continue to exist as a Reorganized Debtor after the Effective Date as a separate entity with all the powers of a corporation or a limited liability company under the laws of the respective state of incorporation or formation and without prejudice to any right to alter or terminate such existence (whether by merger, dissolution, or otherwise) under such applicable state law. Except as otherwise provided in the Plan, on or after the Effective Date, all property in each Estate and any property acquired by each of the Debtors under the Plan shall vest in each respective Reorganized Debtor, free and clear of all Liens, Claims, charges, or other encumbrances.

⁴ Certain of the Debtors' IAM and AMFA-represented employees were entitled to an effective wage increase, retroactive from July 12, 2000, to mid-March 2002 (herein, the "Retroactive Pay"). Retroactive Pay was payable in eight quarterly installments at 6% interest, compounded annually. United made the first installment payment on December 13, 2002, and the final payment on October 15, 2004.

⁵ The estimate of Allowed Unsecured Claims includes, among other things, proposed distributions to the Debtors' employee groups as discussed in Article III.C.4 herein.

On and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire or dispose of property, and compromise or settle any Claims or Interests without supervision or approval of the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan and the Confirmation Order.

H. Restructuring Transactions Contemplated By the Plan

The Plan provides that on or prior to the Effective Date, or as soon as reasonably practicable thereafter, the Debtors or Reorganized Debtors, as applicable, may undertake all actions as may be necessary or appropriate to affect any transaction described in, approved by, contemplated by, or necessary to effectuate the Plan, including without limitation, the Roll-Up Transactions. The Roll-Up Transactions include: a dissolution or winding up of the corporate existence of a Reorganized Debtor under applicable state law; or the consolidation, merger, contribution of assets, or other transaction in which a Reorganized Debtor merges with or transfers substantially all of its assets and liabilities to another Reorganized Debtor or one or more of their Affiliates, on or after the Effective Date as defined below.

I. Permanent Injunction

From and after the Effective Date, all Persons and Entities are permanently enjoined from commencing or continuing in any manner, any suit, action, or other proceeding, on account of or respecting any Claim, obligation, debt, right, Cause of Action, remedy, or liability discharged, exculpated, released, or to be released pursuant to Article X of the Plan.

J. Consummation of the Plan

Following Confirmation of the Plan, the Plan will be consummated on the date (the “Effective Date”) selected by the Debtors, which is a Business Day after the Confirmation Date on which (a) no stay of the Confirmation Order is in effect, and (b) all conditions to Consummation of the Plan have been satisfied or waived. Distributions to be made under the Plan will be made on or as soon as reasonably practicable after the Effective Date.

K. Liquidation and Valuation Analyses

The Debtors believe that the Plan will produce a greater recovery for Holders of Allowed Claims than would be achieved in a Chapter 7 liquidation because, among other things, of the administrative and postpetition claims generated by a conversion to a Chapter 7 case, plus the administrative costs of liquidation and associated delays in connection with a Chapter 7 liquidation that likely would diminish the assets available for distribution to such Holders. Also, the value of the equity in the Reorganized Debtors upon the Debtors’ exit from bankruptcy as a reorganized going-concern is projected to be greater than the proceeds realized from a liquidation of the Debtors’ assets. In fact, the projected hypothetical liquidation of the Debtors would result in a recovery for Holders of Unsecured Claims far less than that proposed under the Plan, if any at all. Rothschild, Inc., the Debtors’ financial advisors (“Rothschild”), and Huron Consulting Group (“Huron”), the Debtors’ restructuring consultants, have prepared, respectively, a Valuation Analysis and a Liquidation Analysis on behalf of the Debtors to assist Holders of Claims in determining whether to accept or reject the Plan. These Liquidation and Valuation Analyses together compare the proceeds to be realized if the Debtors were to be liquidated in a case under Chapter 7 of the Bankruptcy Code with their recovery under the Plan as currently proposed. The analyses are based upon the book value of the Debtors’ assets and liabilities as of a date certain, and incorporate estimates and assumptions developed by the Debtors, including a hypothetical conversion to a Chapter 7 liquidation as of a date certain, that are subject to potentially material changes with respect to economic

and business conditions and legal rulings. Therefore, the actual liquidation value of the Debtors could vary materially from the estimates provided therein.

L. Certain Factors to Be Considered Prior to Voting

There are a variety of factors that all Holders of Claims entitled to vote on the Plan should consider prior to accepting or rejecting the Plan. Some of these factors, which are described in more detail in ARTICLE VI hereof, are as follows and may impact recoveries under the Plan:

1. The financial information contained in this Disclosure Statement has not been audited (except for the financial statements included in the Plan Supplement that indicate as such) and is based on an analysis of data available at the time of the preparation of the Plan and Disclosure Statement.

2. ARTICLE VII hereof describes certain significant federal tax consequences of the transactions contemplated by the Plan that affect the Debtors and others. Such consequences may include: (i) the realization of cancellation of indebtedness income; (ii) the reduction of net operating loss carryforwards and unrealized built-in losses; and (iii) the recognition of taxable income by the Holders of Claims and Interests. ARTICLE VII also discusses certain restrictions under the Plan and the UAL restated certificate of incorporation on transfer of New UAL Common Stock to preserve the Debtors' net operating losses. Holders of Claims and Interests are urged to consult with their own tax advisors regarding the federal, state, local, and foreign tax consequences of the Plan.

3. Although the Debtors believe that the Plan complies with all applicable provisions of the Bankruptcy Code, the Debtors cannot assure such compliance or that the Bankruptcy Court will confirm the Plan.

4. The Debtors may be required to request Confirmation of the Plan without the acceptance of all Impaired Classes entitled to vote, in accordance with Section 1129(b) of the Bankruptcy Code.

5. Any delays of either Confirmation or the Effective Date of the Plan could result in, among other things, increased Claims of Professionals.

6. The Plan contemplates substantive consolidation of all Debtors other than UAL into United. The Debtors can provide no assurance, however, that the Bankruptcy Court will order substantive consolidation of any or all of the United Debtors. The Debtors reserve the right, however, to request Confirmation and Consummation of the Plan, even if the Court rejects substantive consolidation of the United Debtors, or approves substantive consolidation of less than all of the United Debtors. Failure to substantively consolidate the United Debtors into one entity will not affect the distribution of property currently proposed in the Plan. **In the event that one or more of the United Debtors are not substantively consolidated, such failure will not affect the validity of the vote taken by Impaired Classes to accept or reject the Plan or require any sort of re-vote or re-solicitation of the Impaired Classes.**

The occurrence or non-occurrence of any or all such contingencies, which could affect distributions available to Holders of Allowed Claims under the Plan, will not affect the validity of the vote taken by the Impaired Classes to accept or reject the Plan or require a re-vote by the Impaired Classes.

M. Voting and Confirmation

Each Holder of a Claim in the following Classes is entitled to vote either to accept or reject the Plan.

Unsecured Convenience Class Claims	2D-1, 3D, 4D, 5D, 6D, 7D, 8D, 9D, 10D, 11D, 12D, 13D, 14D, 15D, 16D, 17D, 18D, 19D, 20D, 21D, 22D, 23D, 24D, 25D, 26D, 27D, and 28D
Unsecured Retiree Convenience Class Claims	2D-2
Unsecured Retained Aircraft Claims	2E-1 and 3E-1
Unsecured Rejected Aircraft Claims	2E-2 and 3E-2
Unsecured PBGC Claim	2E-3
Unsecured Chicago Municipal Bond Claim	2E-4
Unsecured Public Debt Aircraft Claims	2E-5
Other Unsecured Claims	2E-6, 3E-3, 4E, 5E, 6E, 7E, 8E, 9E, 10E, 11E, 12E, 13E, 14E, 15E, 16E, 17E, 18E, 19E, 20E, 21E, 22E, 23E, 24E, 25E, 26E, 27E, and 28E

The Classes entitled to vote shall have accepted the Plan if (i) the Holders of at least two-thirds in dollar amount of the Allowed Claims actually voting in each such Class, as applicable, have voted to accept the Plan and (ii) the Holders of more than one-half in number of the Allowed Claims actually voting in each such Class, as applicable, have voted to accept the Plan. Assuming the requisite acceptances are obtained, the Debtors intend to seek Confirmation of the Plan at the Confirmation Hearing scheduled on _____, 2006 at ___ a.m./p.m. central time, before the Bankruptcy Court. **Section 1129(a)(10) of the Bankruptcy Code shall be satisfied for purposes of Confirmation by acceptance of the Plan by at least one Class of Claims that is Impaired under the Plan. Notwithstanding the foregoing, the Debtors will seek Confirmation of the Plan under Section 1129(b) of the Bankruptcy Code with respect to any Impaired Classes presumed to reject the Plan, and reserve the right to do so with respect to any other rejecting Class or to modify the Plan.**

The Bankruptcy Court has established _____, 2005 (the "Record Date") as the date for determining which Holders of Claims and Interests are eligible to vote on the Plan. Ballots will be mailed to all registered Holders of Claims or Interests as of the Record Date that are entitled to vote to accept or reject the Plan. An appropriate return envelope will be included with your Ballot, if necessary. Beneficial Holders of Claims or Interests who receive a return envelope addressed to their bank, brokerage firm, or other nominee (or its agent) (each, a "Nominee") should allow sufficient time for their votes to be received by the Nominee and processed on a Master Ballot before the Voting Deadline, as defined below.

The Debtors have engaged Poorman-Douglas Corporation as their Solicitation Agent to assist in the voting process. The Solicitation Agent will answer questions, provide additional copies of all materials, and oversee the voting tabulation. The Solicitation Agent will also

process and tabulate ballots for each Class entitled to vote to accept or reject the Plan. The Solicitation Agent is located at the following addresses:

If by U.S. Mail:

Poorman-Douglas Corporation
UAL Balloting
P.O. Box 4349
Portland, Oregon 97208-4349

If by courier/hand delivery:

Poorman-Douglas Corporation
UAL Balloting
10300 SW Allen Boulevard
Beaverton, Oregon 97005

If you have any questions on voting procedures, please call the Solicitation Agent at the following toll free number: (877) 752-5527.

TO BE COUNTED, YOUR BALLOT (OR MASTER BALLOT OF YOUR NOMINEE HOLDER, IF APPLICABLE) INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED BY THE SOLICITATION AGENT NO LATER THAN 4:00 P.M., PREVAILING PACIFIC TIME, ON [_____], 2005 (THE "VOTING DEADLINE"), UNLESS THE DEBTORS EXTEND THE VOTING DEADLINE. ANY EXECUTED BALLOT OR COMBINATION OF BALLOTS REPRESENTING CLAIMS OR INTERESTS IN THE SAME CLASS HELD BY THE SAME HOLDER THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN OR THAT INDICATES BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF THE PLAN. ANY BALLOT RECEIVED AFTER THE VOTING DEADLINE MAY NOT BE COUNTED IN THE SOLE DISCRETION OF THE DEBTORS.

THE DEBTORS BELIEVE THAT THE PLAN IS IN THE BEST INTEREST OF ALL OF THEIR CREDITORS. THE DEBTORS RECOMMEND THAT ALL HOLDERS OF CLAIMS AGAINST, AND INTERESTS IN, THE DEBTORS WHOSE VOTES ARE BEING SOLICITED SUBMIT BALLOTS TO ACCEPT THE PLAN.

ARTICLE II. GENERAL INFORMATION

UAL Corporation, UAL Loyalty Services, LLC, Ameniti Travel Clubs, Inc., Mileage Plus Holdings, Inc., Mileage Plus Marketing, Inc., MyPoints.com, Inc., Cybergold, Inc., itarget.com, inc., MyPoints Offline Services, Inc., UAL Company Services, Inc., Four Star Leasing, Inc., Air Wis Services, Inc., Air Wisconsin, Inc., Domicile Management Services, Inc., UAL Benefits Management, Inc., United BizJet Holdings, Inc., BizJet Charter, Inc., BizJet Fractional, Inc., BizJet Services, Inc., United Air Lines, Inc., Kion Leasing, Inc., Premier Meeting and Travel Services, Inc., United Aviation Fuels Corporation, United Cogen, Inc., Mileage Plus, Inc., United GHS, Inc., United Worldwide Corporation and United Vacations, Inc. (collectively, the "Debtors") submit this Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code, for use in the solicitation of votes on the Plan dated September 7, 2005 which was filed with the Bankruptcy Court, a copy of which is attached as Appendix A hereto.

This Disclosure Statement sets forth certain information regarding the Debtors' prepetition history, significant events that have occurred during the Chapter 11 Cases, and the anticipated reorganization and post-reorganization operations and financing of the Reorganized Debtors. This Disclosure Statement also describes the terms and provisions of the Plan, including certain alternatives to the Plan, certain effects of Confirmation of the Plan, certain risk factors associated with securities to be issued under the Plan, and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement discusses the Confirmation process and the Voting Procedures that Holders of Claims must follow for their votes to be counted.

FOR A DESCRIPTION OF THE PLAN AND VARIOUS FACTORS TO BE CONSIDERED PERTAINING TO THE PLAN AS IT RELATES TO HOLDERS OF CLAIMS AGAINST, AND INTERESTS IN, THE DEBTORS, PLEASE SEE ARTICLE IV AND ARTICLE VI.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATED TO THE PLAN, CERTAIN EVENTS IN THE DEBTORS' CHAPTER 11 CASES, AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTORS BELIEVE THAT SUCH SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS' MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

A. Description of UAL's Business

1. Corporate Structure

As mentioned above in ARTICLE I, the Debtors consist of UAL, a Delaware corporation, United, a Delaware corporation, and the 26 other direct and indirect wholly-owned subsidiaries named above. Five other direct and indirect wholly-owned subsidiaries were not included in the Debtors' Chapter 11 Cases: United Air Lines Ventures, Inc.; Four Star Insurance Co. Ltd.; ULS Ventures, Inc.; Kion de Mexico, S.A. de C.V.; and Covia LLC. Each of these non-filing entities is continuing normal business operations. The Debtors also have minority equity interests in a number of non-wholly owned

subsidiaries, none of which are included in the Debtors' Chapter 11 petitions for relief. Included in the Plan Supplement as Exhibit 30 are three organizational charts of UAL and its subsidiaries. The first chart shows the Debtors' corporate structure as of the Petition Date. The second chart shows the Debtors' corporate structure as of the date that this Disclosure Statement is filed. The third chart shows the Debtors' proposed post-Effective Date corporate structure.

2. The Debtors' Business

a. Introduction

United is one of the largest scheduled passenger airlines in the world. In 2004, United flew approximately 115 billion mainline revenue passenger miles and carried approximately 71 million passengers on more than 1,500 daily departures to more than 120 destinations in 26 countries and two U.S. territories. Operating revenues attributed to the North American segment were \$10.5 billion in 2004, \$10.0 billion in 2003 and \$10.4 billion in 2002. Operating revenues attributed to international segments were \$5.1 billion in 2004, \$4.2 billion in 2003, and \$4.7 billion in 2002. Through the first six months of 2005, operating revenues were \$8.3 billion. Operating revenues for the first six months of 2005 attributable to the North American segment were \$5.1 billion. \$2.8 billion is attributable to international segments.⁶ In 2004, United added a new low-fare brand, called Ted, designed to serve select leisure markets to more effectively compete with low-fare carriers.

The Debtors have entered into a number of bilateral and multilateral alliances with other airlines to provide their customers more choices and to participate in markets worldwide that the Debtors do not serve directly. These collaborative marketing arrangements typically include one or more of the following features: joint frequent flyer participation; code sharing of flight operations (whereby one carrier's flights can be marketed under the two-letter airline designator code of another carrier); coordination of reservations, baggage handling, and flight schedules; and other resource-sharing activities.

The most significant of the Debtors' alliances is Star Alliance. Star Alliance was co-founded in 1997 by the Debtors as the first truly global airline alliance to offer customers global reach and a smooth travel experience. The members are Air Canada, Air New Zealand, ANA, Asiana Airlines, Austrian, bmi, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, Spanair, TAP Portugal, Thai Airways International, United, US Airways and VARIG Brazilian Airlines. Today, the current member carriers offer more than 15,000 daily flights to 795 destinations in 139 countries.

Recently, Star Alliance was named the world's best airline alliance by independent research conducted by SkyTrax. This comes as part of the 2005 World Airline Awards and is also the second time in three years that the alliance has been given this honor. Winning this award strengthens Star Alliance's commitment in further improving the travel experience for customers. Future growth for Star Alliance includes the expansion of the network to approximately 846 destinations in 151 countries, through the future integration of South African Airways and SWISS in 2006. Lastly, the Star Alliance continues to extend its product and customer advantages through initiatives such as interline electronic ticketing links between all member carriers and co-location projects at key airports such as the new Bangkok airport, London – Heathrow, Paris – Charles De Gaulle, and Tokyo – Narita.

Within North America, United also offers a network of connecting flights through its contractual arrangements with regional U.S. carriers operating under the brand name "United Express." United

⁶ The remaining \$0.4 billion is attributable to the UAL Loyalty Services segment, as described below.

Express offers one-stop check-in, advance seat assignments, and miles flown on United Express receive full credit in the "Mileage Plus" frequent flyer program. United Express has approximately 2,000 scheduled daily departures to over 150 destinations. Together, United and United Express serve more than 200 worldwide destinations and offer more than 3,400 daily departures. In 2004, United added two additional United Express partners, Chautauqua Airlines and Shuttle America, to United's regional carrier network which includes Skywest Airlines, Air Wisconsin Airlines Corporation ("AWAC"), Trans States Airlines ("Trans State") and Mesa Airlines ("Mesa"). In August 2004, United terminated its partnership with Atlantic Coast Airlines ("ACA"), and in 2005 United will be adding aircraft provided by GoJet, a sister company to Trans States. In 2006 United will terminate its flying partnership with AWAC. In addition, United recently announced an agreement with Colgan Air to start providing United Express service.

In February 2004, United launched the first phase of Ted in Denver to eight destinations. Today, Ted provides service from all of United's hubs to 14 destinations in the U.S. (including Chicago Midway) and 2 in Mexico. Ted operates over 200 daily departures with a fleet of 47 Airbus A320 aircraft. On March 3, 2005, United announced that it plans to expand its Ted fleet of aircraft from 47 to 56 aircraft by converting nine mainline Airbus A320 aircraft to the Ted configuration. The new Ted aircraft will provide additional service out of Ted's hubs in Denver, Washington Dulles, and Chicago O'Hare to markets in Florida, Mexico, the Caribbean and between Phoenix and Los Angeles.

UAL reports its results through five reporting segments: North America, the Pacific, the Atlantic, Latin America, and UAL Loyalty Services. United's network provides comprehensive transportation service within its North American segment and to international destinations within its Pacific, Atlantic, and Latin American segments. Each of these reporting segments is described in further detail below.

North America. As of December 31, 2004, United served approximately 86 destinations throughout North America and operated hubs in Chicago, Denver, Los Angeles, San Francisco, and Washington, D.C. United's North American operations, including United Express, accounted for 64% of the Debtors' operating revenues in 2004.

Pacific. United serves the Pacific from its U.S. gateway cities of Chicago, Honolulu, Los Angeles, New York, San Francisco, and Seattle. United provides nonstop service to Beijing, Hong Kong, Nagaya, Osaka, Seoul, Shanghai, Sydney, and Tokyo. United also provides direct service to Bangkok, Ho Chi Minh City, Melbourne (Australia), Singapore, and Taipei. On March 26, 2005, United launched service between San Francisco and Nagoya, Japan. In 2004, United's Pacific operations accounted for 16% of the Debtors' operating revenues.

Atlantic. Washington, D.C. is United's primary gateway to Europe, serving Amsterdam, Brussels, Frankfurt, London, Munich, Zurich, and Paris. Chicago is United's secondary gateway to Europe, with nonstop service to and from Amsterdam, Frankfurt, London, and Paris. United also provides nonstop service between San Francisco and each of Paris, London, and Frankfurt, and between London and each of Los Angeles and New York. Beginning in June 2005, United also began service between Chicago and Munich. In addition, United provides seasonal service between Chicago and Bermuda. In 2004, United's Atlantic operations accounted for 12% of the Debtors' operating revenues.

Latin America. United serves Latin America from its five hubs and provides nonstop service to Aruba, Buenos Aires, Cancun, Cozumel, Guatemala City, Mexico City, Montego Bay, Puerto Vallarta, Punta Cana, San Jose (Costa Rica), San Jose Del Cabo, San Juan (Puerto Rico), San Salvador, Sao Paulo, St. Maarten, St. Thomas (U.S. Virgin Islands), and Zihuatanejo/Ixtapa. United also provides direct service to Rio de Janeiro (via Sao Paulo) and Montevideo (via Buenos Aires). In 2004, United's Latin American operations accounted for almost 3% of the Debtors' operating revenues.

UAL Loyalty Services. For financial reporting purposes, the “UAL Loyalty Services” segment relates to the Debtors’ non-core marketing businesses (and relates to operations provided by UAL Loyalty Services, LLC, MyPoints.com, Inc., and Ameniti Travel Clubs, Inc.). This segment operates substantially all United-branded travel distribution and customer loyalty e-commerce activities, such as united.com. In addition, this segment includes certain aspects of the Mileage Plus frequent flyer program, including sales of miles, member relationships, communications, and account management. This segment also includes certain other United-branded customer programs as well as the MyPoints.com online loyalty program, under which registered consumers earn points for goods and services purchased from participating vendors.

b. Operations

The air travel business is subject to seasonal fluctuations. The Debtors’ operations can be adversely impacted by severe weather. In addition, the Debtors’ first- and fourth-quarter results normally reflect reduced travel demand. Historically, operating results are better in the second and third quarters. From 2001 to 2003, however, the typical seasonal relationships were distorted by the events of September 11, 2001, the fear of terrorism, the Iraq war, the outbreak of Severe Acute Respiratory Syndrome, fluctuations in fuel prices, and general economic conditions. The Debtors experienced a more typical seasonal pattern of financial results in 2004 and to date in 2005.

In addition to the Debtors’ global passenger services, there are several other important components of the Debtors’ operations.

United Express. The Debtors’ “hub and spoke” business model calls for the transportation of large numbers of passengers on generally long-haul flights using larger-capacity aircraft, but it is not profitable for the Debtors’ mainline fleet to fly everywhere. As a result, the Debtors’ mainline flights are supplemented by flights transporting small numbers of passengers on generally short-haul flights using small aircraft. Generally, these “feeder” flights are outsourced to regional air carriers. These regional carriers fly regional jet and turbo-prop aircraft owned by the regional carrier but operating under United’s reservation code and under the brand name “United Express.” Passengers flying in United Express aircraft make reservations and purchase tickets through United (with all revenue accruing to United), and United subsequently pays the regional carrier a fee. The fee has two components: reimbursement of the carrier’s costs per flight between specified city pairs; and a variable portion based on the carriers’ monthly operating performance against certain objective standards.

United Cargo. United Cargo offers both domestic and international shipping through a variety of services including Small Package Delivery, T.D. Guaranteed[®], First Freight, International Freight, and Global SP. Freight accounts for approximately 77% of United Cargo’s shipments, with mail accounting for the remaining 23%. During 2004, United Cargo accounted for 4% of the Debtors’ revenues by generating over \$704 million in freight and mail revenue, a 12% increase versus 2003. Since United Cargo is not a separate reporting segment, cargo revenues are allocated to the North America, Pacific, Atlantic and Latin America reporting segments of the Debtors. The majority of United Cargo revenues are earned in the international segments of the Debtors’ operations.

Fuel. Fuel is United's second largest cost behind labor. United's fuel costs and consumption for the years 2004, 2003, and 2002 were as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Gallons consumed (in millions)	2,349	2,202	2,458
Average price per gallon, including tax and hedge impact	\$1.25	\$0.94	\$0.78
Cost (in millions)	\$2,943	\$2,072	\$1,921

The price and availability of jet fuel significantly affects the Debtors' operations. In addition to being at high levels, oil prices continue to see large swings in both intra-day trading and over time. This phenomenon is well-illustrated by the fact that oil prices rose to historic highs in mid-October 2004, fell by several dollars during December 2004, and then steadily built up again to hit new record highs in August 2005. The prices of crude oil and jet fuel have both recently been at all-time highs, reaching, for example, \$68.94 per barrel of crude oil and \$2.323 per gallon of jet fuel on August 31, 2005. Moreover, every \$1.00 increase in the price of a barrel of oil increases the Debtors' annual fuel expenses by approximately \$60 million. The lack of useable excess supply to meet demand, coupled with speculation by investors in the commodities futures markets, have been key components of this volatility.

A significant rise in crude oil prices was the primary reason that the Debtors' fuel expense increased \$871 million in 2004 over the Debtors' 2003 fuel costs and that operating expenses attributable to aircraft fuel costs were 36 percent higher in the first half of 2005 than in the first half of 2004. Due to the highly competitive nature of the airline industry, the Debtors' ability to pass on increased fuel costs to their customers in the form of higher ticket prices has been limited.

To ensure adequate supplies of fuel and to provide a measure of control over fuel costs, the Debtors arrange to have fuel shipped on major pipelines and store fuel close to their major hub locations. Although the Debtors do not currently anticipate a significant reduction in the availability of jet fuel, a number of factors make predicting fuel prices and fuel availability difficult, including increased world demand due to the improving global economy, geopolitical uncertainties in oil-producing nations, threats of terrorism directed at oil supply infrastructure, and changes in relative demand for other petroleum products that may impact the quantity and price of jet fuel produced from period to period.

On September 19, 2003, the Bankruptcy Court approved a Jet Fuel Supply Agreement (the "Fuel Supply Agreement") with Morgan Stanley Capital Group Inc. ("Morgan Stanley"). Under the Fuel Supply Agreement, Morgan Stanley will supply jet fuel to the Debtors and maintain minimum levels of fuel inventory for the Debtors at various airports for a term of three years, with a two-year renewal period. In connection with this arrangement, Morgan Stanley has subleased certain of the Debtors' terminaling and throughput agreements for storage of jet fuel at the airports. The Debtors have also assigned to Morgan Stanley certain third-party sale agreements, bulk supply agreements, and local supply agreements. In addition, the Debtors transferred their historic capacity on common carrier pipelines to Morgan Stanley pursuant to an agency agreement. This arrangement allows the Debtors to meet their jet fuel needs, while lowering their working capital requirements for fuel.

During the second quarter of 2004, the Debtors began to implement a strategy to hedge a portion of their price risk related to projected jet fuel requirements, primarily using collar options which involved the purchase of fuel call options with the simultaneous sale of fuel put options with identical expiration dates. As of June 30, 2005, the Debtors had hedged approximately 8% of their remaining 2005 projected fuel requirements at an average price of \$1.24 per gallon, excluding taxes. The Debtors currently have hedges in place through December 31, 2005. The fair market value of the Debtors' designated hedge position was approximately \$21 million as of June 30, 2005 and is included in other comprehensive

income. The Debtors expect that this entire amount, to the extent it remains effective, will be recognized into earnings within the next six months as a reduction to fuel expense. The Debtors plan to continue to hedge future fuel purchases as circumstances and market conditions allow.

Insurance. United carries hull and liability insurance of a type customary in the air transportation industry, in amounts deemed adequate, covering passenger liability, public liability, and damage to aircraft and other physical property. Since the September 11, 2001 terrorist attacks, United's premiums have increased significantly. Additionally, after September 11, 2001, commercial insurers cancelled United's liability insurance for losses resulting from war and associated perils (terrorism, sabotage, hijacking, and other similar events), but United obtained replacement coverage through the federal government.

The Homeland Security Act, which became effective in February 2003, mandated the Federal Aviation Administration ("FAA") to provide third-party, passenger and hull war-risk insurance to commercial air carriers through August 31, 2003, and permitted such coverage to be extended to December 31, 2004. The Consolidated Appropriations Act 2005, signed into law on December 8, 2004, extended this war risk insurance to commercial air carriers through August 31, 2005, which was subsequently extended until December 31, 2005. Should the government discontinue this coverage, obtaining comparable coverage from commercial underwriters could result in substantially higher premiums and more restrictive terms, if it is available at all.

United also maintains other types of insurance such as property, directors and officers, cargo, automobile, and the like, with limits and deductibles that are standard within the industry. These premiums also have risen substantially since September 11, 2001.

c. Competition

The domestic airline industry is highly competitive and volatile. In domestic markets, new and existing carriers deemed fit by the Department of Transportation (the "DOT") are free to initiate service between any two points in the U.S. United's domestic competitors are primarily the other U.S. airlines, a number of which are low-fare carriers, commonly known as LCCs, which have significantly lower cost structures than United's, and, to a lesser extent, other forms of transportation.

United faces significantly more domestic competition now than it did in the past. This increase is largely attributable to the growth of LCCs, whose share of domestic passengers is now over 30 percent. Accordingly, in excess of 75 percent of United's domestic revenue is now exposed to LCCs, which is double the percentage from a decade ago. United anticipates that competition from LCCs and other U.S. airlines will continue to intensify in the future.

Domestic pricing decisions are largely affected by the need to meet competition from other U.S. airlines. Fare discounting by competitors historically has had a negative effect on United's financial results because United generally finds it necessary to match competitors' fares to maintain passenger traffic. Periodic attempts by United and other network airlines to raise fares have often failed due to lack of competitive matching by LCCs. Because of vastly different cost structures, low-ticket prices that generate a profit for an LCC usually have a negative effect on United's financial results. The introduction of Ted by United in early 2004 is designed to provide United with a lower-cost operation in selected leisure markets, under which United can be more economically competitive with its LCC rivals.

In its international networks, United competes not only with U.S. airlines but also with foreign carriers. United's competition on specified international routes is subject to varying degrees of governmental regulations (see "Industry Regulation" below). As the U.S. is the largest market for air

travel worldwide, United's ability to generate U.S. originating traffic from its integrated domestic route systems provides United with an advantage over non-U.S. carriers. Foreign carriers are prohibited by U.S. law from carrying local passengers between two points in the U.S., and United experiences comparable restrictions in foreign countries. In addition, U.S. carriers are often constrained from carrying passengers to points beyond designated international gateway cities due to limitations in air service agreements or restrictions imposed unilaterally by foreign governments. To compensate for these structural limitations, U.S. and foreign carriers have entered into alliances and marketing arrangements that allow the carriers to feed traffic to each other's flights.

d. Industry Regulation

Domestic Regulation. All carriers engaged in air transportation in the U.S. are subject to regulation by the DOT. Among its responsibilities, the DOT has authority to issue certificates of public convenience and necessity for domestic air transportation (and no air carrier, unless exempted, may provide air transportation without a DOT certificate of public convenience and necessity), grant international route authorities, approve international code share agreements, regulate methods of competition, and enforce certain consumer protection regulations, such as those dealing with advertising, denied boarding compensation and baggage liability. United operates under a certificate of public convenience and necessity issued by the DOT. This certificate may be altered, amended, modified, or suspended by the DOT if public convenience and necessity so require, or may be revoked for intentional failure to comply with the terms and conditions of the certificate.

Airlines are also regulated by the FAA, a division of the DOT, primarily in the areas of flight operations, maintenance, and other safety and technical matters. The FAA has authority to issue air carrier operating certificates and aircraft airworthiness certificates, prescribe maintenance procedures, and regulate pilot and other employee training, among other responsibilities. From time to time, the FAA issues rules that require air carriers to take certain actions, such as the inspection or modification of aircraft and other equipment, that may cause United to incur substantial, unplanned expenses. United is also subject to inquiries by these and other U.S. and international regulatory bodies.

The airline industry is also subject to various other federal, state, and local laws and regulations. The Department of Homeland Security has jurisdiction over virtually all aspects of civil aviation security. See "Recent Domestic Legislation" below. The Department of Justice has jurisdiction over certain airline competition matters. The U.S. Postal Service has authority over certain aspects of the transportation of mail. Labor relations in the airline industry are generally governed by the Railway Labor Act.

In addition, access to landing and take-off rights, or "slots," at three major U.S. airports and certain foreign airports served by United are subject to government regulation. The FAA has designated John F. Kennedy International Airport ("JFK") and LaGuardia Airport ("La Guardia") in New York, and Ronald Reagan Washington National Airport in Washington, D.C., as "high density traffic airports" and has limited the number of departure and arrival slots at those airports. Slot restrictions at O'Hare International Airport in Chicago ("O'Hare") were eliminated in July 2002 and are slated to be eliminated at JFK and LaGuardia by 2007. From time to time, the elimination of slot restrictions has impacted United's operational performance and reliability. To address congestion concerns and delays at O'Hare, United and American Airlines reached an agreement with the FAA in January 2004 to reduce each of their flight schedules at O'Hare. Furthermore, United reduced its schedule at O'Hare beginning February 2004 between the peak hours of 1:00 p.m. and 8:00 p.m. In addition, effective March 2004, United again depeaked its flight schedule by 5%. Subsequently, United, American Airlines, and certain other carriers complied with the FAA's request to further depeak afternoon operations at O'Hare resulting in a slight reduction in operations overall beginning in November 2004. On July 18, 2005 the FAA issued an order to show cause why the current operating restrictions at O'Hare should not remain in place through April,

2006. The FAA has initiated a formal rulemaking process to address O'Hare congestion after April, 2006.

Recent Domestic Legislation. Since September 11, 2001, aviation security has been and continues to be a subject of frequent legislative action, requiring changes to United's security processes and increasing the economic cost of security procedures at United. The Aviation and Transportation Security Act (the "Aviation Security Act"), enacted in November 2001, has had wide-ranging effects on United's operations. The Aviation Security Act makes the federal government responsible for virtually all aspects of civil aviation security, creating a new Transportation Security Administration ("TSA"), which is a part of the Department of Homeland Security pursuant to the Homeland Security Act of 2002. Under the Aviation Security Act, substantially all security screeners at airports are now federal employees and significant other aspects of airline and airport security are now overseen by the TSA. Pursuant to the Aviation Security Act, funding for airline and airport security is provided in part by a passenger security fee of \$2.50 per flight segment (capped at \$10.00 per round trip), which is collected by the air carriers and remitted to the government. In addition, air carriers are required to submit to the government an additional security fee equal to the amount the air carrier paid for screening passengers and property in 2000.

On April 16, 2003, the Emergency Wartime Supplemental Appropriations Act was signed into law. The legislation included approximately \$3 billion of direct compensation for U.S. airlines. Of the total, \$2.4 billion compensates air carriers for lost revenues and costs related to aviation security. Additionally, passenger and air carrier security fees were suspended from June 1 through September 30, 2003, and government-provided war risk insurance was extended for one year to August 2004. The Consolidated Appropriations Act 2005, signed into law on December 8, 2004, extended this war risk insurance to commercial air carriers through August 31, 2005, which was subsequently extended until December 31, 2005. It is expected that aviation security laws and processes will continue to be under review and subject to change by the federal government in the future.

International Regulation. International air transportation is subject to extensive government regulation. In connection with United's international services, it is regulated by both the U.S. government and the governments of the foreign countries it serves. In addition, the availability of international routes to U.S. carriers is regulated by treaties and related aviation agreements between the U.S. and foreign governments, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments.

Historically, access to foreign markets has been tightly controlled through bilateral agreements between the U.S. and the relevant foreign country. These agreements regulate the number of markets served, the number of carriers allowed to serve the market, and the frequency of their flights. Since the early 1990s, the U.S. has pursued a policy of "Open Skies" (meaning all carriers have access to the destination), under which the U.S. government has negotiated a number of bilateral agreements allowing unrestricted access to foreign markets.

Further, United's ability to serve some countries and expand into certain others is limited by the absence altogether of aviation agreements between the U.S. and the relevant governments. Shifts in U.S. or foreign government aviation policies can lead to the alteration or termination of air service agreements between the U.S. and other countries. Depending on the nature of the change, the value of United's route authorities may be enhanced or diminished.

The U.S. and the European Commission are continuing their attempts to negotiate a single air services agreement to replace the existing bilateral agreements between the U.S. and the European Union ("EU") member states. The European Commission has called upon the EU member states to renounce the

air services agreements with the U.S. because they allegedly do not comply with EU law. To date, no EU member state has indicated a willingness to renounce its air services agreement with the U.S. If EU member states do renounce such agreements, the status of United's existing antitrust immunity with its European partners would be in doubt because the immunity is based upon an open skies agreement between the U.S. and the applicable EU member states.

In late 2004, the European Commission commenced a consultation process that seeks stakeholder input on the introduction of market-based mechanisms for slot allocation at EU airports. The Commission proposes to introduce a highly regulated form of secondary slot trading. The availability of such slots is not assured and the inability of United to obtain or retain needed slots could inhibit its efforts to compete in certain international markets.

Environmental Regulations. The airline industry is subject to increasingly stringent federal, state, local, and foreign environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils, and waste materials. The airline industry is also subject to other environmental laws and regulations, including those that require the Debtors to remediate soil or groundwater to meet certain objectives. It is the Debtors' policy to comply with all environmental laws and regulations, which often require expenditures. Under the federal Comprehensive Environmental Response, Compensation and Liability Act (sometimes commonly known as "Superfund") and similar environmental cleanup laws, waste generators, and owners or facility operators, including the Debtors, can be subject to liability for investigation and remediation costs at facilities that have been identified as requiring response actions. The Debtors also conduct voluntary remediation actions. Such cleanup obligations arise from, among other circumstances, the operation of fueling facilities and primarily involve airport sites.

Two other regulatory programs that will require an expenditure of capital costs in the next few years are: (1) petroleum storage upgrades required to comply with recent changes to the Spill Prevention Countermeasures and Control law; and (2) new California regulations and/or an industry-wide voluntary agreement, reducing air emissions from ground support equipment utilized in California.

The Debtors are subject to known and potential environmental cleanup Claims and obligations at current and former operating locations. Such Claims and obligations arose from, among other circumstances, past discharges from fueling facilities. Among known Claims, there is litigation among United, American Airlines, and other companies concerning the responsibility for payment of certain cleanup costs for groundwater and soil contamination at JFK. The litigation is currently stayed because of the Chapter 11 Cases, and may be addressed through adjudication by the Bankruptcy Court. In addition, in accordance with a June 1999 order issued by the California Regional Water Quality Control Board ("CRWQCB"), United, along with most of the other tenants of the San Francisco International Airport, has been investigating potential environmental contamination at the airport and conducting certain remediation. Among these projects is investigation and remediation at United's San Francisco Maintenance Center. This project is being conducted in accordance with CRWQCB approvals. In addition to the matters discussed above, from time to time the Debtors become aware of potential non-compliance with environmental regulations that have been identified either by the Debtors (through their internal environmental compliance auditing program) or by a governmental entity. In some instances, these matters could potentially become the subject of an administrative or judicial proceeding and could potentially involve material monetary penalties of \$100,000 or more.

e. Employees

As of June 30, 2005, the Debtors had approximately 59,000 active employees, of which approximately 80% are represented by various labor organizations.

The employee groups, number of employees, labor organization, and current contract status for each of United's collective bargaining groups, as of June 30, 2005, were as follows:

Employee Group	Number of Employees	Union	Contract Open for Amendment
Pilots	6,420	ALPA	January 1, 2010
Flight Attendants	14,868	AFA	January 8, 2010
Mechanics and Related	6,138	AMFA	January 1, 2010
Public Contact Employees/Ramp & Stores/Food Service Employees/Security Officers/Maintenance Instructors/Fleet Technical Instructors	18,350	IAM	January 1, 2010
Dispatchers	160	PAFCA	January 1, 2010
Meteorologists	19	TWU	January 1, 2010
Engineers	292	IFPTE	Negotiating Initial Contract

Collective bargaining agreements ("CBAs") are negotiated under the Railway Labor Act, which governs labor relations in the transportation industry, and typically do not contain an expiration date. Instead, they specify an amendable date, upon which the CBA is considered "open for amendment." Prior to the amendable date, neither party is required to agree to modifications to the CBA. Nevertheless, nothing prevents the parties from agreeing to start negotiations or to modify the CBA in advance of the amendable date. Contracts remain in effect while new CBAs are negotiated. During the negotiating period, both the Debtors and the negotiating union are required to maintain the status quo.

For additional information about the Debtors' business operations, please refer to UAL's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, and UAL's Quarterly Reports on Form 10-Q for the first quarter ending March 31, 2005 and the second quarter ending June 30, 2005 and any other recent UAL Annual and Quarterly Report. These filings are available by visiting the Securities and Exchange Commission's website at <http://www.sec.gov> or the Debtors' website at <http://www.ual.com>.

B. Existing Capital Structure of the Debtors

1. UAL

a. Aircraft-Related Guarantees

In connection with United's financing of 22 Boeing 757s and one Boeing 737 through U.S. leveraged leases ("USLLs"), UAL guaranteed United's obligations. Also, in connection with UAL's acquisition of Air Wisconsin in 1992, UAL guaranteed Air Wisconsin's obligations for nine regional aircraft. The aggregate amount of asserted Claims based on such guarantees is approximately \$828 million. The Debtors, however, anticipate that the aggregate amount of such Claims that will be allowed will be less and the Debtors reserve all rights with respect to such Claims.

b. Serial Preferred Stock

As of December 31, 2004, UAL had outstanding 3,203,177 depositary shares, each representing 1/1000 of one share of Series B 12¹/₄% preferred stock (the "Old Series B Preferred Stock" or an "Old Series B Preferred Share"), with a liquidation preference of \$25 per depositary share (\$25,000 per Old Series B Preferred Share) and a stated capital of \$0.01 per Old Series B Preferred Share. Under its terms, any portion of the Old 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 Old Series B Preferred Stock is not convertible into any other securities, has no stated maturity and is not subject to mandatory redemption.

The Old Series B Preferred Stock ranks senior to all other preferred and common stock outstanding, except the TOPrS Preferred Securities, as to receipt of dividends and amounts distributed upon liquidation. The Old Series B Preferred Stock has voting rights only to the extent required by law and with respect to charter amendments that adversely affect the preferred stock or the creation or issuance of any security-ranking senior to the preferred stock.

On September 30, 2002, UAL announced that it was suspending the payment of dividends on the Old Series B Preferred Stock. As a result of the Chapter 11 filing, UAL is no longer accruing dividends on the Old Series B Preferred Stock. The amount of dividends in arrears is approximately \$27 million as of June 30, 2005.

c. ESOP and Employee/Independent Director Preferred Stock

In July 1994, the stockholders of UAL approved a plan of recapitalization that provided an approximately 55% equity and voting interest in UAL to certain employees of United, in exchange for wage concessions and work-rule changes. As part of the recapitalization, UAL's stockholders also approved an elaborate governance structure, which was set forth principally in UAL's prior restated certificate of incorporation (the "Old UAL Charter") and the employee stock ownership plans (the "ESOPs"). Among other matters, the revised governance structure provided that UAL's board of directors (the "Old UAL Board") was to consist of five public directors, four independent directors, and three employee directors.

Under the ESOPs, an aggregate of 17,675,345 shares of Old Class 1 and Class 2 Preferred Stock were allocated to individual employee accounts from 1994 to 2000. The Old Class 1 and Class 2 Preferred Stock represented the employees' equity interest in UAL. Each share of Old Class 1 and Class 2 Preferred Stock was convertible into four shares of Old UAL Common Stock. Because the shares of Old Class 1 and Class 2 Preferred Stock were convertible into shares of freely tradable Old UAL Common Stock, Old Class P, M, and S Preferred Stocks (the "Voting Preferred Stock") were established to provide a fixed level of voting power to the ALPA, IAM, and SAM employee groups participating in the ESOPs. In the aggregate, 17,675,345 shares of Voting Preferred Stock were issued from 1994 to 2000. The Voting Preferred Stock had a par value and liquidation preference of \$0.01 per share. The stock was not entitled to receive any dividends and was convertible into .0004 shares of Old UAL Common Stock.

To effectuate the election of independent and employee directors to the Old UAL Board, the Old Class Pilot, Old Class IAM, Old Class SAM, and Old Class I Junior Preferred Stocks (collectively the "Director Preferred Stocks") were established. One share each of Old Class Pilot and Old Class IAM Preferred Stock was authorized and issued, respectively, to the United Airlines master executive councils of ALPA and IAM 141. Three shares of Old Class SAM Preferred Stock and four shares of Old Class I Junior Preferred Stock were issued on December 31, 2002 to the persons designated by the SAMs pursuant to the terms of a stockholders agreement and to UAL's independent directors respectively. Each of the Director Preferred Stocks has a par value and liquidation preference of \$0.01 per share. The Holders of the Old Class Pilot Preferred Stock, the Old Class IAM Preferred Stock, and the Old Class SAM Preferred Stock are each entitled to vote as a separate class to elect one director to the Old UAL Board. The Director Preferred Stocks are not entitled to receive any dividends and are non-transferable.

The Voting Preferred Stock represented approximately 55% of the aggregate voting power until “Sunset,” even though the Old UAL Common Stock issuable upon conversion from time to time represented more or less than 55% of the fully diluted Old UAL Common Stock. Sunset occurred when the Old UAL Common Stock issuable upon conversion of Old Class 1 and Class 2 Preferred Stock, plus (i) all other Old UAL Common Stock held by all other Debtor-sponsored employee benefit plans and (ii) all available unissued Old Class 1 and Class 2 Preferred Stock held in the ESOPs, in the aggregate, fell to below 20% of the aggregate number of shares of common equity and all available unissued Old Class 1 and Class 2 Preferred Stock of UAL. As a result of certain sales of Old UAL Common Stock by State Street Bank & Trust (“State Street”), an independent fiduciary for the ESOPs, employee ownership was reduced to less than 20% on March 7, 2003, thus triggering Sunset.

Upon the occurrence of Sunset, the 55% voting power of the ESOPs represented by the Voting Preferred Stock was reduced to the actual percentage represented by the outstanding Old Class 1 and Class 2 Preferred Stock held by the ESOPs on an as-converted basis. In addition, the provisions in the Old UAL Charter with respect to the following matters became inoperative: (i) the qualification, nomination, and vacancy of public and independent directors; (ii) the special super-majority voting provisions relating to, among others, charter amendments, change of control, sales of assets, dissolution, and labor-related business transactions; and (iii) the memberships, functions, and powers of various committees. Concurrently with Sunset, all shares of the Old Class I Preferred Stock were redeemed automatically. As a result of the foregoing changes, the Old UAL Board was comprised of: (a) nine Directors to be elected by the Holders of the outstanding Old UAL Common Stock, (b) one director to be elected by ALPA, (c) one director to be elected by IAM, and (d) one Director to be elected by the SAMs.

On June 26, 2003, the ESOP was terminated following the publication of a regulation by the Internal Revenue Service (the “IRS”) that would permit the distribution of the remaining ESOP shares to plan participants without jeopardizing UAL’s ability to utilize its net operating losses. On June 28, 2004, all remaining ESOP shares were converted to Old UAL Common Stock and either distributed to participants at their request or “rolled over” to an account in their name.

d. UAL Common Stock

As of June 30, 2005, UAL had 116,220,959 shares of Old UAL Common Stock outstanding.

e. TOPrS

In December 1996, UAL Corporation Capital Trust I (the “TOPrS Trust”) completed a voluntary exchange offer to exchange its 13¹/₄% Trust Originated Preferred Securities (the “TOPrS Preferred Securities”) for any and all outstanding depository shares, each representing 1/1000 of one share of Series B 12¹/₄% preferred stock. After the expiration of the exchange offer, the TOPrS Trust issued \$75 million of TOPrS Preferred Securities in exchange for the 2,999,304 depository shares that were tendered in the exchange. Along with the issuance of the TOPrS Preferred Securities and the related purchase by UAL of the TOPrS Trust’s common securities, UAL issued to the TOPrS Trust \$77 million aggregate principal amount of its 13¹/₄% Junior Subordinated Debentures (the “TOPrS Debentures”) due 2026. The TOPrS Debentures are the sole assets of the TOPrS Trust. The interest and other payment dates on the TOPrS Debentures correspond to the distribution and other payment dates on the TOPrS Preferred Securities. Pursuant to the operative agreements of the TOPrS Trust, upon maturity or redemption of the TOPrS Debentures, the TOPrS Preferred Securities are to be redeemed on a mandatory basis. The TOPrS Debentures were redeemable at UAL’s option, in whole or in part, on or after July 12, 2004, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to the redemption date. Upon the repayment of the TOPrS Debentures, the proceeds thereof are to be applied to redeem the TOPrS Preferred Securities. The payment of the principal and interest on the

TOPrS Debentures is subordinate and junior to all indebtedness of UAL (unless such indebtedness by its terms is subordinate in right of payment to or *pari passu* with the TOPrS Debentures), but is senior to all capital stock.

Pursuant to the operative agreements of the TOPrS Trust, UAL has the right to defer payments of interest on the TOPrS Debentures by extending the interest payment period, at any time, for up to 20 consecutive quarters. If interest payments on the TOPrS Debentures are so deferred, distributions on the TOPrS Preferred Securities also will be deferred. During any deferral, distributions will continue to accrue with interest thereon. In addition, during any such deferral, UAL may not declare or pay any dividend or other distribution on, or redeem or purchase, any of its capital stock. The payment of distributions out of moneys held by the TOPrS Trust is guaranteed by UAL on a subordinated basis to the extent not paid by the TOPrS Trust but only to the extent that UAL has made a payment to the trustee of principal and interest on the TOPrS Debentures deposited in the TOPrS Trust as trust assets. UAL’s guaranty of the TOPrS Trust’s obligations under the TOPrS Preferred Securities constitutes an unsecured obligation of UAL that is subordinate and junior in right of payment to all other liabilities of UAL (except obligations made *pari passu* or subordinate by their terms) but is senior to all capital stock issued by UAL.

As a result of the Chapter 11 filing, UAL is no longer making interest payments on the TOPrS Debentures. As a result, the TOPrS Trust no longer has the funds available to pay distributions on the TOPrS Preferred Securities and stopped accruing and paying such dividends in October 2002.

2. United

a. Secured Aircraft Financing

As of the Petition Date, United operated a fleet of 567 aircraft, approximately 95 of which had been unencumbered and thus became pledged to the Debtors’ debtor-in-possession financing lenders (the “DIP Lenders”) to secure its debtor-in-possession credit facilities.⁷ 463 aircraft and related engines in United’s fleet (the “Section 1110 Fleet”) were leased or financed and eligible for Section 1110 protection and consist of the following array of model types:⁸

<u>Aircraft Type</u>	<u>Number</u>
Boeing 737-500	29
Boeing 737-300	91
Boeing 757-200	69
Boeing 767-300	30
Boeing 777-200A	21
Boeing 777-200B	37
Boeing 747-400	36
Airbus 319	54
Airbus 320	<u>96</u>
Total:	463

⁷ The 567 aircraft operated by United as of the Petition Date do not include certain regional and other aircraft leased by United to Air Wisconsin and Federal Express and certain aircraft parked as of the Petition Date.

⁸ The remaining nine aircraft in United’s fleet are not subject to Section 1110 of the Bankruptcy Code, as more fully described herein, and thus not subject to the same restructuring process as the other aircraft in the fleet.

The Section 1110 Fleet was owned or leased by United pursuant to a broad variety of financing, including, without limitation, mortgages, operating leases, capital leases, single investor leases, leveraged leases, Japanese leveraged leases (“JLLs”), German leveraged leases (“GLLs”), and French leveraged leases (“FLLs”). Out of the Section 1110 Fleet, 158 aircraft served as collateral for issues of public debt, including certain pass-through certificates (“PTCs”), equipment trust certificates (“ETCs”), and enhanced equipment trust certificates (“EETCs”). The balance of the aircraft in the Section 1110 Fleet were financed or leased pursuant to private transactions. Of these private transactions, 57 aircraft were financed through JLL, GLL, or FLL cross-border financing arrangements, approximately 122 were financed by manufacturers such as Boeing, Airbus, General Electric, and Intlaero Leasing, and the remainder of the private transactions were financed through U.S. leveraged leases or other leasing and secured debt techniques. As discussed more fully below, the Debtors have downsized their Section 1110 Fleet and substantially reduced their financing costs for their remaining aircraft through refinancing.

As of the Petition Date, an aggregate of approximately \$7.0 billion in aircraft-related debt was outstanding. Of that amount, the Debtors had approximately \$3.1 billion of various aircraft-backed mortgages outstanding (the “Aircraft Mortgage Notes”). There was an aggregate of approximately \$44 million of unpaid interest on the aircraft-backed mortgages as of the Petition Date. In December 1997, July 2000, December 2000, and August 2001, the Debtors issued \$674 million, \$801 million, \$1.51 billion, and \$1.47 billion, respectively, of EETCs to refinance certain owned aircraft and aircraft under operating leases which are also included in the aircraft-related debt. There was an aggregate of approximately \$70 million of unpaid interest on the EETCs as of the Petition Date.

b. Senior Notes

United issued six series of unsecured notes due between 2003 and 2021 (the “Unsecured Debentures”) pursuant to an indenture dated as of July 1, 1991, between United and The Bank of New York, as trustee:

Series	Original Principal Amount (\$ in millions)
10 ¹ / ₄ % Debentures due July 15, 2021	\$300.0
9 ³ / ₄ % Debentures due August 15, 2021	\$250.0
9% Notes due December 15, 2003	\$150.0
9 ¹ / ₈ % Debentures due January 15, 2012	\$200.0
10.67% Series A Debentures due May 1, 2004	\$370.2
11.21% Series B Debentures due May 1, 2014	<u>\$371.0</u>
Total:	\$1,641.2

Each of the series of Unsecured Debentures is an unsecured and unsubordinated obligation of United, which ranks *pari passu* with all existing senior unsecured indebtedness of United and senior to subordinated indebtedness.

As a result of repurchases of Unsecured Debentures by United, there is currently approximately \$646 million principal amount outstanding of Unsecured Debentures not held by United, and as of the Petition Date, there was an aggregate of \$17.6 million of accrued and unpaid interest on the Unsecured Debentures.

c. Municipal Bonds

United has issued eighteen series of special facilities revenue bonds due through 2035 to finance the acquisition and construction of certain facilities in Los Angeles, San Francisco, Miami, Chicago, and certain other locations (the “Municipal Bonds”):

Series	Issue Date	Maturity	Original Principal Amount (\$ in millions)
California Statewide Communities Development Authority Special Facility Revenue Bonds, Series 1997 (United Air Lines, Inc. – Los Angeles International Airport Projects)	November 1, 1997	October 1, 2034	\$190.2
California Statewide Communities Development Authority Special Facility Revenue Bonds, Series 2001 (United Air Lines, Inc. – Los Angeles International Airport Cargo Project)	April 1, 2001	October 1, 2035	\$34.6
California Statewide Communities Development Authority Special Facilities Lease Revenue Bonds, 1997 Series A (United Air Lines, Inc. – San Francisco International Airport Projects)	August 1, 1997	October 1, 2033	\$154.8
California Statewide Communities Development Authority Special Facilities Lease Revenue Bonds, 2000 Series A (United Air Lines, Inc. – San Francisco International Airport Terminal Projects)	November 1, 2000	October 1, 2034	\$33.2
City of Chicago, Chicago O’Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 1999A	February 1, 1999	September 1, 2016	\$121.4
City of Chicago, Chicago O’Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 1999B	February 1, 1999	April 1, 2011	\$40.3
City of Chicago, Chicago O’Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 2000A	June 1, 2000	November 1, 2011	\$38.4
City of Chicago, Chicago O’Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 2001A-1	February 1, 2001	November 1, 2035	\$102.6

Series	Issue Date	Maturity	Original Principal Amount (\$ in millions)
City of Chicago, Chicago O'Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 2001A-2	February 1, 2001	November 1, 2035	\$100.0
City of Chicago, Chicago O'Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 2001B	February 1, 2001	November 1, 2035	\$49.3
City of Chicago, Chicago O'Hare International Airport, Special Facilities Revenue Refunding Bonds (United Air Lines, Inc. Project) Series 2001C	February 1, 2001	May 1, 2016	\$149.4
City and County of Denver, Colorado, Special Facility Airport Revenue Bonds (United Air Lines, Inc. Project) Series 1992A	October 1, 1992	October 1, 2032	\$261.4
Indianapolis Airport Authority 6.50% Special Facility Revenue Bonds, Series 1995A (United Air Lines, Inc., Indianapolis Maintenance Center Project)	June 1, 1995	November 15, 2031	\$220.7
Massachusetts Port Authority Special Facility Bonds (United Air Lines, Inc. Project) Series 1999A	December 1, 1999	October 1, 2029	\$80.5
Miami-Dade County Industrial Development Authority Special Facilities Revenue Bond (United Air Lines, Inc. Project) Series 2000	March 1, 2000	March 1, 2035	\$32.4
New York City Industrial Development Agency Special Facility Revenue Bonds, Series 1997 (1997 United Air Lines, Inc. Project)	July 1, 1997	July 1, 2032	\$34.2
Regional Airports Improvement Corporation Adjustable-Rate Facilities Lease Refunding Revenue Bonds, Issue of 1984, United Air Lines, Inc. (Los Angeles International Airport)	October 1, 1984	November 15, 2021	\$25.0
RAIC Facilities Lease Refunding Revenue Bonds, Issue of 1992, United Air Lines, Inc. (Los Angeles International Airport)	October 1, 1992	November 15, 2012	\$34.4
TOTAL			\$1,702.8

As of December 31, 2004, there were approximately \$1.7 billion principal amount of Municipal Bonds outstanding and, as of the Petition Date, there was an aggregate of \$16.0 million of accrued and unpaid interest on the Municipal Bonds. UAL guaranteed United's obligations under the (i) RAIC Adjustable-Rate Facilities Lease Refunding Revenue Bonds, Issue of 1984, United Air Lines, Inc. (Los

Angeles International Airport); and (ii) RAIC Facilities Lease Refunding Revenue Bonds, Issue of 1992, United Air Lines, Inc. (Los Angeles International Airport).

C. Management of the Debtors

The current management team of UAL is comprised of highly capable professionals with substantial airline industry experience. Information regarding the executive officers of the Debtors is as follows:

Name	Position
Glenn F. Tilton	Chairman, President and Chief Executive Officer
Frederic F. Brace	Executive Vice President and Chief Financial Officer
Sara A. Fields	Senior Vice President – People
Douglas A. Hacker	Executive Vice President
Paul R. Lovejoy	Senior Vice President, General Counsel and Secretary
Peter D. McDonald	Executive Vice President and Chief Operating Officer
Rosemary Moore	Senior Vice President – Corporate and Government Affairs
Richard J. Poulton	Senior Vice President – Business Development
John P. Tague	Executive Vice President – Marketing, Sales and Revenue

Glenn F. Tilton. Age 56. Director of UAL since 2002. Mr. Tilton has been Chairman, President, and Chief Executive Officer of UAL and United since September 2002. From October 2001 to August 2002, he served as Vice Chairman of ChevronTexaco Corporation (global energy). In addition, from May 2002 to September 2002 he served as Non-Executive Chairman of Dynegy, Inc. From February to October 2001 he served as Chairman and Chief Executive Officer of Texaco, Inc. (global energy). He previously served as President of Texaco’s Global Business Unit. He serves as a director of Lincoln National Corporation.

Frederic F. Brace. Age 47. Mr. Brace has been Executive Vice President and Chief Financial Officer of UAL and United since August 2002. From September 2001 to August 2002, Mr. Brace served as UAL’s and United’s Senior Vice President and Chief Financial Officer. From July 1999 to September 2001, Mr. Brace had served as United’s Senior Vice President - Finance and Treasurer. From February 1998 through July 1999, he served as Vice President - Finance of United.

Sara A. Fields. Age 62. Ms. Fields has been Senior Vice President – People of United Air Lines, Inc. since December 2002. From January to December 2002, Ms. Fields served as United’s Senior Vice President - People Services and Engagement. Ms. Fields previously served as Senior Vice President – Onboard Service of United.

Douglas A. Hacker. Age 49. Mr. Hacker is Executive Vice President of UAL and United and he has been in this position since December 2002. From September 2001 to December 2002, Mr. Hacker served as United’s Executive Vice President and President of ULS. From July 1999 to September 2001, Mr. Hacker had served as UAL’s Executive Vice President and Chief Financial Officer and as United’s Executive Vice President Finance & Planning and Chief Financial Officer. From July 1994 to July 1999, he served as Senior Vice President and Chief Financial Officer of United.

Paul R. Lovejoy. Age 50. Mr. Lovejoy has been Senior Vice President, General Counsel, and Secretary of UAL and United since June 2003. From September 1999 to June 2003, he was a partner with Weil, Gotshal & Manges, LLP. He previously served as Assistant General Counsel of Texaco, Inc.

Peter D. McDonald. Age 53. Mr. McDonald has been Executive Vice President and Chief Operating Officer of United since May 2004. From October 2002 to April 2004, Mr. McDonald served as Executive Vice President – Operations. From January to September 2002, Mr. McDonald served as United’s Senior Vice President – Airport Operations. From May 2001 to January 2002, he served as United’s Senior Vice President – Airport Services. From July 1999 to May 2001, he served as Vice President - Operational Services. From July 1995 to July 1999, he served as Managing Director - Los Angeles Metro Area for United.

Rosemary Moore. Age 54. Ms. Moore has been the Senior Vice President – Corporate and Government Affairs of United since December 2002. From November to December 2002, Ms. Moore had been the Senior Vice President – Corporate Affairs of United. From October 2001 to October 2002, she was the Vice President – Public and Government Affairs of ChevronTexaco Corporation. From June 2000 to October 2001, she was Vice President – Corporate Communications and Government Affairs of Texaco, Inc. From September 1996 to June 2000, she was an independent consultant.

Rick Poulton. Age 40. Mr. Poulton is Senior Vice President – Business Development of United Airlines since June 2005. From March 2003 to June 2005, Mr. Poulton served as Senior Vice President – Strategic Sourcing and Chief Procurement Officer of United. He has also served as President, UAL Loyalty Services, at the time a wholly owned subsidiary of UAL Corporation, and CFO of UAL Loyalty Services prior to being named President.

John P. Tague. Age 42. Mr. Tague has been Executive Vice President – Marketing, Sales, and Revenues of UAL and United since May 2004. From May 2003 to April 2004, Mr. Tague served as Executive Vice President – Customer of UAL and United. From 1997 to August 2002, Mr. Tague was the President and Chief Executive Officer of ATA Holdings Corp.

ARTICLE III. THE CHAPTER 11 CASES

On December 9, 2002, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The Debtors continue to conduct their businesses and manage their properties as Debtors in Possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. The following is a general summary of the Chapter 11 Cases including, without limitation, the events preceding the Chapter 11 filings, the stabilization of the Debtors’ operations following the Chapter 11 filings, the Debtors’ business plan, and the Debtors’ restructuring initiatives since the Chapter 11 filings.

A. Events Leading to the Chapter 11 Cases and Related Postpetition Events

The airline industry is highly competitive and labor intensive. United’s business is highly sensitive to fuel costs, fare levels, and demand for travel. Passenger demand and fare levels are influenced by, among other things, the state of the global economy, domestic and international events, airline capacity, and pricing actions taken by carriers. Beginning in 2000, the slowing economy and decrease in high-yield business travel, among other things, caused a significant decline in United’s revenues. These declines were exacerbated by the continued increase of internet-based ticket sales, price transparency, and the resultant downward pricing pressure, as well as the increasing impact of LCCs such as Southwest Airlines Co. and JetBlue Airways. At the same time, during this period, labor costs steadily increased, reaching \$7.0 billion in 2001, or 38.3% of operating expenses, largely due to the CBA with the Debtors’ pilots, amended in 2000, market-based pay increases for non-represented employees, and the expected wage increases associated with the then open CBAs with machinists, ramp workers, public contact, and other employees. In 2002, the Debtors entered into new CBAs with these employee groups that contained wage increases retroactive to mid-2000. Consequently, United’s labor costs became the

highest in the industry. In addition, the terrorist attacks of September 11, 2001, had a significant, negative impact on passenger and cargo demand for air travel. Although these factors caused a sharp and sustained decline in revenues throughout the airline industry, the Debtors, who historically have enjoyed a leading position among full-fare business customers, were hit the hardest.

As a result, the Debtors' passenger revenues plunged from \$16.9 billion in 2000 to \$11.9 billion for 2002. In response to these dramatically falling revenues, the Debtors mounted an aggressive cost-cutting campaign, during which the Debtors reduced their daily flight schedule, retired their oldest aircraft, reduced planned new aircraft deliveries, significantly reduced planned non-aircraft capital spending, closed several unprofitable international stations, converted six stations to United Express, cancelled or suspended a number of major airport construction plans, closed five reservations centers, eliminated certain travel agency based commissions, negotiated trade concessions, and significantly downsized their workforce.

In addition, the Debtors sought savings from their unionized workforce in an amount and of a duration sufficient to ward off bankruptcy. Yet, despite these measures, the Debtors were unable to obtain any meaningful out-of-court financing in the public or private capital markets. Consequently, United depleted its cash reserves at an unprecedented rate. United's operating "cash burn" (i.e., the amount by which operating cash disbursements exceeds receipts) averaged more than \$10 million per day over the fourth quarter of 2001. The Debtors' massive cost-cutting efforts reduced this amount to \$7 million per day by March 2002 and to less than \$1 million per day during the second quarter of 2002. However, a stalled recovery in July 2002 resulted in approximately \$7 million of operating cash burn per day during the third quarter of 2002, decreasing slightly to over \$5 million a day by November 2002.

In June 2002, United approached the Air Transportation Stabilization Board (the "ATSB") for a \$1.8 billion federal loan guarantee with a business plan contemplating capacity cuts, revenue increases, and lower labor costs. On December 4, 2002, the ATSB decided not to approve United's proposal for a federal loan guarantee. Subsequent to the ATSB's decision and facing approximately \$875 million in debt maturities, on December 9, 2002, the Debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code—the best available means to facilitate the implementation of necessary changes to their businesses and bring costs and operations in line with the current business environment.

B. Stabilization of Operations

As of the Petition Date, all actions and proceedings against the Debtors and all acts to obtain property from the Debtors were automatically stayed under Section 362 of the Bankruptcy Code. To minimize disruption of the Debtors' operations during the Chapter 11 Cases, the Debtors filed with the Bankruptcy Court on the Petition Date a number of "first day" motions requesting authority to make certain payments, honor certain obligations, and assume certain contracts. Much of this relief was granted by the Bankruptcy Court and has facilitated the administration of the Chapter 11 Cases. Several of these motions and orders are described below, but these summaries are not a substitute for a complete understanding of the underlying motions or the resulting orders. You are urged to review the full text of all such motions and orders, which are available for your review by visiting the Debtors' private website at <http://www.pd-ual.com>.

1. Motion to Pay Employee Wages and Associated Benefits

The Debtors believe that their employees are their most valuable asset and that any delay in paying prepetition or postpetition compensation or benefits to their employees would have destroyed their relationship with employees and irreparably harmed employee morale at a time when dedication, confidence, and cooperation of their employees was most critical. Therefore, the Debtors requested, and

the Bankruptcy Court approved, authority to pay certain compensation and benefits owed to employees. The authority allowed the Debtors to compensate their employees for certain obligations payable as of the Petition Date, as well as certain obligations that came due after the Petition Date.

2. Motion to Continue Using Existing Cash Management System, Bank Accounts, Business Forms, and Investment Guidelines

The Bankruptcy Court authorized the Debtors to continue using their domestic and international cash management systems and their respective bank accounts, business forms, and investment guidelines.

3. Motion to Continue Customer Programs

The Debtors believe that their existing customer programs, including the Mileage Plus Program, vacation package program, barter arrangements program, Red Carpet Club program, corporate incentive programs, cargo programs, and MyPoints.com programs, are vital to their efforts to maintain their current customers through this difficult period and to position themselves to attract new customers. The Bankruptcy Court granted the Debtors' request for authority to perform their prepetition obligations relating to their customer programs and to continue, renew, replace, or terminate such customer programs during the Chapter 11 Cases.

4. Motion for Authority to Prohibit Utilities from Terminating Service

On December 11, 2002, the Bankruptcy Court entered an order enjoining utility companies from terminating service or requiring deposits in connection with any unpaid utility charges. Although a group of utilities objected to the order, the Bankruptcy Court on March 27, 2003, entered an order satisfying both the Debtors and the utilities by providing procedural safeguards to the utilities, such as access to certain financial information of the Debtors and an expedited dispute resolution process.

It should be noted that only a minority of the objecting utilities who were beneficiaries of the March 27, 2003 order took advantage of receiving the Debtors' financial information, and some who originally did request it subsequently asked to no longer receive it. Also, no utility has had occasion to invoke the expedited dispute resolution process since the date the order was entered. Finally, the Debtors have continued to pay their utility invoices on time and, since the utility activity described above, there have been no further motions filed by utilities seeking payment.

5. Motion for Authority to Pay Sales and Use Taxes, Transportation Taxes, Fees, Passenger Facility Charges, and Other Similar Government and Airport Charges

In connection with the normal operation of their businesses, the Debtors collect and pay various taxes, fees, and charges. Specifically, the Debtors: (a) collect fuel taxes, value added taxes, sales taxes, excise taxes, customs fees, immigration fees, security fees, inspection fees, and passenger facility charges from their customers on behalf of various taxing authorities; (b) incur use, liquor, gross receipts, and fuel taxes which must be paid to various taxing authorities; and (c) are charged fees, including, without limitation, the Aviation Security Infrastructure Fee, overflight fees and landing and other access fees, licenses, airport performance bond-related obligations (excluding municipal bonds), and other similar charges and assessments by various taxing and licensing authorities. These taxes, fees, and charges are paid to the various taxing, licensing, and airport authorities (collectively, the "Authorities") on a periodic basis.

As of October 31, 2002, the Debtors owed over \$268 million to the Authorities. If the Debtors did not pay the various taxes and fees to the applicable Authorities in a timely manner, the Authorities

might have suspended the Debtors' business operations, filed Liens, sought to lift the automatic stay, or pursued other remedies that would harm the Debtors' Estates. As a result, the Debtors moved for, and the Bankruptcy Court granted, the Debtors' request for authority to pay certain taxes, fees, and charges owed to the Authorities.

In addition, prior to the Petition Date, the Debtors established an escrow account to provide greater assurance for the remittance of these fees and taxes. The escrow account was created pursuant to an escrow agreement, dated November 29, 2002, by and between UAL and LaSalle Bank National Association, as escrow agent. On December 5, 2002, UAL deposited \$200 million into the escrow account. Based on the importance of continuing to satisfy the obligations of the Debtors to the various authorities described above, the Bankruptcy Court granted the Debtors' request to assume the escrow agreement under Section 365 of the Bankruptcy Code. As of September 7, 2005 there remains \$200 million in the escrow account.

6. Motion for Authority to Pay in the Ordinary Course of Business Prepetition Claims of Essential Trade Creditors

The Debtors purchase goods and services from certain domestic vendors who are not affiliated with the Debtors. The Debtors' obligations to these trade Creditors include, among others, obligations owed to: (a) parts suppliers; (b) maintenance service providers; (c) essential amenity providers; (d) flight training suppliers; (e) information service providers; (f) essential goods providers; and (g) insurance providers. The future revenues and profits of the Debtors would suffer if the Debtors' relationships with these vendors were terminated. Many of these trade Creditors are sole source suppliers without whom the Debtors could not operate. The Debtors believed it was essential that they be allowed to pay selected trade Creditors in the ordinary course of business to continue the Debtors' operations and to honor their contractual commitments to their customers. Upon the Debtors' motion, the Bankruptcy Court granted the Debtors the authority to provisionally pay in the ordinary course of business Claims of essential trade Creditors, up to an aggregate amount of \$35 million. As of August 30, 2005, the Debtors have paid approximately \$528,000 in prepetition Claims of essential trade Creditors.

7. Motion for Authority to Pay Foreign Vendors, Service Providers, and Governments

The Debtors' foreign routes are extremely valuable assets of their Estates. The Debtors believed that if outstanding prepetition obligations owing to certain foreign vendors, service providers, regulatory agencies, and governments (collectively, the "Foreign Entities") were not paid, the Foreign Entities would take actions that could severely disrupt the Debtors' foreign operations. On December 11, 2002, the Bankruptcy Court authorized the Debtors to pay or honor their prepetition obligations to the Foreign Entities.

8. Motion for Authority to Assume Certain Clearinghouse and Similar Agreements in the Ordinary Course of Business

The airline business is an interdependent industry based upon a network of agreements that govern virtually all aspects of air travel and airline operations. Among other things, these agreements facilitate cooperation among airlines with respect to such critical activities as making reservations and transferring passengers, packages, baggage, and mail between airlines. Certain services under these agreements, such as the clearinghouse functions and nationwide reservations services, are the equivalent of industry-wide "utility" services for which there is no readily available alternative.

To preserve their essential relationships with their various tour operators, cargo agents, travel agents, clearinghouses, other airlines with whom they have various interline agreements, commercial

and/or code sharing relationships, and certain other business entities, the Debtors moved for and the Bankruptcy Court granted the Debtors authority to assume their interline agreements, clearinghouse agreements, billing and settlement plan agreements, cargo agreements, the Universal Air Travel Plan agreement, and their agreements with respect to the Star Alliance (collectively, the “Clearinghouse Contracts”). The Debtors also requested authority to continue honoring, performing, and exercising their respective rights and obligations (whether prepetition or postpetition) in the ordinary course of business and in accordance with, among others, the Debtors’ code share agreements, express carrier agreements, global distribution systems agreements, network agreements, travel agency agreements, booking and online fulfillment agreements, cargo agency agreements, and Mileage Plus agreements (collectively, the “Clearinghouse Obligations”). Because certain of the Clearinghouse Contracts and the Clearinghouse Obligations provide for an ongoing mutual billing and settlement and adjustment process that necessarily entails continuing submission of billings to the Debtors and continuing setoffs of obligations owed to and obligations owed by the Debtors, the Debtors also requested that the Bankruptcy Court lift the automatic stay to the extent necessary to enable the parties to participate in routine billings and settlements in accordance with certain of the Clearinghouse Contracts.

9. Motion for Authority to (A) Apply Prepetition Payments to Postpetition Fuel Supply Contracts and Pipeline and Storage Agreements, (B) Honor Other Fuel Supply, Pipeline, Storage, Into-Plane Fuel Contracts and Other Fuel Service Arrangements, and (C) Continue Participation in Fuel Consortia

As of the Petition Date, the Debtors purchased approximately 4.6 million barrels of jet fuel per month to operate their aircraft. A ready fuel supply for the Debtors’ fleet of aircraft and, consequently, an ability to perform under any of their fuel purchase, delivery, storage and other service arrangements customary in the airline industry, is of critical importance to their continued operations and successful reorganization.

Accordingly, the Debtors moved for and the Bankruptcy Court granted an order: (i) authorizing certain of the Debtors’ fuel suppliers and pipeline and storage providers to credit postpetition fuel lifting and pipeline and storage facility usage with any prepayment or other credits existing prior to the Petition Date; (ii) authorizing the Debtors to honor, perform, and exercise their rights and obligations (whether prepetition or postpetition) pursuant to certain of their fuel supply contracts, pipeline and storage agreements, into-plane service contracts, and fuel consortia arrangements; and (iii) authorizing the Debtors to continue participating in their fuel consortia arrangements in the ordinary course of business.

10. Motion for Authority to Assume Credit Card Agreements

Credit card sales represent a substantial majority of the Debtors’ total gross sales receipts. The Debtors have various agreements with credit card processors to collect and process credit card receivables. Pursuant to these various agreements, the parties specify a discount rate that reduces the amount of credit card receivables that are paid by processors to the Debtors. In addition, the agreements may specify the amount of the reserve that the processors can maintain.

As the largest component of the Debtors’ revenues, credit card sales are an essential component of the Debtors’ businesses. Accordingly, the Debtors moved for an order authorizing the Debtors to assume, as modified, contracts with certain of their credit card processors. Initially, the Bankruptcy Court authorized the Debtors to assume credit card processing agreements with: (i) American Express Travel Related Services Company, Inc.; (ii) Novus Services, Inc.; (iii) Citibank International plc; and (iv) Universal Air Travel Plan.

On December 30, 2002, National Processing Company LLP and National City Bank of Kentucky (collectively, “National City”) objected to the assumption of their credit card contract with the Debtors, claiming that the contract was a financial accommodation, and therefore not assumable under the Bankruptcy Code; or, in the alternative, that the contract could not be assumed unless the Debtors agreed to provide National City with adequate assurance of future performance. After conducting a full hearing on the issues, the Bankruptcy Court disagreed with National City’s arguments and held that the contract was assumable and that the Debtors could assume the contract without providing any additional security. National City subsequently appealed the Bankruptcy Court’s decision to the United States District Court for the Northern District of Illinois (except as otherwise noted, the “District Court”). Both the District Court and the United States Court of Appeals for the Seventh Circuit (the “Seventh Circuit”) subsequently affirmed the Bankruptcy Court’s decision.

11. Motions for Authority to Obtain Postpetition Financing

To maintain business relationships with vendors, suppliers, and customers, to address liquidity concerns, and to satisfy other working capital needs prior to the commencement of the Chapter 11 Cases, the Debtors negotiated term sheets and commitment letters for two Debtor-in-Possession credit agreements for up to \$1.5 billion in postpetition financing. On December 30, 2002, pursuant to two orders, the Bankruptcy Court gave its final approval of the DIP Facilities.

One of the two orders authorized the Debtors’ entry into a stand-alone \$300 million amortizing term loan from Bank One, NA secured by, among other things, the revenue from the Co-Branded Credit Card Program Mileage Plus Agreement between Bank One, United, and ULS (as amended, restated, waived, supplemented or otherwise modified from time to time, the “Bank One DIP Facility”). United made its final payment under the Bank One DIP Facility on July 1, 2004. Thus, the Bank One DIP Facility terminated on that date.⁹

The other order authorized the Debtors’ entry into a separate debtor-in-possession credit facility in the form of revolving and term loans up to an aggregate principal amount of \$1.2 billion from JPMorgan Chase Bank, Citicorp USA, Inc., Bank One, The CIT Group/Business Credit, Inc. and a syndicate of lenders party to the Club DIP Facility (collectively, the “Club DIP Lenders”) on a *pro rata* basis (as amended, restated, waived, supplemented or otherwise modified from time to time, the “Club DIP Facility,” and collectively with the Bank One DIP Facility, the “DIP Facilities”). The commitments under the Club DIP Facility were to be provided in two stages. In Stage I, the Club DIP Lenders made a commitment to provide a \$100 million Tranche A revolving credit and letter of credit facility, and a \$400 million Tranche B term loan. The Debtors immediately drew on the entire \$500 million available under the Stage I facilities. In Stage II, which would become available only upon the occurrence of certain specified conditions, the Debtors could access an additional \$700 million under Tranche A. A first priority perfected Lien on substantially all of the Debtors’ assets secures the Club DIP Facility.

The DIP Facilities have allowed the Debtors to pay certain permitted prepetition Claims, fulfill working capital needs, obtain letters of credit, and pay for other general corporate matters. Moreover, the funds available to the Debtors under the DIP Facilities have provided the necessary security to the

⁹ As a condition to obtaining DIP financing from Bank One at the inception of these Chapter 11 Cases, the Debtors assumed a co-branded credit card agreement (the “Co-Branded Card Agreement”) with Bank One. The Co-Branded Card Agreement contains a liquidated damages clause that would result in a \$700 million postpetition claim against United, ULS, and UAL in the event of a breach before the end of 2005. This liquidated damages clause reduces to \$600 million for breaches that occur on or after January 1, 2006.

Debtors' vendors so that they would continue to do business with the Debtors, helping to minimize the disruptions to the Debtors' operations as the Debtors pursued their reorganization efforts.

Both DIP Facilities have been amended several times during the Chapter 11 Cases, in some cases to address issues unique to each facility and in other cases to address issues common to both facilities.

a. Summary of Amendments Specific to the Club DIP Facility

Specifically with respect to the Club DIP Facility, certain waivers and amendments made during the Chapter 11 Cases, among other things, served to: (a) establish the borrowing base criteria; (b) waive United's compliance requirements with certain EBITDAR covenants; (c) permit an "overadvance" on the borrowing base under the Club DIP Facility; (d) increase the amount of debt that can be secured by Liens or letters of credit in connection with fuel hedging or similar agreements; (e) increase the total collateral available to the DIP Lenders; (f) assign a portion of the initial lender's commitments to new members of the bank syndicate; and (g) reduce the interest rate on the Club DIP Facility financing. Another amendment that was necessary with respect to the Club DIP Facility occurred during the third quarter 2004 when Cendant and Orbitz announced their merger and United agreed to sell the remainder of its equity investment in Orbitz, Inc. pursuant to a tender offer by Cendant Corporation. The Bankruptcy Court approved United's participation in the transaction on October 15, 2004. This transaction generated approximately \$185 million in proceeds (of which 25% would, under the then current terms, be used to pay down the Club DIP Facility) and a one-time gain of approximately \$155 million. Pursuant to the ninth amendment to the Club DIP Facility, United retained 100% of these proceeds.

Of particular note, the Club DIP Facility has been amended several times to reflect changes in the commitment under such facility. The second amendment to the Club DIP Facility, executed on February 10, 2003, among other things, reduced the commitment under Tranche A of the Club DIP Facility by \$200 million (thereby reducing the total commitment under the Club DIP Facility to \$1 billion). The seventh amendment to the Club DIP Facility, executed on May 7, 2004, among other things, entirely eliminated Stage II of that facility, which the Debtors had never accessed, thus reducing the total commitment under the Club DIP Facility to approximately \$500 million, consisting of a \$300 million term loan and a \$200 million revolver (which included a \$100 million liquidation reserve). As a result of the ATSB denial of a loan guarantee, discussed in ARTICLE III.C.4 herein, the Debtors determined that they needed to secure additional DIP financing to satisfy the added liquidity needs of an extended stay in bankruptcy. The Debtors quickly began intensive, arm's-length negotiations with their Club DIP Lenders, ultimately reaching agreement on the eighth amendment to the Club DIP Facility which provided for an additional \$500 million in DIP financing. On July 21, 2004, after the final payment on the Bank One DIP Facility, the Debtors received commitments for the \$500 million increase, thus increasing the amount they had available in total DIP financing to \$1.0 billion. Pursuant to the Twelfth Amendment to the Club DIP Facility, approved by the Bankruptcy Court on July 15, 2005, the Club DIP Lenders agreed to increase their commitment under the Club DIP Facility by approximately \$310 million to approximately \$1.3 billion. The Club DIP Lenders also agreed, among other things, to extend the Club DIP Facility's maturity date, which had already been extended several times during the Chapter 11 Cases through December 30, 2005 (with an option to by the Debtors to further extend the maturity date to March 31, 2006, subject to no event of default under the Club DIP Facility existing on December 30), to decrease the interest rate under the Club DIP Facility by 25 basis points and to amend certain covenants to give the Debtors more flexibility to optimize operations, and to make additional amendments to the Club DIP Facility, the SGR Security Agreement and Aircraft Mortgage.

Pursuant to the recent Thirteenth Amendment to the Club DIP Facility, approved by the Bankruptcy Court on August 18, 2005, the Club DIP Lenders agreed to a Tranche C term loan which would be structured as a senior secured superpriority debtor-in-possession term loan facility up to the

aggregate principal amount of \$350 million, at a market rate of interest. The specific purpose of the Tranche C loan is to refinance certain aircraft under the 1997-1 EETC financing transaction. Pursuant to the Thirteenth Amendment, JPMorgan intends to syndicate all or part of the Tranche C loan. As of the date of this Disclosure Statement, the conditions for funding the Tranche C loan have not yet been satisfied. If such conditions are met, the total amount of the Club DIP Facility will be in an amount up to \$1.65 billion. On August 26, 2005 Wells Fargo Bank Northwest, N.A., the trustee under the 1997-1 EETC aircraft financing, filed a notice of appeal of the Bankruptcy Court's order approving the Thirteenth Amendment to the Club DIP Facility.

b. Summary of Amendments Specific to the Bank One DIP Facility

Specifically with respect to the Bank One DIP Facility, certain waivers and amendments served to: (a) waive UAL's and the other Debtors' noncompliance with reporting requirements; and (b) clarify the events which trigger prepayment of the Bank One DIP Facility.

c. Summary of Amendments Common to the DIP Facilities

The waivers and amendments common to the Bank One and Club DIP Facilities served to: (a) increase both the applicable interest rates on the loans and the minimum cash covenants; (b) allow United, pursuant to a tax stipulation, to enter into an arrangement with the U.S. government to receive a tax refund as well as impose a Lien, in favor of the government, on a portion of such refund; (c) waive events of default relating to: (i) United's failure to make certain payments in connection with the Section 1110 Fleet; (ii) the increase in United's indebtedness as a result of deferring payments with respect to the Section 1110 Fleet, provided certain other conditions were satisfied; (iii) United's failure to provide proper notice with respect to its modification or suspension of service on certain routes; (iv) the incurrence of additional Liens on United's fuel inventory; (v) the financing of certain insurance premiums; (vi) United's failure to provide proper notice regarding its discontinuation of service on the San Francisco/Taipei route; and (vii) cross-defaults under either facility; and (d) permit United to: (i) elect not to pay an obligation arising under a Section 1110-related agreements unless compelled by the Bankruptcy Court; (ii) incur additional Liens on cash collateral and fuel inventory; (iii) incur a Lien on United's right to receive a refund of unearned insurance premium financed by United; (iv) increase its indebtedness as a result of deferring payments with respect to the Section 1110 Fleet, provided certain other conditions were satisfied; (v) permanently transfer certain slots it maintained at the London Heathrow Airport; (vi) enter into the Fuel Supply Agreement with Morgan Stanley, as well as incur a Lien on the deposit securing United's and UAFC's obligations under the Fuel Supply Agreement; (vii) restructure indebtedness secured by a Lien on five (5) certain flight simulators; and (viii) dispose of both its interest in Hotwire, Inc. and a portion of its interest in Orbitz, Inc. and Orbitz, LLC through a public offering (such net cash proceeds were used to prepay the Club DIP Facility in accordance with its terms).

12. Applications for Retention of Debtors' Professionals

On December 30, 2002, and February 1, 2003, the Bankruptcy Court approved the retention of certain Professionals to represent and assist the Debtors in connection with the Chapter 11 Cases. Certain of these Professionals have been intimately involved with the negotiation and development of the Plan. These Professionals include, among others: (a) Kirkland & Ellis LLP as counsel for the Debtors; (b) Rothschild as investment banker and financial adviser for the Debtors; (c) Huron as restructuring consultants to the Debtors; and (d) Poorman-Douglas as notice agent and Claims Agent for the Debtors. The Bankruptcy Court also approved the Debtors' requests to retain other Professionals to assist the Debtors in other ongoing matters. These Professionals include, but are not limited to: (i) Vedder, Price, Kaufman & Kammholz, P.C. as special aircraft financing counsel and conflicts counsel to the Debtors; (ii) Paul, Hastings, Janofsky & Walker LLP as special labor counsel and special litigation counsel to the

Debtors; (iii) Babcock & Brown LP as restructuring advisor to the Debtors with respect to secured aircraft debt and lease obligations; (iv) Deloitte & Touche LLP as independent auditors, accountants and tax service providers to the Debtors; (v) Wilmer, Cutler, Pickering, Hale and Dorr LLP as special regulatory counsel to the Debtors; and (vi) Piper Rudnick LLP as special labor counsel to the Debtors. The Bankruptcy Court also authorized the establishment of procedures for interim compensation and reimbursement of the Debtors' Professionals.

Subsequently, the Debtors sought Bankruptcy Court approval to employ additional Professionals. On February 27, 2003, the Bankruptcy Court approved the retention of McKinsey & Company as management consultant to the Debtors. The Bankruptcy Court similarly approved the retention of Bain & Company as strategic consultants and negotiating agents for the Debtors on April 16, 2003. It approved the retention of Mercer Management Consulting as executory contract consultants on May 23, 2003. Also on May 23, 2003, the Bankruptcy Court approved the retention of Transportation Planning, Inc. as appraisers to the Debtors. On February 25, 2004, the Bankruptcy Court approved the retention of Mayer Brown Rowe & Maw LLP as special litigation counsel. On November 1, 2004, the Bankruptcy Court approved the retention of Bridge Associates, LLC to provide financial and operational review and consulting services to United. Finally, in October of 2004, United obtained Bankruptcy Court approval for the retention of Novare, Inc. and Account Resolution Corporation as preference consultants.

C. Debtors' Restructuring Initiatives

Following the filing of the Debtors' Chapter 11 petitions and the initial stabilization of their operations, the Debtors focused on pursuing a number of restructuring initiatives to prepare for their successful emergence from Chapter 11. Several of these initiatives are described in further detail below.

1. Automatic Stay

The filing of the bankruptcy petition on the Petition Date triggered the immediate imposition of the automatic stay under Section 362 of the Bankruptcy Code, which, with limited exceptions, enjoined the commencement or continuation of all collection efforts and actions by Creditors and claimants, the enforcement of Liens against property of the Debtors, and continuation of litigation against the Debtors. The automatic stay remains in effect until the Debtors' emergence from Chapter 11.

September 11 Litigation. While most litigation against the Debtors remains stayed, the Debtors have filed a number of stipulations with the Bankruptcy Court modifying the automatic stay to allow certain plaintiffs to proceed for the limited purpose of establishing liability and/or recovering from available insurance proceeds. One of the most significant cases to proceed arises out of the September 11, 2001 terrorist attacks, which involved two United aircraft (Flights 175 and 93). Hundreds of lawsuits have been filed as a result of the events of September 11 in the United States District Court for the Southern District of New York, which has exclusive jurisdiction over all claims arising out of the terrorist attacks. In addition, various parties filed approximately 370 Proofs of Claim against the Debtors' Estates on account of this litigation. These suits assert a variety of theories, including wrongful death, personal injury, and property damage, based on the allegation that United, among others, breached its duty of care to its passengers and certain ground victims. Pursuant to legislation passed by Congress (the Air Transportation and Safety and System Stabilization Act of 2001, codified at 49 U.S.C. § 40101 and amended by the Aviation and Transportation and Security Act, Pub. L. 107-71, 115 Stat. 597 (2001)), the recovery by such plaintiffs is limited to the amount of applicable insurance coverage. As a result, on May 29, 2003, the Debtors reached an agreement with the September 11 plaintiffs whereby they would proceed against liability insurance proceeds. Since that time, a number of plaintiffs pursuing litigation in the Southern District of New York have opted into the September 11 Victims' Compensation Fund, which allowed individual victims of the September 11 terrorist attacks to receive compensation from the

federal government in lieu of pursuing a civil action, as a result of which their lawsuits against the Debtors have been dismissed. As a result of such dismissals, only 121 lawsuits are still active. Of these, 33 plaintiffs continue to seek recovery against the Debtors' applicable insurance for damages caused to passengers or ground victims by the two United flights. An additional 30 property damage lawsuits are still pending. In addition, only 15 Proofs of Claim related to the September 11 terrorist attacks remain on the Debtors' Claims register. The Debtors reserve all rights, claims, and defenses with respect to this litigation and any Proofs of Claim filed by such plaintiffs.

Summers Litigation. On February 28, 2003, certain participants in the Debtors' ESOP (the "ESOP Plaintiffs") brought a purported class action in the District Court against UAL's ESOPs, the "ESOP Committee," and certain of the ESOP Committee members (the "ESOP Defendants") alleging the ESOP Defendants breached their fiduciary duties by not selling UAL stock held by the ESOP (the "Summers Litigation"). The complaint cites numerous events and disclosures that allegedly should have alerted the ESOP Defendants of the need to sell the shares. The Debtors have \$10 million in fiduciary insurance for any liability and are obligated to indemnify the ESOP Committee members for any liability beyond that coverage.

On May 9, 2003, the ESOP Committee and certain of its members filed indemnification Claims against the Debtors in the Chapter 11 Cases relating to the Summers Litigation. On July 3, 2003, the ESOP Plaintiffs filed a purported class action Claim in the Chapter 11 Cases making similar Claims that the Debtors breached their fiduciary duties to monitor the ESOP Committee members. The parties subsequently entered into a stipulation under which the ESOP Plaintiffs agreed to proceed only against the insurance proceeds. On February 17, 2005, the District Court certified the matter to proceed as a class action on behalf of all participants in the ESOP. All parties (the ESOP Plaintiffs, State Street, and the ESOP Committee) have filed motions for summary judgment, all of which are fully briefed and currently pending. The Seventh Circuit subsequently authorized the ESOP Defendants to file an interlocutory appeal from the class certification decision. The appeal has now been fully briefed. On August 17, 2005 the ESOP Plaintiffs and the ESOP Committee Defendants filed a proposed settlement with the District Court. The District Court preliminarily approved the settlement. The ESOP Plaintiffs are in the process of notifying class members of the settlement and the fairness hearing for the settlement is scheduled for October 12, 2005. State Street did not settle with the ESOP Plaintiffs and the parties are scheduled to go to trial in the District Court in October. The Debtors reserve all rights, claims, and defenses with respect to this litigation.

Hall d.b.a. Travel Specialists v. United. A North Carolina travel agent filed an antitrust class action suit against United (and other carriers) initially in state court and then in federal court (in North Carolina), following the reduction by United (and other carriers) in November 1999 of commission rates payable to travel agents. The plaintiffs alleged that United and the other carrier-defendants conspired to fix travel agent commissions in violation of the Sherman Act and sought treble damages and injunctive relief. Subsequent to this initial filing, the case was expanded by the addition of new carrier defendants and the certification of a plaintiff class consisting of all U.S. travel agencies. The plaintiffs also have added Claims relating to the carriers' commission reduction actions in 1997, 1998, 2001, and 2002. The plaintiffs have claimed lost commissions in the amount of \$13 billion, although United's alleged share of this amount was not specified. Upon the Debtors' Chapter 11 filing, this case was stayed as against United. Since that date, all remaining defendants have moved for summary judgment. Subsequently, the United States District Court for the Eastern District of North Carolina granted summary judgment in favor of the defendants. The plaintiffs appealed the summary judgment decision to the Fourth Circuit Court of Appeals, and on December 9, 2004, the Fourth Circuit affirmed the trial court's ruling dismissing all claims. On January 4, 2005, the Fourth Circuit denied plaintiffs' request for a rehearing *en banc* and the time for further appeal has now expired. The Debtors reserve all rights, claims, and defenses with respect to this litigation.

Always Travel Litigation and Canadian CCAA Filing. On May 13, 2002, Always Travel Inc. (“Always Travel”), Highbourne Enterprises Inc. (“Highbourne”), and Canadian Standard Travel Agent Registry (“CSTAR” and together with Always Travel and Highbourne, the “Canadian Plaintiffs”) commenced an action in the Federal Court of Canada (the “Federal Court”) against United, Air Canada, American Airlines Inc., Delta Airlines Inc., Continental Airlines Inc., Northwest Airlines Inc., and the International Air Transport Association. Always Travel and Highbourne are both travel agencies located in Canada, specifically in Montreal, Québec, and Toronto, Ontario. CSTAR is a not-for-profit corporation purporting to represent travel agencies throughout Canada. The Canadian Plaintiffs had claimed damages on their own behalf and as representatives of a class of travel agents in Canada for, among other things, damages as a result of an alleged conspiracy and breach of the Canadian Competition Act. In August 2004, a Canadian insolvency judge upheld the separate decisions of a claims monitor and a claims officer disallowing the Canadian Plaintiffs’ Claims in their entirety. Subsequently, pursuant to an objection filed by the Debtors, the Bankruptcy Court disallowed the Canadian Plaintiffs’ Proofs of Claim filed in the Chapter 11 Cases. The underlying litigation against all the airline defendants, including United, has now been dismissed with prejudice bringing this dispute to a final conclusion.

In addition, on May 16, 2003, United and its related entities sought and obtained an order (the “Foreign Recognition Order”) from the Ontario Superior Court of Justice (the “Superior Court”) under the Companies’ Creditors Arrangement Act (“CCAA”) that, among other things: (i) recognized United’s Chapter 11 bankruptcy proceedings in Canada; (ii) stayed all Claims against United in Canada; and (iii) directed all Canadian Creditors and claimants to file any Claims that they may have against the Debtors in their Chapter 11 Cases by no later than June 23, 2003 (the “Canadian Bar Date”). The Superior Court has periodically extended the Foreign Recognition Order, which still remains in effect. Most recently, on June 7, 2005, the Superior Court extended the Foreign Recognition Order through September 16, 2005. The Debtors reserve all rights, claims, and defense with respect to this litigation.

2. Claims

On February 24, 2003, the Debtors filed their schedules of assets and liabilities and statement of financial affairs (the “Schedules”) with the Bankruptcy Court. On June 24, 2005, the Debtors filed amended Schedules with the Bankruptcy Court (the “Amended Schedules”). Interested parties may review the Schedules and/or Amended Schedules at the office of the Clerk of the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division, Everett McKinley Dirksen Building, 219 S. Dearborn, Chicago, Illinois 60604.

On February 27, 2003, the Bankruptcy Court entered an order setting claims bar dates (the “Bar Date Order”) approving the form and manner of the bar date notice (the “Bar Date Notice”). Pursuant to the Bar Date Order and the Bar Date Notice, the general Bar Date for filing Proofs of Claim in these Chapter 11 Cases was May 12, 2003 for all persons and non-governmental entities, and June 9, 2003 for all governmental entities. The Debtors served copies of the Bar Date Notice on all scheduled Creditors, employees, and other potential Creditors and published the Bar Date Notice in USA Today, The Wall Street Journal, The New York Times, Chicago Tribune, The Australian, the London Times, the South China Morning Post, Asahi Shinbun, La Nacion, Folha de Sao Paulo (Retail Rate), USA Today - Global Edition, and the International Herald Tribune. In addition, as discussed above, pursuant to the Foreign Recognition Order, the Debtors published notice of the Canadian Bar Date in the Globe and Mail (National Edition) on May 28, 2003.

Claims Estimates. As of September 1, 2005, the Debtors’ Claims Agent had received approximately 44,716 Proofs of Claim. As of September 1, 2005, the total amounts of remaining Claims filed against the Debtors were as follows: 319 Secured Claims in the total amount of \$13,545,350,698.99; 95 Administrative Claims in the total amount of \$319,766,767.14; 256 Claims

asserting Priority Claims in the total amount of \$10,470,875,378.18; and 6,208 Unsecured Claims in the total amount of \$20,422,648,792.51. The Debtors believe that many of the filed Proofs of Claim are invalid, untimely, duplicative, overstated, and therefore are in the process of objecting to such Claims. Through such objections, the Bankruptcy Court has to date disallowed a total of approximately \$3.618 trillion in Claims (including reduced Retroactive Pay Claims of \$3.375 trillion).

The Debtors estimate that at the conclusion of the Claims objection, reconciliation and resolution process, the aggregate amount of estimated Allowed Secured Claims against the Debtors will aggregate approximately \$8 billion, estimated Allowed Priority Tax Claims against the Debtors will aggregate approximately \$60 million, and estimated Allowed Unsecured Claims against the Debtors will aggregate approximately \$28 billion.¹⁰ These estimates are based upon a number of assumptions made by the Debtors. Moreover, there is no guarantee that the ultimate amount of each of such categories of Claims will conform to the estimates stated herein, and most of the Claims underlying such estimates are subject to challenge.

The Debtors estimate that at the conclusion of the Claims objection, reconciliation and resolution process, the aggregate amount of estimated Allowed Administrative Claims against the Debtors will aggregate approximately \$81 million. The estimate of Allowed Administrative Claims includes, *inter alia*, Claims associated with the cure of assumed executory contracts and unexpired leases, Claims related to aircraft subject to Section 1110(a) elections and/or Section 1110(b) stipulations (but not any Claims asserted by parties seeking allowance of administrative claims under Sections 503(b) and 365(d)(10) of the Bankruptcy Code for aircraft), Claims arising from a right of reclamation, and certain Administrative Claim requests reflected on the Claims Register and docket for which the Debtors reasonably expect there to be a recovery. The estimate of Allowed Administrative Claims does not include ordinary course trade payables, the Debtors' key employee retention plans, or Professional fees.

Also, to resolve an adversary proceeding against the United States government seeking turnover of certain tax refunds, overpayments, and other tax-related items owed to the Debtors, and in return for the release to the Debtors of approximately \$363 million administratively frozen by the U.S., the Debtors and the U.S. entered into a stipulation and agreed order (approved by the Bankruptcy Court on March 27, 2003). The stipulation established a \$25 million fund from which valid Claims of the U.S. government could be set off. To date, the U.S. government has exercised approximately \$5.5 million in set offs, reducing the \$25 million fund to \$19.5 million. Any valid Claims of the federal government in excess of the fund would be treated as Administrative Claims by the Debtors, with a maximum cap of approximately \$363 million for such Claims. The Debtors' current estimated aggregate liability to the U.S. government (excluding amounts owed the PBGC) is approximately \$19.7 million. The adversary proceeding was dismissed without prejudice, and the Debtors may, if necessary, institute an action for turnover of any remaining administratively frozen funds. Under the stipulation the Debtors retain the right to object to, and have the Bankruptcy Court adjudicate, any Claim of the U.S. government.

In addition, various alleged Creditors asserted numerous Claims in unliquidated amounts. The Debtors believe that certain Claims that have been asserted are without merit and intend to object to all such Claims. There can be no assurance that the Debtors will be able to achieve the significant reductions in Claims set forth above. Moreover, additional Claims may be filed or identified during the Claims resolution process that may materially affect the foregoing Claims estimates.

¹⁰ The estimate of Allowed Unsecured Claims includes, among other things, proposed distributions to the Debtors' employee groups as discussed in Article III.C.4 herein.

3. Treatment of Net Operating Losses

As of the Petition Date, the Debtors' federal net operating losses ("NOLs") were estimated to be approximately \$4 billion. Since the Petition Date, the Debtors have incurred an additional several billion dollars of NOLs. Under the Internal Revenue Code, NOLs that accumulate prior to emergence from bankruptcy may be used to offset post-emergence taxable income. However, under the applicable federal tax laws, the Debtors would have lost the ability to utilize a significant portion of their NOLs if an "ownership change" were to occur prior to completion of the Chapter 11 Cases. Consequently, trading in the stock of the Debtors could have jeopardized the Debtors' ability to use those NOLs. In addition, the Debtors' ability to use their NOLs could have been significantly limited as a result of trading of Claims against the Debtors.

In light of the vital importance of maintaining this significant source of future savings, the Debtors sought, and the Bankruptcy Court entered, an interim order on December 10, 2002, to prohibit any trading in: (i) Claims against the Debtors; or (ii) equity securities of the Debtors. The Debtors were particularly concerned about sales of equity securities by State Street, the independent fiduciary for the ESOPs, because the ESOPs previously had held more than 50% of UAL's stock. Sales by State Street alone could have triggered an ownership change. The Bankruptcy Court's December 10 interim order applied to any Holder holding at least: (i) 2,500,000 shares of Old UAL Common Stock; or (ii) Claims in excess of \$65 million. Following a hearing on December 30, 2002, the Bankruptcy Court entered an additional interim order to assist the Debtors in monitoring and preserving their NOLs by imposing certain notice and hearing procedures on trading in Claims against, or Interests in, the Debtors. With respect to transfers of Claims, the December 30 interim order also increased the minimum level of applicable Claims from \$65 million to \$200 million and, with respect to Holders of shares, increased the minimum number of shares of Old UAL Common Stock to 4,800,000 shares. On January 15, 2003, the Bankruptcy Court entered another interim order clarifying such procedures and further limiting the application of the restrictions.

In January 2003, the Bankruptcy Court's ruling that State Street could sell only those shares that would not jeopardize the Debtors' NOLs permitted State Street to convert an additional 3.2 million shares of Old Class 1 and Class 2 Preferred Stock to an equivalent 12.8 million shares of Old UAL Common Stock and sell them on the open market. On February 24, 2003, the Bankruptcy Court entered a preliminary injunction limiting transfers of Interests of and Claims against the Debtors and approving related notice procedures consistent with the prior interim orders. On March 4, 2003, the Debtors announced they had received a private letter ruling from the IRS, effectively permitting State Street to sell approximately 3.9 million additional UAL shares, but confirming that sales of any additional shares would in fact cause an "ownership change" that would cause United to lose its NOLs. State Street promptly sold those 3.9 million shares on the open market.

In May 2003, the Old UAL Board passed a resolution that if the IRS amended its regulations, the ESOPs would terminate and all shares held by the ESOPs would be distributed to the individual ESOP participants. On June 27, 2003, the Treasury Department and the IRS released a new set of tax regulations regarding qualified plans (such as the ESOPs) and the manner in which sales and distributions of stock by ESOPs affect corporate NOLs. As a result of these regulations, which generally permitted an ESOP to distribute shares to its participants with no adverse effect on a corporation's NOLs, UAL and the Creditors' Committee authorized termination of the ESOP and State Street was permitted to distribute the remaining 15.9 million shares of Old UAL Common Stock held by the ESOP to the ESOPs' individual participants (after accounting for the conversion of the Old Class 1 and Class 2 Preferred Stock into Old UAL Common Stock).

4. Labor, Pension, and Retirement Cost Restructuring

Prior to the Petition Date, the Debtors struggled under the costs and restrictions of CBAs covering approximately 85% of their domestic work force. The Debtors' CBAs set high wage scales and established work rules that hampered productivity in comparison to the Debtors' competitors. As a result, during 2002, the Debtors had the highest labor costs of any major U.S. airline. Moreover, the CBAs hindered the Debtors' flexibility to make critical business decisions, such as entering into code-sharing agreements with other airlines, allowing its United Express partners to use smaller and less costly regional jets on routes with less demand, and outsourcing work to companies who could provide services at much lower costs than the Debtors' employees. Because labor costs constitute the Debtors' largest expense and consequently are a critical differentiator of total costs among airlines, negotiating modifications to their CBAs ranked among the Debtors' highest priorities from the outset of the Chapter 11 Cases.

The Debtors also faced significant pension obligations. As of the Petition Date, the Debtors sponsored four underfunded defined benefit pension plans: the United Airlines Pilot Defined Benefit Pension Plan (the "Pilot Plan"), the United Airlines Flight Attendant Defined Benefit Pension Plan (the "Flight Attendant Plan"), the United Air Lines Ground Retirement Income Plan (the "Ground Plan"), and the Management, Administrative, and Public Contact Workers Defined Benefit Pension Plan (the "MAPC Plan") (collectively, the "Pension Plans").¹¹ The combination of the lowest interest rates in 45 years and volatile stock market returns caused many U.S. defined benefit pension plans, including those of the Debtors, to become underfunded. Government funding requirements obligated the Debtors to pay a special funding surcharge called a "deficit reduction contribution" ("DRC") that would have required the Debtors to make significant accelerated contributions to the Debtors' Pension Plans over the next few years. The Debtors estimated that they would have had to make over \$5.5 billion in pension contributions (including pilot and management non-qualified benefits) from 2004 through 2008.

a. 2003 Labor, Pension, and Retirement Cost Restructuring

For the first 18 months of their Chapter 11 Cases, and with the support of all of their stakeholders, including the Creditors' Committee, the Debtors focused on obtaining exit financing guaranteed by the ATSB on terms that would have allowed the Debtors to exit bankruptcy with their Pension Plans intact. By statute, a precondition of an ATSB guarantee would have been that non-ATSB-guaranteed financing of the Debtors' business plan submitted to the ATSB was not available on commercially reasonable terms. Thus, no parallel exit financing process could have been undertaken in earnest during the ATSB process. During this time, the Debtors made tremendous strides (which the ATSB expressly acknowledged) in reducing their overall cost structure and making their businesses more competitive, including a tripartite restructuring of their labor, pension, and other retirement costs.

(i) The Debtors' 2003 Labor Cost Restructuring Activities

Negotiations to modify the Debtors' CBAs commenced three days after the Petition Date, when the Debtors presented each of their Unions with proposed modifications to their CBAs, initiating the Section 1113 process under the Bankruptcy Code. While the Debtors committed to reaching consensual settlements, they informed their Unions that to satisfy covenants under the DIP Facility they would be forced to seek rejection of their CBAs if negotiations proved unsuccessful. Simultaneously, the Debtors

¹¹ In addition, the Debtors sponsor the United Air Lines, Inc. Employees' Variable Benefit Retirement Income Plan which is a small frozen defined benefit pension plan. No contributions are currently due with respect to this Plan.

took immediate steps to reduce the pay, benefits and staffing levels of their non-represented SAM employees.

The DIP Facility covenants originally required that the Debtors lower their labor costs by mid-February 2003, which would have necessitated a filing to reject the Debtors' CBAs by December 26, 2002. To allow the Debtors enough headroom under the DIP Facility covenants, thereby delaying their Section 1113(c) rejection motion, and allowing the parties more time to reach consensual agreements, the Debtors, ALPA, AFA, PAFCA, and TWU agreed to interim wage reductions, which were ratified by their memberships in early January 2003. The Debtors subsequently moved under Section 1113(e) for interim wage relief against IAM 141 and IAM 141M, which the Bankruptcy Court granted on January 10, 2003.

After attaining interim wage relief, the Debtors and their Unions continued negotiations to achieve long-term wage and benefit cost-saving agreements. By mid-March, the Debtors had reached agreement only with TWU, the smallest of the Debtors' Unions (the "TWU 2003 Restructuring Agreement"). Thus, even while continuing to negotiate, the Debtors were forced to file their Section 1113(c) motion on March 17, 2003, to reject all of their other CBAs.

Ultimately, the negotiations succeeded. On March 27, 2003, the Debtors and ALPA reached tentative agreement on long-term modifications to the ALPA CBA (the "ALPA 2003 Restructuring Agreement"), while the Debtors reached tentative agreements with AFA (the "AFA 2003 Restructuring Agreement"), PAFCA (the "PAFCA 2003 Restructuring Agreement"), IAM 141 (the "IAM 141 2003 Restructuring Agreement"), and IAM 141M¹² (the "IAM 141M Restructuring Agreement," and collectively, the "2003 Restructuring Agreements") in early April 2003. Each of the Unions' memberships subsequently ratified their respective 2003 Restructuring Agreements.

Significantly, the 2003 Restructuring Agreements provided for: enhanced flexibility with respect to regional jets, outsourcing, and code share arrangements; a low-cost product offering; and a success-sharing program. The Debtors, ALPA, and IAM also entered into letters of agreement providing that ALPA and IAM would have a seat on Reorganized UAL's board of directors. Pursuant to the 2003 Restructuring Agreements, the Debtors achieved average annual savings of approximately \$1.1 billion from ALPA; approximately \$500,000 from TWU; approximately \$4 million from PAFCA; approximately \$300 million from AFA; approximately \$350 million from IAM 141M; and approximately \$450 million from IAM 141. The Debtors also achieved average annual savings of approximately \$332 million from their SAM employees. In all, these changes were projected to result in average annual savings of approximately \$2.5 billion over the 2003 to 2008 time period. Additionally, concessions included in the 2003 Restructuring Agreements reduced the Debtors' projected pension funding contributions by approximately \$1.2 billion between 2004 and 2008.

The Debtors agreed that all of their employee groups would share proportionately in the distribution under the Debtors' plan to the unsecured creditor body. Specifically, the Debtors agreed to propose a plan of reorganization that provided for distributions to each of the their Union-represented and SAM employee groups based on their pro rata share of the Unsecured Distribution as though such employee groups had Unsecured Claims, calculated as follows: (a) the dollar value of 30 months of average cost reductions obtained in the Debtors' 2003 labor savings initiatives with respect to each

¹² In July 2003, the National Mediation Board announced that the Debtors' mechanics and related employees, previously represented by the IAM, voted to change their union representation to AMFA. This change in representation from IAM to AMFA had no effect on the terms or duration of the modified CBAs ratified in April 2003.

employee group as reasonably measured by the Debtors' labor model, divided by (b) the sum of each respective distribution amount and the total amount of all other allowed prepetition general Unsecured Claims against the Debtors. Collectively, the average labor cost savings over 30 months based on the Debtors' 2003 labor savings initiatives total approximately \$6.4 billion.

On April 30, 2003, the Debtors filed a motion to approve the 2003 Restructuring Agreements, and the Bankruptcy Court considered the motion the same day. Certain parties objected to the distributions under the 2003 Restructuring Agreements. The Debtors addressed the objectors' concerns by including a reservation of rights in the order approving the motion as follows:

[V]arious parties state that the claims set forth in the Distribution Agreements contained in the [2003] Restructuring Agreements may be challenged at a later date; the Debtors and the unions state that the Restructuring Agreements speak for themselves in that regard.

Order Approving 2003 Restructuring Agreements, ¶ 4. When one of the objectors asked for clarification of this provision in the order, the Bankruptcy Court stated as follows:

I don't know, and can't possibly have given sufficient consideration to know, the appropriateness of a claim to be asserted by the unions in connection with these restructurings. I have every reason to believe that it was the subject of considerable negotiation between United and the unions. If there's also no question that the agreement of the unions to accept reductions in the compensation of their members as this case moves forward would be essential to the continued operation of the airline, it's continued ability to generate income and, hence, the potential for your clients recovering anything on their general unsecured claims -- with those observations, I would suggest that it is highly likely that the claims that are set forth in this agreement would ultimately be approved by the Court if there were a challenge made to the claims. However, I have to believe that the provisions of Section 502 of the Bankruptcy Code which would allow other parties to challenge claims asserted by any creditors of the estate, could not be undone by a bilateral agreement between the debtor and a particular creditor. So those -- those would be my observations. If that's troubling to either party in such a way as to cause them not to want me to sign this order, I will hear from them. But that's the way I would view the situation at the present time.

See 4/30/2003 Transcript, pp. 7-8.

While the savings achieved through the Debtors' 2003 labor restructuring initiatives were significant, the Debtors still faced \$2.5 billion in pension plan contributions coming due in 2004 and 2005. For this reason, among others, the Debtors expressly reserved their rights with respect to Section 1113, Section 1114, and pension issues as warranted by future developments.

(ii) The Debtors' Request for Pension Funding Relief

On October 10, 2003, the Debtors filed with the IRS multiple applications for pension funding waivers for all four of the Debtors' Pension Plans. In addition, the Debtors worked closely with other airlines, airline unions, and the AFL-CIO in support of a pension reform proposal that would allow companies affected by the DRC requirements to defer certain accelerated pension funding contributions and smooth out minimum funding requirements over a longer period of time than provided by the current law.

Despite resistance from low fare carriers, Congress enacted the Pension Funding Equity Act (“PFEA”) on April 10, 2004. The PFEA benefited the Debtors in two ways. First, the PFEA adjusted the benchmark that the Debtors were to use during the following two years to calculate their contributions from the 30-year Treasury Bond rate to a rate comprised of a mix of corporate bonds (which lowered the Debtors’ required pension funding obligations in 2004 and 2005). Second, the PFEA provided DRC relief to the airline and steel industries (by deferring certain payments to future years).

(iii) The Debtors’ Section 1114 Negotiations: Obtaining Modifications to Retiree Benefits

Because of the need to meet certain financial metrics, the Debtors next reluctantly turned to restructuring their costs to provide medical benefits to retirees. On January 14, 2004, the Debtors announced that they would seek modifications to their retirees’ medical benefits pursuant to Section 1114 of the Bankruptcy Code. All of the Unions who represented employees of the Debtors, except for ALPA, agreed to serve as “authorized representatives” for their respective retiree groups. On January 23, 2004, the Debtors filed a motion with the Bankruptcy Court seeking appointment of a committee of retired persons to represent retired salaried and management employees and retired pilots.¹³ On February 20, 2004, the Bankruptcy Court appointed two retiree committees, one committee representing retired pilots and one committee representing retired SAM employees (collectively, the “Retiree Committees”). Thereafter, the Debtors began the negotiation process under Section 1114 by distributing the proposed modifications and relevant information to the Retiree Committees and the other authorized representatives.

The Debtors engaged in negotiations with the authorized representatives throughout April and May 2004. On May 21, 2004, the Debtors were forced to file a motion to modify their retiree medical benefits under Section 1114 because they had only reached consensual agreement on the modification of retiree medical benefits with one of their authorized representatives. Thus, a trial was scheduled for June 11, 2004. On the eve of trial, however, the Debtors reached agreements with each of the authorized representatives. These agreements were subsequently memorialized in an agreed order that the Bankruptcy Court entered on June 14, 2004. The Debtors estimated that the modifications to retiree benefits netted more than \$300 million in total cash savings through 2010.

(iv) Debtors’ Termination of Their SERP

In March 2003, the Debtors ceased payment of Supplemental Executive Retirement Plan (“SERP”) benefits (i.e., non-qualified benefits earned under the terms of the MAPC Plan) to SAM retirees who were not employed by the Debtors on the Petition Date. Subsequently, in February 2005, the Debtors terminated the SERP entirely, thereby eliminating such benefits for all remaining active and retired SAM employees.

¹³ On February 2, 2004, in connection with the Section 1114 process, the AFA filed a motion for appointment of an examiner under Section 1104(c) of the Bankruptcy Code. The AFA argued that an examiner was warranted to determine whether the Debtors intentionally enticed flight attendants into retiring early while at the same time not disclosing that they had already decided to seek modification to their retiree benefits under Section 1114 of the Bankruptcy Code. IAM and AMFA joined this request. The Debtors opposed the request. On February 20, 2004, the Bankruptcy Court ordered the appointment of Ross O. Silverman as examiner (the “Examiner”) for the limited purpose of determining whether the Debtors decided to seek Section 1114 relief prior to July 1, 2003. On March 19, 2004, the Examiner submitted his report to the Bankruptcy Court. The report concluded that the Debtors’ decision to seek relief under Section 1114 was not made before December 15, 2003.

b. Post-ATSB Labor, Pension, and Retirement Cost Restructuring: Obtaining Non-Guaranteed Exit Financing

In June 2004, the ATSB denied the Debtors' federal loan guarantee application, resulting in a need to secure exit financing not backed by ATSB loan guarantees. To obtain exit financing not largely backed by the full faith and credit of the United States, and in the midst of record-high fuel prices and a highly competitive revenue environment, United embarked on significant additional restructuring initiatives, including additional cost-cutting and efficiency improvements. As part of this process, United re-examined every aspect of its cost structure as part of the process of formulating a revised business plan that the capital markets would be willing to finance. Among other things, it became necessary for the Debtors to revisit their labor costs, including their pension obligations, which remained the Debtors' single largest expense.

(i) The Debtors' Decision To Suspend Minimum Funding Contributions

In July 2004, with minimum funding payments of \$72 million, \$404 million, and \$91 million coming due in connection with the Debtors' Pension Plans on July 15, September 15, and October 15, 2004 respectively, the Debtors did not make the July 15 contribution and announced that they would suspend further contributions until a final decision was reached on whether termination and replacement of their Pension Plans was necessary. By suspending contributions, the Debtors averted a precipitous decision with respect to their Pension Plans, allowing for a full and thoughtful exploration with their stakeholders of every possible alternative to termination and replacement. Suspending the contributions also avoided a liquidity crisis which would have been caused by payment of the \$567 million in pension contributions due in July, September, and October 2004. However, as discussed below, the Debtors' decision to defer future pension contributions caused several parties, including PBGC, IAM, AFA, and the United States Department of Labor (the "DOL"), to pursue legal challenges both in and out of the Bankruptcy Court.

In August 2004, AFA filed a master executive council grievance under the AFA CBA seeking to compel the Debtors to immediately make their minimum funding contributions with respect to the Flight Attendant Plan. The Debtors and AFA agreed to an expedited decision process to resolve AFA's grievance. A neutral arbitrator was selected to sit on the AFA System Board of Adjustment, who would have the power, under the AFA CBA, to render a binding decision on AFA's grievance. Ultimately, the AFA System Board of Adjustment ruled in the Debtors' favor and found that the Debtors had been adequately funding the plan from an actuarial perspective and had not violated the AFA CBA.

Outside of bankruptcy, under the Employee Retirement Income Security Act ("ERISA") and the Internal Revenue Code, a lien arises in favor of PBGC when unpaid minimum funding contributions exceed \$1 million. In this case, however, the automatic stay prevented PBGC from perfecting its alleged liens against the Debtors. Notwithstanding the automatic stay, on August 30, 2004, PBGC purported to perfect certain liens against three non-debtor UAL subsidiaries: ULS Ventures, Inc., United Air Lines Ventures, Inc., and Covia LLC.

Following the Debtors' deferral of any decision regarding making additional minimum funding contributions, the Debtors and the DOL engaged in discussions regarding the ongoing administration of the Pension Plans. As a result of these discussions, the Debtors proposed, and the DOL agreed, that the Debtors would retain an independent fiduciary for the Pension Plans. With the DOL's approval, the Debtors engaged Independent Fiduciary Services, Inc. ("IFS") to fill that role.

On November 30, 2004, IFS filed a motion to allow minimum funding contribution claims of the Debtors' Pension Plans as administrative expenses. Specifically, the motion requested the allowance of

an Administrative Claim against the Debtors in the amount of the unpaid minimum funding contributions to the Flight Attendant, Ground, and MAPC Pension Plans (no contributions to the Pilot Plan had been owed during this time period). On March 18, 2005, the Bankruptcy Court ruled in the Debtors' favor that, as a matter of law, only that portion of the Debtors' minimum funding obligations attributable to benefits earned post-petition was entitled to administrative priority under the Bankruptcy Code. Specifically, the Bankruptcy Court held that Section 1113(f), on its own, did not afford super-priority to the Debtors' obligations under their CBAs. Furthermore, the Bankruptcy Court held that PBGC's Claim for unpaid minimum funding obligations was not entitled to tax priority in bankruptcy where, as in this case, the automatic stay prevented the imposition of a lien against the Debtors. IFS has appealed the Bankruptcy Court's ruling to the District Court. On May 27, 2005, the Debtors issued a notice to terminate IFS as independent fiduciary of the Pension Plans, effective on the later of July 27, 2005 or the termination date of each of the Pension Plans, respectively. Because the Ground, Flight Attendant, and MAPC Plans (the Pension Plans that were the subject of IFS's motion) have been terminated, as of July 27, 2005 IFS is no longer independent fiduciary of those Pension Plans.

Separately, the Debtors' Canadian Auto Workers-represented ("CAW") and IAM-represented employees located in Canada brought a motion before the Ontario Superior Court of Justice (the "Ontario Superior Court") to compel minimum funding contributions to the pension plans maintained for the Debtors' Canadian employees (the "Canadian Pension Plans"). In early February 2005, the Ontario Superior Court granted IAM and CAW's motion to compel the Debtors to continue making minimum funding contributions to the Canadian Pension Plans. As a result, on or about March 31, 2005, the Debtors made the missed minimum funding contributions with respect to the Canadian Pension Plans which totaled approximately \$710,000 (USD).

In related matters, on July 30, 2004, IAM and various IAM-represented employees filed two separate lawsuits alleging breaches of fiduciary duty arising out of the Debtors' decision to cease making minimum funding contributions. One action was filed in the District Court against the Pension and Welfare Plans Administration Committee of United Airlines, Inc. ("PAWPAC") and certain executives of UAL, including Glenn F. Tilton, Frederic F. Brace, and Peter D. McDonald (*IAM, et al. v. PAWPAC, et al.*, Case No. 04-C-496). The second action was filed in the United States District Court for the District of New Jersey against the same three executives (*Donnelly, et al. v. Tilton et al.*, Case No. 04-03653). On August 2, 2004, the Debtors brought adversary proceedings against the various plaintiffs, requesting that the Bankruptcy Court enjoin the actions. On August 23, 2004, the Bankruptcy Court entered an order enjoining both actions. Both actions were later dismissed without prejudice. Accordingly, on May 20, 2005, the Debtors agreed to dismiss their adversary proceeding in the Bankruptcy Court without prejudice.

Similarly, on August 11, 2004, IAM and AFA each filed a motion seeking appointment of a Chapter 11 trustee. They argued that the Debtors' management had failed to perform its legal obligations with respect to its nonpayment of minimum funding contributions and was jeopardizing the Debtors' chances of achieving a successful reorganization. In late October 2004, to resolve IAM's and AFA's motions, and address concerns expressed by IAM and AFA regarding the Debtors' reformulated business plan, the Debtors agreed to retain Bridge Associates, LLC to review the Debtors' revised business plan. IAM and AFA subsequently withdrew their motions for the appointment of a Chapter 11 trustee. On December 16, 2004, the Debtors advised the Bankruptcy Court that Bridge Associates, LLC had completed its review of the Debtors' business plan and issued a final report concluding that the business plan was "feasible," subject to certain operational and cash flow assumptions.¹⁴

¹⁴ The term "feasible" as used in Bridge's report was defined as "the quality of being doable."

(ii) Revisiting the Section 1113 Process and Termination and Replacement of the Pension Plans.

In the process of revising their business plan and after reviewing alternative approaches, the Debtors concluded that the airline industry's continuing harsh operating and financial environment would likely require termination and replacement of the Debtors' Pension Plans in order to obtain exit financing without a loan guarantee from the ATSB. The Debtors also determined and announced that, in addition to the savings realized from termination and replacement of the Debtors' Pension Plans, the Debtors' business plan required approximately \$725 million in further average annual labor cost savings from the Debtors' Union and SAM employees to meet exit financing requirements.

To that end, the Debtors officially re-commenced Section 1113 discussions with their Unions on November 4, 2004 by distributing term sheets and a revised business model to them. The term sheets contained specific proposals, including suggested modifications to wages, benefits, and work rules that would provide each group's portion of the approximately \$725 million in labor cost reductions that the Debtors needed to start implementing by January 2005, plus a proposal to eliminate any requirement in their CBAs to maintain the Pension Plans. The Debtors also provided additional alternative cost savings options for the Unions to consider, and underscored their willingness to consider all workable options and alternatives proposed by the Unions that would still provide the long-term savings necessary to exit Chapter 11 successfully. On November 24, 2004, the Debtors filed their Section 1113(c) motion to reject their CBAs. The Bankruptcy Court scheduled a Section 1113(c) trial to commence on January 7, 2005. On a parallel track, the Debtors worked with their Unions to reach consensual agreements that would achieve the cost reductions the Debtors needed and that would avoid the need to commence the Section 1113(c) trial.

(a) The Debtors' December 2004 Agreements with ALPA, PAFCA and TWU

In December 2004, the Debtors and ALPA reached an agreement on modifications to the ALPA CBA. Pursuant to the December 2004 ALPA agreement, the Debtors and ALPA agreed, among other things, that pilot base pay rates would be reduced by 14.7 percent, effective January 1, 2005, not to increase again until 2006. The original ALPA agreement also provided that if the Debtors should seek judicial approval to terminate the Pilot Plan after May 11, 2005, ALPA would waive any claim it may have that the termination of the Pilot Plan would violate the terms and conditions of the ALPA CBA. In return, the Debtors agreed to propose a plan of reorganization that provides pilots with: (a) \$550 million of New UAL Convertible Employee Notes; (b) an additional pro rata distribution of the overall distributions to Unsecured Creditors under a plan; (c) an allowed administrative expense Claim of \$167 million (twice the estimated cost savings to the Debtors), under certain conditions, which would be extinguished only if the agreement was ultimately terminated (the "Double Administrative Claim"); and (d) provide an annual 6 percent defined contribution plan for the pilots.

As outlined in the agreement, the New UAL Employee Convertible Notes would be convertible into shares of New UAL Common Stock at a conversion price equal to the product of (x) 125% and (y) the average closing price of New UAL Common Stock for the sixty consecutive trading days following the Effective Date and will bear interest and be payable all as set forth in the ALPA 2005 Restructuring Agreement. The New UAL Employee Convertible Notes also will include other terms and conditions that are customarily found in public traded convertible securities of this type.

Later in December 2004, the Debtors reached similar agreements with PAFCA and TWU. The PAFCA agreement provided that dispatcher base pay rates would be reduced by 5.2 percent, effective January 1, 2005, that monthly rates would be temporarily reduced by an additional 1.6 percent for the

period January 1, 2005 through June 30, 2005, and that following the expiration of the temporary reduction, dispatcher wage rates would not increase again until 2006. The TWU agreement provided, among other things, that meteorologist base pay rates would be reduced by 9.8 percent, effective January 1, 2005. Both agreements, like the December 2004 ALPA agreement, provided that if the Debtors should seek judicial approval to terminate their respective Pension Plans the Unions would waive any claim they may have that the termination of such Pension Plans violated the terms and conditions of their CBAs. In return, the Debtors agreed to propose a plan of reorganization with: (a) New UAL Convertible Employee Notes (similar to the Notes provided to ALPA-represented employees) of \$24,000 for TWU-represented employees and \$400,000 for PAFCA-represented employees; (b) an additional pro rata distribution of the overall distributions to Unsecured Creditors under a plan; (c) an administrative claim equal to the estimated cost savings to the Debtors, under certain conditions, which would be extinguished only if the agreement was ultimately terminated; and (d) annual contributions to defined contribution plans of 5.5 percent for employees represented by TWU and 5 percent for employees represented by PAFCA.

On December 16, 2004, the Debtors filed a motion to approve the December 2004 ALPA agreement and on January 5, 2005, the Debtors filed a motion to approve the December 2004 PAFCA and TWU agreements. On January 7, 2005, the Bankruptcy Court denied the Debtors' motion to approve the agreement with ALPA. The motion to approve the ALPA agreement was opposed by the Creditors' Committee, IAM, AFA, PBGC and trustees for various bond holders. On January 7, 2005, the Bankruptcy Court denied the motion to approve the agreement with ALPA, finding that certain incentive provisions unduly limited the rights of other parties. Specifically, the Bankruptcy Court found objectionable ALPA's right to terminate the agreement and receive a double administrative claim if (1) other Unions' Pension Plans were not terminated; (2) exclusivity was terminated and (3) a trustee was appointed or the case was converted to Chapter 7. As a result of the Bankruptcy Court's refusal to approve the December 2004 ALPA agreement, the Debtors withdrew their motion to approve their agreements with PAFCA and TWU.

(b) The Debtors' Reconstituted Agreements with ALPA, TWU, and PAFCA

After the Bankruptcy Court denied the Debtors' motion to approve the December 2004 ALPA agreement, the Debtors and ALPA immediately recommenced negotiations to modify the ALPA CBA in a way that would resolve the Bankruptcy Court's concerns. The Debtors and ALPA ultimately reached a tentative agreement reconstituting the deal (the "ALPA 2005 Restructuring Agreement"). Pursuant to the ALPA 2005 Restructuring Agreement, among other things, the pilot base pay rates would be reduced by 11.8 percent, effective January 1, 2005, not to increase again until 2006, and an incremental 6 percent defined contribution plan would be implemented. Unlike the original ALPA agreement, the ALPA 2005 Restructuring Agreement did not contain a Double Administrative Claim or any of the other provisions the Bankruptcy Court found objectionable..

The Debtors also reconstituted their agreements with PAFCA and TWU (respectively, the "PAFCA 2005 Restructuring Agreement" and "TWU 2005 Restructuring Agreement"). Among other things, the PAFCA 2005 Restructuring Agreement provided for dispatcher base pay rates to be reduced by 5.2 percent, effective January 1, 2005, with no increase until 2006, and the TWU 2005 Restructuring Agreement provided for meteorologist base pay rates to be reduced by 7.2 percent, effective January 1, 2005. As with their December 2004 agreement with PAFCA and TWU, the Debtors agreed to provide annual contributions to defined contribution plans averaging 5.5 percent of pay for employees represented by TWU and 5 percent for employees represented by PAFCA.

As with their December 2004 tentative agreements, each of the ALPA, PAFCA and TWU 2005 Restructuring Agreements provided that if the Debtors should seek judicial approval to terminate their

respective Pension Plans, under certain circumstances, the Unions would waive any claims that this would violate the terms and conditions of their CBAs. These 2005 Restructuring Agreements continued to provide that the Debtors would propose a plan of reorganization that contained New UAL Convertible Employee Notes (totaling \$550 million, \$400,000 and \$24,000 for ALPA, PAFCA and TWU represented employees respectively).

During this same time period, the Debtors also announced that they were asking their SAM employees to take further reductions in salary and benefits. Consequently, pay rates were reduced by 4% to 11% on January 1, 2005, and changes to benefits were implemented in the first quarter. Additional reductions to headcount were also made, and initiatives to achieve even further gains in productivity are ongoing. In consideration, and to account for the termination of the MAPC Plan, the Debtors have provided in their business plan to distribute New UAL Convertible Employee Notes to SAM employees calculated using a methodology consistent with that used to calculate the New UAL Convertible Employee Notes for ALPA, PAFCA, and TWU, totaling approximately \$56 million.

Moreover, as they previously had agreed in their 2003 Restructuring Agreements, the Debtors also agreed to provide in their plan of reorganization that their ALPA, PAFCA and TWU-represented and SAM employee groups would share in the distributions to the Debtors' unsecured creditors on account of labor and pension-related savings achieved during the 2005 labor savings initiative. Specifically, the Debtors agreed to propose a plan of reorganization providing for distributions to each of these employee groups as though such groups had Unsecured Claims, calculated as follows: (a) (i) the dollar value of 30 months of average cost reductions obtained in the Debtors' 2003 labor savings initiatives with respect to each respective employee group as reasonably measured by the Debtors' labor model, plus (ii) the dollar value of 20 months of average cost reductions obtained in the Debtors' 2005 labor savings initiatives with respect to each respective employee group as reasonably measured by the Debtors' labor model, divided by (b) the sum of each respective distribution and the total amount of all other allowed prepetition general Unsecured Claims against the Debtors.

Each of the ALPA, TWU, and PAFCA 2005 Restructuring Agreements also provided that they could be terminated at the option of the respective Union if a plan of reorganization is confirmed which contains any material term that is materially inconsistent with the terms of the respective 2005 Restructuring Agreement or if the Debtors failed to achieve a specifically defined aggregate level of cost saving from all of its other employee groups, including SAM. Each of the ALPA, TWU, and PAFCA 2005 Restructuring Agreements was ratified by their respective Union membership and approved by the Bankruptcy Court.¹⁵ The orders approving the ALPA, PAFCA, and TWU 2005 Restructuring Agreements provided that judicial approval of such agreements would have the same meaning and effect as judicial approval of the 2003 Restructuring Agreements.

The Debtors estimate that with respect to wage and related relief, they will achieve approximately \$181 million of average annual wage and related savings pursuant to the ALPA 2005 Restructuring Agreement; approximately \$230,000 of average annual wage and related savings pursuant to the TWU 2005 Restructuring Agreement; approximately \$2.8 million of average annual wage and related savings pursuant to the PAFCA 2005 Restructuring Agreement; and approximately \$112 million of average

¹⁵ Two parties, the United Retired Pilots Benefit Protection Association ("URPBPA") and PBGC, appealed the Bankruptcy Court's approval of the ALPA 2005 Restructuring Agreement. The Debtors filed motions to dismiss both appeals. On June 24, 2005, the District Court dismissed the URPBPA appeal. On July 19, 2005, URPBPA appealed the District Court's ruling to the Seventh Circuit Court of Appeals. The Seventh Circuit has set a deadline for URPBPA to file its opening brief of September 16, 2005. On July 22, 2005, the District Court entered an order approving PBGC's motion to voluntarily dismiss its appeal.

annual wage and related savings with respect to SAM employees. Copies of the ALPA, PAFCA, and TWU 2005 Restructuring Agreements are in the Plan Supplement, as Exhibits 19, 24, and 26, respectively.

(c) PBGC's Commencement of Involuntary Termination Actions Regarding the Pilot Plan

On December 30, 2004, PBGC initiated an involuntary termination action with respect to the Pilot Plan in the District Court. The Debtors immediately requested that the District Court refer the matter to the Bankruptcy Court pursuant to the Internal Operating Procedures for the Northern District of Illinois. The District Court entered an order referring the case to the Bankruptcy Court over PBGC's objections. PBGC's motion to reconsider the referral order is still under advisement with the District Court. In the interim, PBGC has filed a motion for summary judgment in the Bankruptcy Court. United, and several other parties filed responses, and PBGC filed a reply on August 5, 2005. On August 26, 2005, the Bankruptcy Court denied the PBGC's summary judgment motion in part. The Court held that summary judgment was inappropriate to determine whether the Pilot Plan should be terminated under Section 1342(a) of ERISA. However, the Court granted the agency's motion to set the termination effective date as December 30, 2004. A trial to adjudicate the termination issue is scheduled to commence on September 21, 2005.

(d) Debtors' 2005 Agreement with AFA, Original 2005 Tentative Agreement with AMFA, and 1113(e) Relief Obtained as to IAM

Just as the Section 1113(c) trial was set to begin in early January 2005, the Debtors reached tentative agreements with AFA (the "AFA 2005 Restructuring Agreement") and AMFA on long-term wage and related savings, though not with respect to pension relief. Among other things, the AFA 2005 Restructuring Agreement provided that flight attendant pay rates would be reduced by 9.5 percent, effective January 7, 2005, with no increase until 2007, and termination provisions similar to those included in the ALPA, PAFCA and TWU agreements discussed above. Under the AFA 2005 Restructuring Agreement, the Debtors agreed that AFA-represented employees would share in the Unsecured Distribution of New UAL Common Stock with the Debtors' Unsecured Creditors. Specifically, the Debtors agreed to propose a plan of reorganization providing for distributions to their AFA-represented employees, as though they had Unsecured Claims, calculated as follows: (a) (i) the dollar value of 30 months of average cost reductions obtained in the AFA 2003 Restructuring Agreement, as reasonably measured by the Debtors' labor model, plus (ii) the dollar value of 20 months of average cost reductions obtained in the AFA 2005 Restructuring Agreement as reasonably measured by the Debtors' labor model, divided by (b) the sum of the distribution and the total amount of all other allowed prepetition general Unsecured Claims against the Debtors. A copy of the AFA 2005 Restructuring Agreement is in the Plan Supplement, as Exhibit 17.

The AFA Restructuring Agreement was ratified by AFA's membership and approved by the Bankruptcy Court. The order provided that judicial approval of the agreement would have the same meaning and effect as judicial approval of the AFA 2003 Restructuring Agreement. The Debtors estimate that with respect to wage and related relief, they will achieve approximately \$130 million of average annual wage and related savings pursuant to the AFA 2005 Restructuring Agreement.

Among other items, the tentative agreement reached with AMFA provided that the base pay of non-utility classifications would be reduced by 5.0 percent and the base pay of utility classifications would be reduced by 10.0 percent, effective January 9, 2005, with no increase until 2006. AMFA's membership, however, did not approve this tentative agreement. As a result, the Debtors were forced to file a motion under Section 1113(e) of the Bankruptcy Code to obtain interim wage concessions from

AMFA, which was granted by the Bankruptcy Court on January 31, 2005. The Bankruptcy Court's order, effective through May 31, 2005, required a temporary pay rate reduction for AMFA-represented employees of 9.8 percent and a 25 percent reduction in sick pay for the first 15 days of any occurrence.

The Debtors also were unable to reach an agreement with IAM. However, IAM did not object to the Debtors' Section 1113(e) motion for interim wage concessions. On January 6, 2005, the Bankruptcy Court granted the IAM Section 1113(e) order, effective through April 11, 2005 (which was subsequently extended through July 22, 2005), requiring a temporary reduction in the base pay for IAM-represented employees of 11.5% and a 30% reduction in sick pay.

As the Debtors were unable to reach ratified agreements in January 2005 with IAM, AMFA, and AFA (regarding pension relief), the parties agreed to continue the Section 1113(c) trial to May 11, 2005, thus providing time for further negotiations designed to achieve consensual resolutions. The parties agreed that if by April 11, 2005 there were no ratified agreements on long-term cost-savings with AMFA and IAM and on pension issues with all three groups, the Debtors would re-file their Section 1113(c) motion with respect to these issues and file a motion for voluntary distress termination of each of the Pension Plans applicable to the employees represented by these Unions.

(e) PBGC's Commencement of Involuntary Termination Actions Regarding the Ground Plan and AFA's Notice to Terminate AFA 2005 Restructuring Agreement

On March 11, 2005, PBGC filed an involuntary termination complaint to terminate the Ground Plan (which covers all AMFA-represented employees and some IAM-represented employees) in the United States District Court for the Eastern District of Virginia. The Debtors filed a motion on March 25, 2005 to transfer venue of PBGC's action to the District Court for the Northern District of Illinois for reference to the Bankruptcy Court.

Additionally, on April 8, 2005, AFA served notice to the Debtors of its intention to exercise the termination provision in the 2005 AFA Restructuring Agreement. Although the Debtors believe that AFA has no cause to terminate the 2005 AFA Restructuring Agreement, the parties agreed to and are in the process of resolving the matter through expedited arbitration.

(f) The Debtor's Global Settlement with PBGC and Termination of the Flight Attendant and MAPC Pension Plans

The Debtors continued to negotiate in good faith with AFA, IAM, and AMFA, the parties were unable to reach a consensual resolution. Thus, on April 11, 2005, the Debtors re-filed their motion under Section 1113(c) of the Bankruptcy Code (with respect to the AFA only on pension issues) and filed a motion for voluntary distress termination of the MAPC and Flight Attendant Pension Plans.

After intensive, good faith, arm's-length negotiations, the Debtors and PBGC reached a global settlement regarding the Debtors' Pension Plans on April 22, 2005 (the "PBGC Settlement Agreement"). Among other things, the PBGC Settlement Agreement contemplates termination of all four underfunded Pension Plans pursuant to Title IV of ERISA, should PBGC determine that the statutory requirements for involuntary termination have been met as to each plan. Following any termination, the Debtors would enter into trusteeship agreements with PBGC. Such terminations would save the Debtors \$4.4 billion of minimum required cash contributions over the next six years and \$1.3 billion for 2005 alone. The Debtors and PBGC reserved the right in this agreement to continue to explore alternatives to pension termination and to terminate the PBGC Settlement Agreement if they decided to pursue any such alternatives. Additionally, under the PBGC Settlement Agreement, the Debtors will be released from

over \$990 million in alleged administrative minimum funding contribution Claims, and almost \$800 million in other alleged “real dollar” Claims against United and certain of its non-debtor affiliates.

In the PBGC Settlement Agreement, United agreed that it would propose in its plan of reorganization that PBGC would receive the following consideration: \$500 million in 6% New UAL Senior Subordinated Notes; \$500 million in 8% New UAL Contingent Senior Subordinated Notes; and 500 million shares of 2% New UAL Convertible Preferred Stock (collectively, the “PBGC Securities”). PBGC also will be allowed a single prepetition, general, unsecured unfunded liability Claim, for an amount determined under PBGC regulations and taking into account, among other things, the joint and several nature of the PBGC’s Claims, the value provided to PBGC under the PBGC Settlement Agreement, and PBGC’s waiver of certain of its Claims under the PBGC Settlement Agreement, against the United Estate (and not separate, joint and several Claims against each United entity) arising from the termination of the Pension Plans. The Debtors estimate that PBGC’s unfunded liability Claim could total approximately \$9.9 billion, if allowed, as calculated under PBGC’s regulations. The Creditors’ Committee has reserved its rights to object to PBGC’s unfunded liability Claim, including, without limitation, that it should be calculated by the “prudent investor” standard.

The PBGC Settlement Agreement also included other terms. The Debtors and PBGC agreed that at the Debtors’ option, PBGC shall assign 45% of the distribution that it receives on account of its Claim as directed by the Debtors. However, separate and apart from the PBGC Settlement Agreement, the Debtors agreed to consult with the Creditors’ Committee prior to directing any assignment, give 10 days business notice before directing any assignment, gain Bankruptcy Court approval under “the best interest of creditors’ test” pursuant to a *de novo* review, and, if the Debtors do not exercise such discretion, then the Debtors shall direct such distribution to the unsecured Creditor body. The parties also agreed that the Debtors would not implement any new defined benefit pension plans for a five-year period beginning on the Effective Date. Finally, the parties agreed that if the Bankruptcy Court confirms a plan of reorganization that does not provide for the terms of the PBGC Settlement Agreement, or if a plan of reorganization containing such terms does not become effective, then the terms of the PBGC Settlement Agreement are null and void as they relate to: (i) PBGC’s waiver and release of various Claims for minimum funding contributions, unfunded benefits, and insurance premiums (other than the settlement and release of fiduciary duty Claims, if such settlement and release already has occurred); (ii) PBGC’s agreement to release any and all Liens against any United entities; (iii) PBGC’s agreement not to set off any of its Claims; (iv) PBGC’s agreement to assign 45% of the distribution it receives on account of its unfunded liability Claim at United’s direction; and (v) United’s agreement to pay PBGC’s professional fees related to the Chapter 11 Cases.

The PBGC Settlement Agreement was a landmark achievement in the Debtors’ restructuring that provided significant momentum for the Debtors’ emergence from Chapter 11 and their continuing efforts to become a competitive, sustainable enterprise. On April 26, 2005, the Debtors filed an emergency motion to approve the PBGC Settlement Agreement. Various stakeholders, including AFA, IAM, AMFA, IFPTE, URPBPA, IFS, and certain indenture trustees, objected to the PBGC Settlement Agreement on various grounds. On May 10, 2005, the Bankruptcy Court overruled the objections and approved the PBGC Settlement Agreement, provided that judicial approval of such agreement would have the same effect as judicial approval of the 2003 Restructuring Agreements. Thereafter the Debtors voluntarily withdrew their motion to reject the AFA CBA, as such ruling narrowed the scope of the impending trial solely to wage and work rule issues under the AMFA and IAM CBAs.

IAM and AFA filed notices of appeal from the Bankruptcy Court's order approving United's settlement with PBGC (the "PBGC Settlement Order").¹⁶ IAM filed a motion to dismiss its appeal on August 11. On September 6, 2005, the District Court granted IAM's motion.

On May 20, AFA filed a motion in the Bankruptcy Court seeking a stay pending appeal of the PBGC Settlement Order. On May 26, the Bankruptcy Court denied AFA's request for a stay. AFA next filed its motion in the District Court for a stay pending appeal in the District Court and also sought expedited briefing of the appeal. On June 16, the District Court denied AFA's motion without prejudice on procedural grounds. On June 20, AFA re-filed its motion. On July 21, the District Court affirmed the Bankruptcy Court's decision. On July 25, AFA appealed the District Court's ruling to the Seventh Circuit. AFA filed its initial brief on August 5. PBGC and United filed their responsive briefs on August 23 and 24 respectively, and AFA filed its reply on September 2. The Seventh Circuit has scheduled oral arguments on this matter for September 13.

Separately, on May 20, 2005, AFA filed a declaratory action against PBGC in the United States District Court for the District of Columbia to enjoin PBGC's termination of the Flight Attendant Plan under ERISA § 4003. On June 3, 2005, the District Court for the District of Columbia heard extensive argument on AFA's motion for a preliminary injunction. On June 8, the District Court for the District of Columbia denied AFA's preliminary injunction motion. The District Court for the District of Columbia ruled that there was not a strong likelihood of success on the merits of AFA's argument, there was no irreparable harm absent a stay, the balance of the harms did not warrant a preliminary injunction, and a preliminary injunction was not in the public's best interest.

On June 23, 2005, PBGC issued notices of determination that the MAPC and Flight Attendant Plans should be terminated, with termination dates of June 30, 2005. The Debtors and PBGC subsequently entered into trusteeship agreements whereby PBGC become the statutory trustee of the Pension Plans (such an agreement had been executed for the Ground Plan on May 23, 2005), and the Debtors have no further duties or rights with respect to those Pension Plans.

Following PBGC's termination of the Flight Attendant Plan on June 30, AFA amended its complaint to allege that PBGC had arbitrarily and capriciously terminated the Flight Attendant Plan; it also seeks to restore the Flight Attendant Plan. PBGC has a deadline to file a motion for summary judgment by October 3; AFA will have until October 23 to file its opposition and cross-motion; PBGC will have until November 4 to file its reply and opposition to AFA's cross-motion; and AFA will have until November 18 to file its cross-motion reply.

(g) The Debtors' AMFA Agreement

On May 11, 2005, a trial commenced before the Bankruptcy Court on the Debtors' Section 1113(c) motion with IAM and AMFA. Throughout the duration of the trial, the parties continued to negotiate towards a consensual resolution. Ultimately, United reached a tentative agreement with AMFA on May 16, 2005 (the "AMFA 2005 Restructuring Agreement").

Pursuant to the AMFA 2005 Restructuring Agreement, which was ratified by AMFA's membership on May 31, among other things, the pay of all AMFA-represented employees will be reduced by 3.9 percent and will not be increased until 2006. The AMFA 2005 Restructuring Agreement also

¹⁶ In addition, AMFA filed a notice of appeal concerning the PBGC Settlement Order for the limited purpose of challenging the March 11 termination date for the Ground Plan. This appeal, however, was subsequently dismissed by agreement of the parties.

provides that AMFA will waive any Claim it may have that the termination of the Ground Plan does or would violate the terms and conditions of the AMFA CBA or any other agreements or status quo between the parties, and that AMFA shall not otherwise oppose United's efforts to terminate the Ground Plan.

The Debtors agreed in the AMFA 2005 Restructuring Agreement to propose a plan of reorganization with: (a) \$40 million of New UAL Convertible Employee Notes for AMFA-represented employees; and (b) provide a defined contribution plan (averaging 5.0 percent of pay) for AMFA-represented employees. Moreover, the Debtors also agreed to propose a plan of reorganization providing for distributions to their AMFA-represented employees, as though they had Unsecured Claims, calculated as follows: (a) (i) the dollar value of 30 months of average cost reductions obtained in the Debtors' 2003 labor savings initiatives with respect to AMFA-represented employees as reasonably measured by the Debtors' labor model, plus (ii) the dollar value of 20 months of average cost reductions obtained in the AMFA 2005 Restructuring Agreement as reasonably measured by the Debtors' labor model, divided by (b) the sum of the distribution and the total amount of all other allowed prepetition general Unsecured Claims against the Debtors.

In addition, the order approving the AMFA 2005 Restructuring Agreement provided that judicial approval of such agreement would have the same effect as judicial approval of the 2003 Restructuring Agreements. Finally, the AMFA 2005 Restructuring Agreement provides that such agreement may be terminated at the option of the Union if a plan of reorganization is confirmed which contains any material term that is materially inconsistent with the terms of the agreement. On May 31, the Bankruptcy Court entered an order approving the AMFA 2005 Restructuring Agreement. The Debtors estimate that with respect to wage and related relief, it will achieve approximately \$96 million of average annual wage and related savings pursuant to the AMFA 2005 Restructuring Agreement. A copy of the AMFA 2005 Restructuring Agreement is in the Plan Supplement, as Exhibit 20.

On June 10, following ratification and Bankruptcy Court approval of the AMFA 2005 Restructuring Agreement, the Debtors agreed with AMFA and PBGC to litigate the propriety of the March 11 termination date in the context of PBGC's involuntary termination action pending in the Eastern District of Virginia. The parties also presented the court with an agreed briefing schedule regarding the various discovery-related issues in that action. In accordance with the parties' agreement, the Debtors and PBGC withdrew their joint motion to dismiss and the Debtors withdrew without prejudice their motion to transfer venue. A pre-trial conference is scheduled with respect to this matter on September 15. On June 13, AMFA and United filed a joint stipulation to dismiss AMFA's appeal of the PBGC Settlement Order.

(h) The Debtors' IAM Agreement

The Debtors also reached an agreement in principle with IAM on May 31, 2005 (the "IAM 2005 Restructuring Agreement"). Pursuant to the IAM 2005 Restructuring Agreement, which was ratified by IAM's membership on July 21, among other things, the pay of most IAM-represented employees will be reduced by 5.5 percent, effective July 1, 2005, with such pay not to begin increasing again until 2007. The IAM 2005 Restructuring Agreement also provides that IAM will withdraw with prejudice any and all opposition to termination of the two United defined benefit pension plans in which IAM members participate: the Ground Plan and the MAPC Plan. The Debtors agreed in the IAM 2005 Restructuring Agreement to propose a plan of reorganization with \$60 million of New UAL Convertible Employee Notes for IAM-represented employees. Moreover, the Debtors also agreed to propose a plan of reorganization providing for distributions to their IAM-represented employees, as though they had Unsecured Claims, calculated as follows: (a) (i) the dollar value of 30 months of average cost reductions in the in the Debtors' 2003 labor savings initiatives with respect to IAM-represented employees as reasonably measured by the Debtors' labor model, plus (ii) the dollar value of 20 months of average cost

reductions in the IAM 2005 Restructuring Agreement as reasonably measured by the Debtors' labor model, divided by (b) the sum of the distribution and the total amount of all other allowed prepetition general Unsecured Claims against the Debtors.

In addition, the order approving the IAM 2005 Restructuring Agreement provided that judicial approval of such agreement would have the same effect as judicial approval of the 2003 Restructuring Agreements. On July 22, the Bankruptcy Court entered an order approving the IAM 2005 Restructuring Agreement. United estimates that with respect to wage and related relief, it will achieve approximately \$163 million of average annual wage and related savings pursuant to the IAM 2005 Restructuring Agreement.¹⁷ A copy of the IAM 2005 Restructuring Agreement is in the Plan Supplement, as Exhibit 22.

Collectively, the average labor and wage cost savings over 20 months based on the Debtors' 2005 labor savings initiatives total approximately \$1.1 billion.

5. Section 1110 and Fleet Restructuring

United has undertaken a comprehensive rationalization and refinancing process to contract its fleet to match capacity with demand and reduce a substantial portion of its fleet financing obligations to current market rates. This process has involved complying with United's obligations under the Bankruptcy Code and intensive negotiations with United's aircraft financiers.

a. Section 1110 and the Automatic Stay.

In general, upon the filing of a Chapter 11 bankruptcy petition, the automatic stay under Section 362 of the Bankruptcy Code enjoins the enforcement of rights and remedies by a debtor's creditors. Section 1110 of the Bankruptcy Code operates as an exception to the automatic stay for certain types of financed aircraft and aircraft equipment.

As discussed in ARTICLE II.B.2.a above, the 463 aircraft in the Debtors' Section 1110 Fleet were financed or leased and are subject to Section 1110 of the Bankruptcy Code (the "Section 1110 Fleet"). Pursuant to Section 1110 of the Bankruptcy Code, by February 7, 2003 (60 days after the Petition Date), the Debtors either had to: (i) take certain statutorily prescribed actions to elect to perform their obligations under the prepetition financing arrangements ("1110(a) Elections"); or (ii) enter into agreements with the respective aircraft financiers that would allow the Debtors to continue to use the aircraft without making such election to perform ("1110(b) Stipulations"), to continue the automatic stay in effect for aircraft in the Section 1110 Fleet. On February 7, 2003, the Debtors made 1110(a) Elections with respect to approximately 214 aircraft in the Section 1110 Fleet ("1110(a) Aircraft"). The Debtors also entered into, or had agreements in principle to enter into, 1110(b) Stipulations with respect to approximately 173 aircraft in the Section 1110 Fleet. As to the remainder of the Section 1110 Fleet, the automatic stay terminated on February 7, 2003 and the related financiers were able to exercise their remedies and take enforcement actions.

¹⁷ All of the 2005 Restructuring Agreements also reduced represented employees' participation in the Debtors Success Sharing Program. At targeted levels of performance, these changes reduce the Debtors' costs by approximately \$100 million annually.

b. Aircraft Rejections and Abandonment.

Also, under the Bankruptcy Code, airline debtors may reject burdensome aircraft leases and/or financing arrangements or abandon property of their Estates. Based on a variety of factors, including financing costs and anticipated revenues, the Debtors decided during their Chapter 11 Cases to decrease the size of their fleet. To effectuate that downsizing, the Debtors have to date rejected, abandoned, sold, retired, or returned over 100 aircraft. The Debtors believe that, by the Effective Date, they will operate a fleet of 453 aircraft.¹⁸

c. Auction Pool, Manufacturer, and Cross-Border Restructurings.

As discussed in ARTICLE II.B.2.a above, as of the Petition Date, the 463 financed aircraft in the Section 1110 Fleet were owned or leased by the Debtors pursuant to a broad variety of financings, including, without limitation, mortgages, capital leases, single investor leases, leveraged leases, Japanese leveraged leases (JLLs), German leveraged leases (GLLs) and French leveraged leases (FLLs). To realize further cost savings, the Debtors have worked intensively during their Chapter 11 Cases to identify opportunities to reduce their fleet operating costs, quantify those opportunities, negotiate with all necessary parties to restructure existing financing and leasing arrangements, seek court approvals and finalize such aircraft restructurings.

To better manage the restructuring (and carry out their program of “marking-to-market” their aircraft financing costs), the Debtors divided their Section 1110 Fleet into four general categories: so-called “Auction Pool Aircraft,” “Cross-Border Transactions,” “Manufacturer Transactions,” and “Public Debt Aircraft.” The Auction Pool Aircraft consisted of approximately 150 older Boeing aircraft financed primarily through U.S. leveraged leases, mortgages, or single investor leases. The Cross-Border Transactions consisted of 58 newer Boeing and Airbus aircraft financed through JLLs, GLLs and FLLs by investors in Japan, Germany, and France. The Manufacturer Transactions consisted of approximately 97 aircraft financed by Boeing, Airbus, General Electric, and International Aero Engines. Finally, the Public Debt Aircraft consist of a mix of approximately 158 older and newer Boeing and Airbus aircraft financed by holders of public debt through pass-through certificates (PTCs), equipment trust certificates (ETCs), and enhanced equipment trust certificates (EETCs).¹⁹

As indicated, the Debtors’ central goal in restructuring the Auction Pool Aircraft, Cross-Border Transactions, Manufacturer Transactions, and Public Debt Aircraft has been to reduce their rent and other payment obligations. Towards that end, for certain of the Auction Pool Aircraft (Boeing 737s and 767s), the Debtors engaged in a so-called “reverse Dutch auction.” The Debtors offered different pricing terms for limited quotas of specific types of aircraft and the Debtors accepted bids for the financing terms until the Debtors exhausted their quota for each aircraft type. The Debtors did not utilize the auction format for the remainder of the Auction Pool Aircraft (Boeing 757s and 747s), the Cross-Border, Manufacturer, and Public Debt deals. For the entire Section 1110 Fleet, however, the aircraft financiers were offered the opportunity to enter into long-term restructured financing arrangements at reduced rates that the Debtors believe reflect current market rates.

¹⁸ Nothing in this Disclosure Statement constitutes a commitment by United as to the number of rejections or abandonments that will occur prior to substantial consummation of the Plan or a commitment as to the projected size of its aircraft fleet as of the effective date of the Plan or for any period thereafter.

¹⁹ Approximately 17 aircraft from the Auction Pool Aircraft that were financed through private transactions ultimately migrated to the Public Debt Aircraft, largely because of cross-holdings between various transactions.

The restructurings for the Auction Pool Aircraft, Cross-Border Transactions, Manufacturer Transactions, and Public Debt Aircraft were effectuated either by terminating the existing arrangement and entering into new financings or amending the prepetition financing structures (the “Postpetition Aircraft Agreements”). In general, as part of the Postpetition Aircraft Agreements, other than with respect to the Public Debt Aircraft, the Debtors have reserved their right to terminate and reject the restructured financing arrangements during the Chapter 11 Cases (up until substantial Consummation of the Plan) as the Debtors’ fleet plan evolved. Also, as part of the Postpetition Aircraft Agreements, the Debtors sought to settle the Administrative and prepetition Unsecured Claims of the aircraft financiers. For the Manufacturer Transactions, the aircraft financiers waived their prepetition Claims in whole or in part so long as the Debtors did not terminate or reject the restructured agreements.

Auction Pool Restructurings. Generally, the Postpetition Aircraft Agreements for the Auction Pool Aircraft contemplate converting the former financing arrangements into operating leases at rates the Debtors believe reflect current market rates. These leases generally have 2 to 9-year terms with certain renewal options.

Cross Border Restructurings. The Cross-Border Transactions were structured to permit the investors to take advantage of certain favorable tax laws in their home jurisdictions. From United’s standpoint, each transaction was tantamount to a mortgage financing. During the course of the Chapter 11 Cases, the majority of these Cross-Border Transactions were amended to provide debt relief (in the form of principal reductions and/or deferrals) and/or interest rate reductions. These Postpetition Aircraft Agreements have maturities of 9 to 11 years after the Effective Date. No aircraft secures more than one note. Generally, the notes provide for semi-annual payments of principal and interest.

Manufacturer Restructurings. The Manufacturer Transactions were structured in a variety of ways. Certain of the Manufacturer Transactions were restructured entirely into a combination of leasing and mortgage transactions bearing rates that the Debtors believe reflect current market rates. Other manufacturer restructurings involved amendment of existing lease facilities, which effectively reduced the rentals to current market rates. These mortgage and lease transactions have maturities ranging from 2 to 17 years after the Effective Date.

Of the 303 aircraft included in the Auction Pool Aircraft, the Cross Border Transactions, and the Manufacturer Transactions, 267 will be subject to postpetition restructuring transactions.

d. Public Debt Aircraft

While United successfully negotiated Postpetition Aircraft Agreements with individual financiers for the Auction Pool Aircraft, the Cross-Border Transactions, and the Manufacturer Transactions, the financiers and other individuals and entities representing the Public Debt Aircraft refused to negotiate with United individually and, instead, formed a group -- the “Public Debt Group” (“PDG”) -- that elected to conduct coordinated negotiations.

During the first six months of these cases, United negotiated so-called “Adequate Protection Stipulations” with the PDG (in connection with this effort, certain of the Auction Pool Aircraft were included with the Public Debt Aircraft due to common holding by the applicable financiers). Pursuant to these stipulations, United generally agreed to pay for the use of the Public Debt Aircraft during the Chapter 11 Cases until the rejection or abandonment of such aircraft and/or termination of the applicable Adequate Protection Stipulation. Portions of such payments were deferred until fall 2003 or spring 2004, at which time United caught-up on these deferred payments through six equal monthly installments. The Adequate Protection Stipulations also provided that in settlement of certain Claims asserted under Section

1110(a) of the Bankruptcy Code, the Debtors had to make certain payments (with administrative priority) starting in March 2004, to be paid in 6 equal monthly installments.

After Bankruptcy Court approval of the Adequate Protection Stipulations, United entered into negotiations with the PDG on a long-term resolution. Negotiations with the PDG initially culminated in a draft global restructuring agreement in principle dated February 13, 2004. This first agreement with the PDG, however, contemplated securing a loan guaranty from the ATSB for the Debtors' exit financing. The ATSB's denial of the Debtors' loan guaranty application on June 17, 2004, discussed above in ARTICLE III.C.4, and other adverse economic developments eventually led United to elect not to proceed with the February 13, 2004 agreement.

(i) Antitrust Litigation

The ATSB's denial, as well as greatly increased fuel costs and fare reductions, forced United to develop a new business plan and led to a several-month hiatus in negotiations with the PDG. By November 2004, the Debtors had completed this process, and United advised the PDG that it would be forwarding new proposals. Nonetheless, on November 23 and 24, 2004, the PDG sent formal demands for immediate repossession of fourteen aircraft pursuant to Section 1110(c) of the Bankruptcy Code. On November 26, 2004, United filed a verified complaint for injunctive relief and moved for a temporary restraining order ("TRO") on antitrust grounds to enjoin the PDG's repossessions and collusive behavior. On that same day, the Bankruptcy Court, after an evidentiary hearing, entered a TRO, finding that United's showing of irreparable harm was undisputed and that United had shown a likelihood of success on its antitrust Claims. The Bankruptcy Court set a preliminary injunction hearing for December 15, 2004.

In connection with the parties' preparation for the preliminary injunction hearing, the PDG representatives advised United that they were withholding on grounds of attorney-client privilege all communications among members of the PDG. On December 8, 2004, the Bankruptcy Court granted United's motion to compel production of such documents and ordered immediate production for *in camera* review of documents withheld on privilege grounds. In response, PDG representatives advised the Bankruptcy Court that they would not comply and requested that the court hold them in contempt to facilitate an immediate appeal. The Bankruptcy Court accommodated this request by entering a contempt order. The Bankruptcy Court also entered an agreed order continuing the TRO and the preliminary injunction hearing while the PDG appealed the contempt ruling. Thereafter, the PDG contemporaneously moved to withdraw the reference to the District Court and appealed both the contempt order and the November 26, 2004 TRO to the District Court. On December 9, 2004, the District Court denied the PDG's motion to withdraw the reference. In addition, in opinions dated March 18, 2005, the District Court dismissed both appeals on the ground that they involved a non-appealable, interlocutory order. The District Court also declined to accept the appeals on a discretionary basis. Thereafter, the PDG petitioned the Seventh Circuit for a writ of mandamus.

On May 6, 2005, the Seventh Circuit granted the PDG's writ of mandamus on the TRO (and denied the writ as to the contempt order). The Seventh Circuit reversed the Bankruptcy Court and the District Court and ordered the District Court to dissolve the TRO injunction. After the Seventh Circuit's Order issued, the Debtors moved to dismiss the antitrust complaint. The Creditors' Committee opposed the motion, arguing that dismissal would amount to abandonment of a valuable asset of the Estates, and contemporaneously sought leave to prosecute the action. On May 20, 2005, the Bankruptcy Court denied the dismissal motion on the grounds that the Claims stated in the complaint had value. The PDG thereafter filed a motion with the Seventh Circuit to enforce its May 6 opinion. On May 27, 2005, the Seventh Circuit issued an order granting the PDG's enforcement motion and providing that the injunction should be dissolved immediately and the antitrust action dismissed. On June 1, 2005, the Bankruptcy

Court dismissed the antitrust action with prejudice and denied the Creditors' Committee's motion for leave to prosecute. The Creditors' Committee has appealed both of those rulings to the District Court. As of the date hereof, those appeals are pending in the District Court. Also, the Seventh Circuit denied the Creditor's Committee's motion for rehearing *en banc* of the decision to grant the writ of mandamus. The Creditors' Committee has now filed a petition for *certiorari* in the United States Supreme Court seeking review of the mandamus decision. United will file a response on September 7.

Although United's antitrust complaint has been dismissed, the PDG filed a series of counterclaims against United for damages. United subsequently moved to dismiss those counterclaims. On July 15, 2005, the Bankruptcy Court dismissed these counterclaims with prejudice. The PDG filed a notice of appeal with respect to this order on July 27, 2005.

By the time of the Seventh Circuit's ruling, United already had rejected six of the fourteen aircraft subject to the TRO, leaving eight B767 aircraft unresolved. Ultimately, United could not reach agreement with the PDG to retain the "1993A PTC" and "1993C PTC" aircraft (four B767s), which United was required to return in compliance with the demands of the PDG. With respect to the remaining four "Jets 95A" aircraft, United successfully negotiated to purchase and retain those aircraft in its fleet and, ultimately, entered into an arrangement to finance the purchase.

(ii) Section 365(d)(10) Litigation

In addition to the antitrust litigation, United and the PDG litigated the amount and extent of United's postpetition obligations for use of the Public Debt Aircraft. On December 5, 2003, the PDG filed a motion seeking administrative expense payments under Sections 365(d)(10), 503(b)(1)(A) and 1110 of the Bankruptcy Code for fifteen leased aircraft that the Debtors rejected (in addition to the payments under the Adequate Protection Stipulations) (the "365(d)(10) Motion"). These PDG argued that the foregoing Bankruptcy Code provisions require the Debtors to compensate them for the difference between the prepetition lease rates for the 15 rejected aircraft and the adequate protection payments that the Debtors agreed to pay the aircraft financiers for their postpetition use of the aircraft. The PDG also sought administrative expense payments pursuant to Sections 365(d)(10) and 1110(a) on account of the Debtors' alleged failure to comply with the maintenance and return conditions specified in the prepetition leases.

The Debtors opposed the aircraft financiers' motion by arguing, among other things, that the Bankruptcy Code does not require the Debtors to compensate the aircraft financiers at rates out of line with present economic reality, particularly when the parties entered into arm's-length Adequate Protection Stipulations to compensate the aircraft financiers for the Debtors' postpetition use of the aircraft. Moreover, the Debtors have asserted that Section 365(d)(10) is inapplicable in the Section 1110 context, in the absence of a Section 365(d)(10) election, and that even if it were applicable, the "equities" of the case under Section 365(d)(10) clearly dictate that the aircraft financiers should not be awarded contract rate payments for the rejected aircraft. In this regard, the Debtors have argued, among other things, that such an award would amount to a windfall for the aircraft financiers, who, unlike the personal property lessors Section 365(d)(10) was designed to protect, were not restricted by the automatic stay and had an unbridled right to take back their equipment after sixty days had passed in the bankruptcy case. The 365(d)(10) Motion was continued from time to time as United and the PDG attempted to settle the 365(d)(10) Motion as part of a global restructuring.

On November 5, 2004, and again on June 3, 2005, the PDG amended their 365(d)(10) Motion to include additional aircraft rejected by United and new Claims. In opposing the PDG's original 365(d)(10) Motion and the amended motion filed on November 5, 2004, the Debtors filed a motion to dismiss certain of the PDG's Claims. In particular, the Debtors sought to dismiss as a matter of law the PDG's Claims

for United's alleged failure to return the rejected aircraft in compliance with certain obligations under the prepetition leases and for additional adequate protection based on "maintenance burn." On December 20, 2004, the Bankruptcy Court granted the Debtors' motion, in part. The Bankruptcy Court treated the motion to dismiss as a motion in limine with respect to the trial scheduled on the 365(d)(10) Motion. (At that time, the trial was scheduled for March 1, 2005, but it has been continued from time-to-time to allow for negotiations.) The Bankruptcy Court ordered that the PDG could not present evidence at the trial relating to: any lack of adequate protection after termination of the automatic stay; or any breach of return obligations involving failure of United to maintain the aircraft according to obligations in existence during the period prior to rejection of the leases. The PDG's amended motion filed on June 3, 2005 reasserted the same arguments (for additional aircraft) as to which the Bankruptcy Court ruled that the PDG could not present evidence in connection with the November 5 amended motion. As a result, the Debtors opposed the June 3, 2005 amended motion arguing, in part, that the PDG was barred by the law of the case from making such adequate protection and maintenance arguments.

On July 7, 2005, the parties filed their preliminary pretrial statement on the 365(d)(10) Motion. The pretrial statement contained both the PDG's and the Debtors' statements of their respective positions and the evidence they intended to introduce at trial. Subsequently, at the July 11, 2005 pretrial hearing on the 365(d)(10) Motion, the Bankruptcy Court requested briefing on the threshold legal question of whether Section 365(d)(10) is applicable to leased aircraft for which United had not made elections under Section 1110(a) of the Bankruptcy Code. After briefing by the parties, the Bankruptcy Court opined, on July 26, 2005, that failure to elect to perform under Section 1110(a) likely results in a *de facto* rejection and, that, Section 365(d)(10) ceases to apply to non-Section 1110(a) aircraft after the 60th day of the bankruptcy case. The Bankruptcy Court indicated that it would follow with a written opinion on the issue. As of the date hereof, if the Bankruptcy Court does not approve the global settlement with the PDG discussed below, trial is set for October 17, 2005, on the remaining issues in connection with the 365(d)(10) Motion, including the market value for United's use of the subject aircraft during the Chapter 11 Cases and United's alleged failure to comply with return conditions.

(iii) Global Settlement with PDG

In June, July, and August 2005, the pace of negotiations with the PDG accelerated. Several factors contributed to the urgency of reaching a settlement. Among other things, the Seventh Circuit's ruling dissolving the Bankruptcy Court's injunction and ordering the Debtors' antitrust complaint dismissed left the Debtors with no ability whatsoever to forestall repossessions or impair the PDG's rights. Together with the improving market for aircraft and United's limited ability to tolerate additional repossessions, there was a considerable alteration of the balance of leverage subsequent to the Seventh Circuit's orders. Unless United quickly could come to terms with the PDG, the very real threat existed of repossession of some or all of the remaining "at risk" Public Debt Aircraft, resulting in substantial operational disruption and passenger disservice and increased likelihood of liquidation, as the Debtors would be unable to timely and effectively replace the lost aircraft capacity. Manifesting these unfavorable developments, in July 2005, the Debtors received § 1110(c) demands for 15 aircraft (eight B747s and seven B767s), with the PDG expressing a clear willingness to follow through on those repossession threats.

On August 5, 2005, after over two years of negotiation, the Debtors entered into a long-term global settlement as to all of the Public Debt Aircraft, other than those securing the 1997-1 EETCs (discussed below) (the "PDG Settlement"). The Debtors estimate that the settlement will save the Estates over \$2.9 billion (present value as of the Petition Date) over the life of the PDG Settlement. During the 2003-2008 period, the Debtors have or will realize approximately \$300 million in annual savings from the Public Debt Aircraft. During that same period, when coupled with the Debtors' other aircraft

restructurings (from the Auction Pool, Manufacturer, and Cross-Border groups), the Debtors will reduce their fleet costs by approximately \$850 million in average annual savings from 2003-2008.

With respect to the 58 pre-1997 Public Debt Aircraft, the PDG Settlement contemplates restructuring the financings by converting the structures to operating lease transactions having terms ranging from 9.4 to 11.3 years. With respect to the 86 post-1997 EETC Public Debt Aircraft, the Debtors will issue a new note for each aircraft with the original contractual coupon rate and maturities ranging from 6.25 to 7.2 years. Finally, certain of the restructured financings will incorporate, *inter alia*, cross-collateralization and cross-default provisions. All of the restructured PDG transactions will include representations and warranties and default, loss, return, insurance, inspection, maintenance, filing, and indemnification provisions. Unlike the other Postpetition Aircraft Agreements, United cannot unilaterally terminate the arrangement and return the aircraft. The PDG Settlement further contemplates the following additional terms:

- revised payment schedules for each transaction;
- deferral of remedies by the PDG and suspension of any pending § 1110(c) demands;
- restructuring of the prepetition agreements governing the restructured transactions;
- the Debtors' agreement not to reject leases of or abandon any additional Public Debt Aircraft (45 already have been rejected or abandoned and 7 repossessed);
- settlement and release of all PDG Administrative Claims (whether under Code § § 362, 363, 365, 503, 506, 507, or 1110 or otherwise), including all Claims asserted in the 365(d)(10) Motion and the antitrust litigation, in consideration for:
 - the rates paid by the Debtors under the PDG Settlement;
 - an aggregate additional payment of \$65 million to be shared solely among the pre-1997 Public Debt Aircraft transactions (as determined by the PDG);²⁰
 - additional principal and interest payments made in the post-1997 EETCs; and
 - subject to and in accordance with the PBGC Settlement Order, the Debtors directing PBGC to assign for the benefit of (and allocated among) the pre-1997 PDG transactions (as determined by the controlling holders of those transactions) \$0.50 of each dollar of value derived from 45% of PBGC's unfunded benefit liability claim in an aggregate amount up to, but in no event to exceed, \$100 million (the "PBGC Claim Proceeds"), with no guarantee by the Debtors of the proceeds actually obtained from PBGC's claim and no obligation to top-off the actual PBGC Claim Proceeds realized under the settlement if less than \$100 million;

²⁰ The Debtors and the trustees for pre-1997 non-restructured transactions in the PDG (those with no remaining aircraft operated by the Debtors) have entered into a letter agreement dated as of August 5, 2005, whereby parties to such transactions have agreed to resolve the issue of the allocation described in the letter agreement among themselves and without any involvement by the Debtors.

- settlement of the PDG's general Unsecured Claims in the aggregate amount of approximately \$3.1 billion, other than the PDG's Unsecured Claims under the 1997-EETC transaction;
- payment by the Debtors of all reasonable costs, fees, and expenses of the PDG, including those of their counsel and technical, financial and other professional advisors;
- performance of certain maintenance obligations (per a detailed schedule) by the Debtors and the posting of security by the Debtors if they default on such maintenance obligations (along with the granting of a super-priority Administrative Claim in the amount of the cost of such unperformed obligations);
- conforming the rates paid on 1110(a) aircraft with the rates under the PDG Settlement;
- amending the Adequate Protection Stipulations to conform with the terms of the PDG Settlement in certain respects;
- the purchase of six of the Public Debt Aircraft; and
- a permanent release (and injunction) by United and any other entity or person of all claims or causes of action against the PDG and its agents, counsel, and advisors relating to the Public Debt Aircraft transactions and the settlements and compromises under the PDG Settlement, or the implementation thereof, including without limitation any cause of action or claims arising out of claims of inequitable conduct or antitrust violations (the "Permanent Release").

Other than with respect to the 1997-1 EETC transaction, the PDG Settlement fully and finally resolves and disposes of all litigation between the Debtors and the PDG. The PDG Settlement provides that the transactions contemplated therein will be incorporated into the Plan and shall be final and binding postpetition obligations of the Debtors and the Reorganized Debtors, subject to certain "Unwind Events". In the event of such Unwind Events, including conversion to chapter 7 or failure by the Debtors to obtain confirmation of the Plan by June 30, 2006, the agreements and transactions contemplated by the PDG Settlement, other than the Permanent Release, shall be unwound and rescinded and the parties' respective rights, claims, obligations, and defenses would be restored. Notwithstanding the Permanent Release, if an Unwind Event occurs, any defenses or offsets of the Debtors existing prior to the Unwind Event (but for the releases and waivers under the PDG Settlement) are preserved, so long as United does not seek any affirmative recovery against the PDG.

On August 30, 2005, the Debtors and the PDG filed a joint motion to approve the PDG Settlement. The motion will be heard by the Bankruptcy Court on September 27, 2005.

(iv) 1997-1 EETCs

The 1997-1 EETCs are backed by equipment notes which are in turn secured by mortgages and leases on 14 Public Debt Aircraft. Three tranches of 1997-1 EETCs were publicly owned: the senior, "A" tranche and the subordinated "B" and "C" tranches. Unlike in other PDG transactions, the A tranche holders did not have any cross-holdings in the B and C tranches, and the B and C tranche EETCs were owned by one holder. Although the B and C tranche holdings gained significantly in value during the Chapter 11 Cases, due to the substantial paydown of the par value of the A tranche debt through Adequate Protection Stipulation payments and the 1997-1 EETC aircraft retaining their value, the Debtors were able to negotiate a buyout of the B and C tranches for less than face value. Upon purchasing the B and C

tranche EETCs, the Debtors could exercise the contractual right afforded junior lien holders to buy out the senior tranche holders at par. The Debtors' purchase of the A tranche EETCs would allow the Debtors to become the controlling party in the transaction, avoid the possibility of repossession of aircraft, and refinance the 1997-1 EETC transaction.

The Debtors' strategy was aided by United obtaining the Tranche C term loan pursuant to the Thirteenth Amendment to the Club DIP Facility (approved by the Bankruptcy Court on August 18, 2005 and discussed above). Once the purchase of the "A" certificates is consummated, the Debtors expect to refinance the Tranche C loan, such that the cash flows required to service the restructured 1997-1 debt would be substantially more attractive than that which would be required should the B and C Tranches be acquired by a likely unfriendly third party (either affiliated or unaffiliated with the PDG). If, on the other hand, the Debtors could not have purchased the B and C tranches, and ownership of the A, B, and C tranches became common, it is likely that the holders of the B and C Tranches would have demanded a recovery equal to or greater than the current fair market value of the aircraft, and potentially seek closer to a 100% recovery.

On July 27, 2005, the Bankruptcy Court approved the Debtors' direct purchase of the B and C tranches. On August 4, 2005, the Debtors filed a motion for approval of the purchase the A tranche at par under the transaction documents for \$292,787,446. On August 8, 2005, the Court granted the Debtors' motion. As required under the transaction documents, the Debtors issued a buyout notice to the trustee for the 1997-1 EETC transaction. However, the trustee declined to allow the Debtors to consummate the purchase the A tranche EETCs, contending that the Debtors had to pay a New York statutory judgment rate of 9% rather than the stated interest rate on the Class A EETCs of LIBOR plus 22 basis. The trustee's calculation increased the purchase price by \$65 million. Subsequently, purporting to exercise its remedies under the Adequate Protection Stipulation, the trustee notified the Debtors of a purported sale of the underlying equipment notes in the 1997-1 EETC transaction to a special purpose vehicle for a price that reflected the judgment rate asserted by the trustee. If allowed, such a sale would, in the Debtors' view, circumvent the Debtors' rights as holders of the lower tranche 1997-1 EETCs to buy out the A tranche at par and undermine the savings the Debtors hoped to achieve by purchasing the B and C tranche EETCs.

In response to the trustee's actions, the Debtors filed a motion on August 13, 2005 seeking to nullify the sale of the equipment notes. Concurrently, United initiated an adversary proceeding to enforce the underlying transaction documents, obtain a declaration as to the proper A tranche buyout price, and enjoin the trustee from preventing United from consummating its restructuring of the 1997-1 EETC transaction. On August 26, 2005, the Bankruptcy Court held that the purported sale of the equipment notes was in violation of the automatic stay set forth in Section 362 of the Bankruptcy Code and therefore, void and of no effect. As of the date hereof, the litigation regarding the appropriate buyout price remains pending and United has not consummated its purchase of the A tranche EETCs. Discussions regarding a settlement of this dispute have occurred from time to time. The resolution of this dispute is uncertain.

e. Treatment of Aircraft Claims Under Plan.

The Debtors' Section 1110 Fleet generally falls into seven (in some cases, overlapping) categories for purposes of determining treatment of aircraft-related Claims under the Plan: (1) aircraft subject to Section 1110(a) Elections; (2) aircraft subject to 1110(b) Stipulations; (3) Public Debt Aircraft; (4) aircraft that have been abandoned or rejected with no agreement for subsequent re-lease or re-purchase of such aircraft by the Debtors; (5) aircraft subject to leases assumed under the Plan; (6) owned aircraft subject to secured financings that will be reinstated under the Plan; or (7) non-Public Debt Aircraft subject to Postpetition Aircraft Agreements approved by the Bankruptcy Court that authorize the

Debtors to restructure prepetition aircraft financing arrangements by either rejecting, modifying, or amending such arrangements.

Aircraft Creditors with Claims relating to aircraft in each of the seven categories will receive such treatment as to which the Debtors and the Holder of such Claims shall have agreed in writing. In addition, aircraft Creditors with aircraft rejected or abandoned (Category 4) may have Unsecured Rejected Aircraft Claims, subject to the Creditors' Committee's right to object (if any), consisting primarily of deficiency Claims in the case of mortgaged aircraft and lease rejection Claims in the case of leased aircraft. Aircraft Creditors in Category 5 may have Administrative Claims relating to the Cure and prospective obligations under the assumed leases that will become obligations of the Reorganized Debtors. Secured Claims relating to aircraft in Category 6 either will be (i) Reinstated under the Plan, (ii) treated in such manner as United or Reorganized United and the Secured Aircraft Creditor may have agreed in writing, (iii) treated in any other manner so that such Claim shall otherwise be rendered Unimpaired pursuant to Section 1124 of the Bankruptcy, or (iv) the Debtors shall surrender the collateral securing such Claims.

With respect to aircraft Creditors in Category 7 entering into Postpetition Aircraft Agreements, the Debtors and the aircraft Creditors either have entered, or will enter, into definitive documentation pursuant to which, among other things: the Debtors may reject, amend and/or restructure the applicable prepetition financing arrangement; the Debtors may surrender constructive possession of the aircraft; and the aircraft Creditors may re-lease or transfer the applicable aircraft to the Debtors and enter into definitive documentation that allows the Debtors to continue to operate the aircraft. Aircraft Creditors in Category 3, Public Debt Aircraft, will be treated in accordance with the PDG Settlement and any definitive documentation executed in connection with such settlement. In connection with the Postpetition Aircraft Agreements effectuated by the term sheets and definitive documentation, other than with respect to Category 3 Creditors, the parties may have or stipulate to, subject to the Creditors' Committee's right to object (if any), Unsecured Retained Aircraft Claims and/or Administrative Claims on account of the prepetition aircraft financing arrangement. As to the Category 3 Creditors, if the Bankruptcy Court approves the PDG Settlement, the Creditors' Committee will not have the right to object to the Claims of the Category 3 Creditors allowed as part of the PDG Settlement. Any Administrative Claims will be paid in full in cash in accordance with the terms of the Postpetition Aircraft Agreement and will, when paid, be in full satisfaction and discharge of any and all Administrative Claims of the aircraft Creditors, including, without limitation, for the use of the applicable aircraft after the Petition Date. Aircraft Creditors in Category 3 also will receive such other consideration as set forth in the PDG Settlement.

Nothing in the Plan shall discharge any Aircraft Financier's Lien against any aircraft, insofar as preservation of such Liens is necessary under applicable nonbankruptcy law to effect foreclosure, or impair the ability to foreclose upon any such Lien or credit bid any Claim against such aircraft. Any foreclosure or exercise of related remedies permitted under the Plan must be subject in all respects to the Postpetition Aircraft Agreements, and underlying term sheets and definitive documentation, which shall survive and be fully enforceable notwithstanding any such foreclosure or other exercise of related remedies. Any Secured Claim against an aircraft shall survive to the extent required for the purpose of permitting foreclosure on such aircraft. Where such foreclosure is contemplated and is necessary to effectuate the Postpetition Aircraft Agreements, then immediately upon obtaining constructive possession of any aircraft, the aircraft financier (or its trustee), as owner of such aircraft or secured party, and, if applicable, in the exercise of its rights and duties to maximize the value of such aircraft, will abide by and perform under the Postpetition Aircraft Agreements, if any, and lease or transfer such aircraft to the Debtors, as applicable. Obligations under the Postpetition Aircraft Agreements will become obligations of the applicable Reorganized Debtor in accordance with the Postpetition Aircraft Agreements.

6. United Express

The Debtors' United Express® service is provided by regional airlines pursuant to United Express agreements. These airlines offer approximately 2,000 flights per day to over 150 destinations across the United States. Flights are scheduled to connect to United mainline and Star Alliance departures as part of the Debtors' hub-and-spoke system. Current United Express regional airline operators include SkyWest Airlines, AWAC, Mesa, Trans States, Republic Airlines, Chautauqua Airlines, and Shuttle America, Inc. United recently announced an agreement in principle with Colgan Air to start providing United Express service by adding six Saab 340 turboprop aircraft to the United Express fleet.

On the Petition Date, United had contractual agreements for flying with three regional airlines. In general, these contracts were at above-market rates, the services provided were bundled in an uneconomical way, forcing United to use the same vendors for flying and ground services, and the fleet was not structured for optimal utilization. During the bankruptcy, United restructured its entire United Express operation and has achieved significant reductions in its cost structure, flexibility in the contract structure and an optimized fleet. This restructuring occurred in three distinct phases.

In the first phase, which began in February 2003, United initiated a "benchmarking" process to determine what rates it should be paying to United Express carriers in order to "mark to market" its costs. Once this process was completed, United began renegotiating all of its contractual agreements with its regional airline partners. At this stage, all carriers but one -- ACA -- made efforts to reduce their own costs and ultimately renegotiated their rates to market levels. At the same time, United began to change its United Express fleet mix by adding 70-seat regional jets for the first time, to complement its existing 50-seat regional jets and turboprops. Also, United Express began the process of de-linking flying and ground handling services, to further drive down costs. As a consequence, renegotiated flying contracts were signed with SkyWest and AWAC, and a contract was signed with new regional partner Mesa. At the same time, it became apparent that United's largest United Express regional partner, ACA, was unable or unwilling to reduce its cost structure, and it ultimately decided to reconstitute itself as an independent low-fare airline. Consequently, United Express negotiated a transition agreement with ACA, which provided for a phased withdrawal of ACA aircraft from the fleet, plus transitioning ground handling at 27 airports. The transition was completed in late 2004.

As a result of the ACA transition, United needed to replace ACA's 115 aircraft, and therefore United signed agreements with new regional carrier partners Trans States and Chautauqua/Republic, and added capacity from existing carriers SkyWest, Mesa, and AWAC. These first phase changes were expected to drive significant and growing annual contribution improvements, projected to be approximately \$380 million by 2009.

Each of the new carriers or existing carriers adding aircraft (except AWAC) also had to make commitments to aircraft manufacturers to build new planes, and therefore their contracts were either assumed by the Debtors, or were post-petition agreements. AWAC's contract was not assumed. To take advantage of a continuing decline in the rate of fifty seat capacity in the regional jet market, in late 2004 the Debtors initiated an "RFP" process whereby the flying being done by AWAC was put up for competitive bidding, in order to further "mark to market" United Express costs. During the process, AWAC's bid was not competitive with other carriers. Ultimately AWAC, rather than attempting to improve its bid, chose to sign an agreement to fly as a regional carrier for US Airways.

As a result, United negotiated a transition agreement with AWAC, and AWAC's flying for United Express will be completed at the end of April 2006. As a result of the AWAC transition, aided by a motion filed by the Creditors' Committee, United was able to recoup approximately \$22 million held by AWAC pursuant to a provision of its United Express agreement. In the meantime, United secured

replacement flying capacity from existing regional partners SkyWest, Mesa and Republic, and signed an agreement with a new partner, GoJet. In the course of this process, United Express opted not to replace the entire 80 AWAC aircraft, but, because of high fuel costs and a desire to further optimize its fleet mix, has only replaced 63 aircraft. The current United Express fleet plan includes 105 70-seat regional jets – up from 85 prior to the AWAC RFP, which allows United Express to operate more efficiently and economically overall. In total, the 2004-05 RFP (second phase) process is projected to generate significant additional annual contribution improvements, approximately \$100 million by 2009.

In addition to reducing the cost of regional jet capacity, United also engaged providers of ground handling services to secure savings. This process started in 2003, with the unbundling of services provided by United's flying partners. In 2004, United negotiated an overall ground handling agreement with flying partner SkyWest that continued its current ground handling responsibilities and added ground handling responsibilities in Denver. United then focused on lowering costs for ground handling in Chicago and the other airports then handled by AWAC. In Chicago, United concluded that with the lower wage rates and more flexible work rules it had negotiated with its own work groups, O'Hare ground handling could be brought in-house at significant savings. For the remainder of the AWAC stations, an RFP resulted in lower rates from a combination of Air Serve, SkyWest and AWAC bids. As a result of all these ground handling negotiations, United will generate projected annual savings and contribution improvements of almost \$40 million by 2009.

In summary, United has effectively reduced the cost of the United Express program in three distinct efforts: (1) the 2003 benchmarking/restructure process; (2) the 2004 AWAC RFP process; and (3) the ground handling restructure process. In total, the work now completed on United Express costs will result in savings and contribution improvements of approximately \$520 million by 2009.

7. Municipal Bonds

United leases several airport facilities financed, in whole or in part, by tax-exempt special facilities revenue bonds issued on behalf of United ("Municipal Bonds"). As of December 31, 2004, approximately \$1.7 billion in Municipal Bonds were outstanding. Pursuant to the Municipal Bond financing agreements, United had to fund amounts sufficient to cover semi-annual interest payments, premium (if any), and principal payable at maturity, on the Municipal Bonds. Based upon its review and analysis, United determined that none of its Municipal Bond obligations were lease obligations; rather they constitute pre-petition, general Unsecured Claims (or possibly in some cases partially Secured Claims). Therefore, pursuant to the Bankruptcy Code, United cannot pay such Claims during the Chapter 11 Cases absent specific authority from the Bankruptcy Court. However, a number of Municipal Bond trustees disagreed with United's conclusions as to certain of the issuances, viewing United's obligations as rent under various so-called "leases," payable during the Chapter 11 Cases under Section 365 of the Bankruptcy Code.

From the outset of these Chapter 11 Cases, United has refused to make any postpetition payments under the Municipal Bond arrangements that the trustees allege are "rent" payable under Section 365. United brought four actions in the Bankruptcy Court seeking a declaration that the "lease" instruments under certain Municipal Bond arrangements constitute "disguised financings" that United need not assume. Inasmuch as the Bankruptcy Court "recharacterizes" such "leases" as pre-petition financing obligations, any post-petition payments owed thereunder are pre-petition Claims dischargeable under the Plan. On March 30, 2004, the Bankruptcy Court issued rulings on cross-motions for summary judgment filed in four of the adversary proceedings filed by United. In three of the adversary proceedings, relating to Municipal Bond obligations for San Francisco, Los Angeles, and New York facilities, the Bankruptcy Court found that the underlying contracts were "disguised financings." In the Denver adversary proceeding, the Bankruptcy Court found the underlying obligation to be a "true lease." On appeal, the

District Court reversed the Bankruptcy Court on the San Francisco and Los Angeles adversary proceedings and affirmed on the New York and Denver adversary proceedings. The District Court's rulings on all four matters were appealed to the Seventh Circuit. On July 26, 2005, the Seventh Circuit ruled in connection with the San Francisco matter, holding that the underlying transaction was not a "true lease," but rather a "disguised financing." On August 23, the Seventh Circuit denied the defendants' petitions for rehearing and hearing en banc.

Briefing had been suspended in connection with the Los Angeles, New York and Denver appeals pending the determination of the San Francisco appeal and further order of the Seventh Circuit. On August 18, the Seventh Circuit affirmed per curiam the District Court's judgment that the JFK transaction was not a true lease. Also on August 18, the Seventh Circuit set the following briefing schedules for the Los Angeles and Denver appeals. United's opening briefs are due on September 26; the defendants' responsive briefs are due on October 26; and United's reply brief is due on November 9. The Seventh Circuit also indicated that oral argument on the Los Angeles and Denver appeals would be heard on the same day and by the same panel, but did not set a date for oral argument.

United also has litigated its obligations under all seven of its Municipal Bond issues relating to its facilities at O'Hare. The Chicago Municipal Bond adversary proceeding involves a different issue than the recharacterization litigation discussed above. In particular, pursuant to that certain "Airport Use Agreement" between the City of Chicago and United, United has exclusive use and occupancy of Terminal Buildings No. 1 and 2 at O'Hare. The Airport Use Agreement contains a cross-default provision, section 27.08, that purports to condition United's continued exclusive use of certain space in the O'Hare Terminal No. 1 on continuing to pay the semi-annual interest under the seven City of Chicago Municipal Bond issuances. United contends that this cross-default provision is unenforceable in bankruptcy. On February 28, 2003, United filed an action seeking, among other things, a declaration that the section 27.08 cross-default provision is unenforceable. The Bankruptcy Court dismissed the declaratory action on June 20, 2003, as not yet ripe for review (because the City of Chicago had not yet sought to enforce section 27.08). United re-filed the declaratory action on September 18, 2003. Along with their answer, certain trustees and the City of Chicago filed counterclaims. The City of Chicago also filed cross-claims against the trustees. United and the trustee defendants resolved their dispute by settlement, which was approved by the Bankruptcy Court on February 15, 2005. The cross-claims against the trustees have been dismissed by the Bankruptcy Court for lack of jurisdiction. The Bankruptcy Court ordered discovery between United and the City of Chicago, and has scheduled a trial to commence on October 5, 2005.

As to the remaining Municipal Bond issuances, because the trustees have not sought to compel payment, United has not initiated similar litigation (and United will discharge its debt under these six issuances under the Plan).

Hereafter, the Debtors provide a more detailed discussion on each of the Municipal Bond issuances as well as background on the litigation mentioned above. In addition, the Debtors discuss the treatment and status of certain escrow accounts established and maintained to channel and hold money either raised in connection with the financings or collected from United. In particular, "construction funds" were established to hold funds for construction and improvements on the leased properties. The "interest funds" held payments from United for semi-annual interest payments to bond holders, and the "reserve funds" provided a reserve for purposes of any shortfalls in amounts necessary to pay principal and interest. As discussed below, various disbursements have been made from these funds during the Chapter 11 Cases to trustees for the Municipal Bonds. Please also see ARTICLE IV.F.5.c for further information.

a. Chicago O'Hare

During the Chapter 11 Cases, United has not made any of the semi-annual interest payments due under the Chicago Municipal Bond Agreements. United does not intend to make any future payments with respect to the Chicago Municipal Bonds and will discharge the debt as part of the Plan and pursuant to the terms of the settlement of certain litigation discussed below.

On February 28, 2003, United filed a complaint against the indenture trustees for the Chicago Municipal Bonds and the City of Chicago. The complaint sought a judgment from the Bankruptcy Court that United is not obligated to make payments on the Chicago Municipal Bonds despite a provision ("Section 27.08") in the "Airport Use Agreement" between United and the City of Chicago for O'Hare International Airport that arguably requires such payments as a condition to United's occupancy of certain "Exclusive Use Premises" at the airport. On May 19, 2003, the City of Chicago filed a motion to dismiss the complaint on certain jurisdictional grounds. The motion to dismiss was granted by the Bankruptcy Court on June 20, 2003. On September 18, 2003, United filed another complaint against City of Chicago and the indenture trustees for the Chicago Municipal Bonds that reinstated the litigation. That litigation is referred to herein as the "Chicago Municipal Bond Adversary Proceeding."

At the October 15, 2004 omnibus hearing in the Chapter 11 Cases, United announced a settlement with the indenture trustees for, and certain holders of, the seven Chicago Municipal Bond issuances. Holders of the Chicago Municipal Bonds were provided notice and an opportunity to object to this original settlement.

The original settlement was terminated by its terms because a majority of holders of one of the bond issuances – the Series 2000A Bonds – directed the indenture trustee for the Series 2000A Bonds to terminate the settlement. In December 2004, the parties, including the indenture trustee for the Series 2000A Bonds, entered into a reconstituted settlement agreement, based, in part, on terms of the original settlement. Like its predecessor, the reconstituted settlement effectively reduces the Debtors' on-going indebtedness related to the Chicago Municipal Bonds from approximately \$600 million to approximately \$150 million (the "Chicago Municipal Bond Settlement Agreement"), in the form of the New UAL O'Hare Bonds. The Chicago Municipal Bond Settlement Agreement was approved by the Bankruptcy Court on February 15, 2005. A copy of the Chicago Municipal Bond Settlement Agreement is in the Plan Supplement, as Exhibit 15. The Plan incorporates the distributions proposed in the Chicago Municipal Bond Settlement Agreement. The Claims of holders of the Chicago Municipal Bonds are classified in Class 2E-4 in the Plan.

THIS DESCRIPTION OF THE CHICAGO MUNICIPAL BOND SETTLEMENT IS INTENDED TO BE A SUMMARY ONLY AND IS QUALIFIED IN ITS ENTIRETY BY THE CHICAGO MUNICIPAL BOND SETTLEMENT AGREEMENT, WHICH IS INCLUDED IN THE PLAN SUPPLEMENT. IN THE EVENT OF ANY DISCREPANCY BETWEEN THIS SUMMARY AND THE CHICAGO MUNICIPAL BOND SETTLEMENT AGREEMENT, THE CHICAGO MUNICIPAL BOND SETTLEMENT AGREEMENT WILL CONTROL.

Under the Chicago Municipal Bond Settlement Agreement, a copy of which is included in the Plan Supplement as Exhibit 15, only holders of the Chicago Municipal Bonds as of January 7, 2005 are entitled to vote on the Plan and make certain elections, which elections will be made on the ballots for voting on the Plan. The treatment of each series of Chicago Municipal Bonds under the Plan and the Chicago Municipal Bond Settlement Agreement, along with estimated recoveries for holders of each series of the Chicago Municipal Bonds, are set forth below:

- (i) Series 2001A-1 Bonds and Series 2001A-2 Bonds. Holders of the Series 2001A-1 Bonds and the Series 2001A-2 Bonds as of January 7, 2005 are given two options for treatment under the Plan. The election, which will be made on the ballot for voting on the Plan, may be made with respect to all or any portion of a holder's Series 2001A-1 Bonds or Series 2001A-2 Bonds. By selecting one of the following options, holders may elect to receive either a cash payment or New UAL O'Hare Bonds.
- (a) Option A. A holder electing Option A (or a holder that (i) fails to elect either Option A or Option B, or (ii) elects Option B but fails to tender its pro rata portion of the Note Purchase, as described below in the section titled "Note Purchase," as that term is defined in the Chicago Municipal Bond Settlement Agreement) will receive a cash payment of up to \$.58 per dollar in principal amount held of the Series 2001A-1 Bonds and Series 2001A-2 Bonds. The cash payment will come from the construction and capitalized interest funds for the Series 2001A-1 Bonds and the Series 2001A-2 Bonds, funds from a note purchase payment to be made by holders of Chicago Municipal Bonds electing Option B, and a first priority claim to a pooling trust that will be funded with distributions made by United on certain claims with respect to the Chicago Municipal Bonds, which pooling trust is described in more detail below in the section titled "Pooling Agreement." While the parties to the Chicago Municipal Bond Settlement Agreement anticipate that these funds will be sufficient to permit a cash distribution of 58 cents for every one dollar of principal amount held of the Series 2001A-1 Bonds and Series 2001A-2 Bonds, there can be no assurance that these funds will be sufficient to permit such a distribution.
- (b) Option B. A holder electing Option B will receive its pro rata share of approximately \$48,666,000 in principal amount of New UAL O'Hare Bonds in an amount up to \$.60 per dollar in principal amount of the Series 2001A-1 Bonds and Series 2001A-2 Bonds held by such electing holder. The \$.60 amount is subject to reduction in the event of an oversubscription, as described in more detail below in the section titled "Over/Undersubscription for New UAL O'Hare Bonds." The terms of the New UAL O'Hare Bonds are set forth in more detail below in the section titled "New UAL O'Hare Bonds." Any holder choosing Option B must tender to United (or its agent) a pro rata share of the Note Purchase pursuant to instructions contained in the Ballot for voting on the Plan.
- (c) The unsecured deficiency claim of holders of the Series 2001A-1 Bonds and 2001A-2 Bonds will be deposited by United into a trust formed under a pooling agreement for reallocation and distribution pursuant to the terms of the pooling agreement, as described in more detail below in the section titled "Pooling Agreement."

- (ii) Series 2000A Bonds. Holders of the Series 2000A Bonds are not entitled to elect a treatment under the Plan. Rather, all holders of the Series 2000A Bonds as of January 7, 2005 will receive a combination of: (i) a pro rata cash distribution of the construction, redemption and bond funds associated with the Series 2000A Bonds; (ii) New UAL Common Stock; and (iii) New UAL O'Hare Bonds in the principal amount of approximately \$9,216,000.

- (iii) Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds. Holders of the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds as of January 7, 2005 are given two options for treatment under the Plan. The election, which will be made on the Ballot for voting on the Plan, may be made with respect to all or any portion of a holder's Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds. By selecting one of the following options, holders may elect to receive either New UAL O'Hare Bonds or New UAL Common Stock (holders of the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds are not given the option of receiving a cash distribution because, unlike the Series 2000A Bonds, Series 2001A-1 Bonds and Series 2001A-2 Bonds, there were no construction funds, interest reserve funds, or any other funds associated with those bonds on or after the Petition Date).
 - (a) Option A. A holder electing Option A (or a holder that (i) fails to elect either Option A or Option B, or (ii) elects Option B but fails to tender its pro rata portion of the Note Purchase, as described below in the section titled "Note Purchase") will receive New UAL Common Stock.
 - (b) Option B. A holder electing Option B will receive its pro rata share of approximately \$86,570,000 in principal amount of the New UAL O'Hare Bonds in an amount up to \$.60 per dollar in principal amount of the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds held by such holder. The \$.60 amount is subject to reduction in the event of an oversubscription, as described in more detail below in the section titled "Over/Undersubscription for New UAL O'Hare Bonds." The terms of the New UAL O'Hare Bonds are set forth in more detail below in the section titled "New UAL O'Hare Bonds." Any holder choosing Option B must tender to United (or its agent) a pro rata share of the Note Purchase pursuant to instructions contained in the Ballot for voting on the Plan.
 - (c) The unsecured deficiency claim of a holder of the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds making the Option B election will be deposited by United into a trust formed under a pooling agreement for reallocation and distribution pursuant to the terms of the pooling agreement, as described in more detail below in the section titled "Pooling Agreement."

- (iv) Other Material Provisions of the Chicago Municipal Bond Settlement Agreement. In addition to the foregoing, there are several other material terms of the Chicago Municipal Bond Settlement Agreement: (1) in exchange for the foregoing treatment under the Plan, the indenture trustees for the Chicago Municipal Bonds and the bondholder parties to the Chicago Municipal Bond Settlement Agreement, solely in their capacities as trustees for or holders of the Chicago Municipal Bonds, agreed, *inter alia*, not to (a) take any action against United to declare a default or terminate or pursue a remedy against United under the Airport Use Agreement, including Section 27.08, (b) object to or take any action that is inconsistent with the approval by the Bankruptcy Court of any assumption of the Airport Use Agreement, or (c) take any action against United to compel payment by United of any payments due or payable under any of the Chicago Municipal Bond Agreements; (2) the Chicago Municipal Bond Settlement Agreement preserves the right of holders of the Chicago Municipal Bonds (other than those designated holders that are signatories of the Chicago Municipal Bond Settlement Agreement) to object to the Plan; (3) United agreed to pay the reasonable and actual fees and expenses of the indenture trustees for the Chicago Municipal Bonds and the bondholders that are parties to the Chicago Municipal Bond Settlement Agreement. United has paid such fees and expenses through February 15, 2005. United will make a further payment of reasonable and actual fees and expenses that accrue from February 16, 2005 through the Effective Date; and (4) any claims that the indenture trustees or holders of the Chicago Municipal Bonds may have against the City of Chicago were expressly preserved by the Chicago Municipal Bond Settlement Agreement and the indenture trustees or holders of the bonds may pursue such claims to the extent that United would not be required to indemnify the City of Chicago on account thereof, subject to certain exceptions.
- (v) Note Purchase. Under the terms of the Chicago Municipal Bond Settlement Agreement, those holders that elect to receive New UAL O'Hare Bonds (*i.e.* those holders that elect Option B) are required to fund a share of the purchase of \$5,193,114 of the New UAL O'Hare Bonds pursuant to a Note Purchase Agreement between United and Stark.
- (vi) Over/Undersubscription for New UAL O'Hare Bonds. The Chicago Municipal Bond Settlement Agreement provides mechanisms for dealing with the situations where (i) too many holders of the Chicago Municipal Bonds elect Option B to allow holders electing Option B to receive \$.60 in New UAL O'Hare Bonds per dollar in principal amount of the Chicago Municipal Bonds held by such holder, and (ii) not enough holders of the Chicago Municipal Bonds elect Option B, such that holders of the Chicago Municipal Bonds would receive greater than \$.60 in New UAL O'Hare Bonds per dollar in principal amount of the Chicago Municipal Bonds held by such holder. In the former situation (an oversubscription), the amount of New UAL O'Hare Bonds holders will receive will be reduced on a pro rata basis. In the latter situation (an undersubscription), the excess New UAL O'Hare Bonds will be

deposited into the trust formed under the pooling agreement and distributed as discussed below. Holders of the Chicago Municipal Bonds should consult the Chicago Municipal Bond Settlement Agreement for more detail on the operation of this provision. The provisions in this paragraph do not apply to the Series 2000A Bondholders, who do not have an election.

- (vii) Pooling Agreement. Certain distributions that otherwise would have been made directly to holders of the Chicago Municipal Bonds will instead be deposited into a trust established under a pooling agreement and reallocated to holders of the Chicago Municipal Bonds as set forth in the Chicago Municipal Bond Settlement Agreement. These distributions include the distributions on the deficiency claims of holders of the Series 2001A-1 Bonds and Series 2001A-2 Bonds, the distributions on the deficiency claims of the holders of the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds that elect Option B, and any New UAL O'Hare Bonds that are not distributed to holders choosing Option B as a result of an undersubscription. The assets of the trust established under the pooling agreement (other than any excess of the New UAL O'Hare Bonds resulting from an undersubscription from the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds, and Series 2001C Bonds, which will be distributed to the holders of those Bonds electing Option A) will be liquidated and distributed to the holders of the Series 2001A-1 and Series 2001A-2 Bonds electing Option A, to the extent necessary to result in a \$.58 distribution to such holders after application of construction and reserve funds and the funds realized from the note purchase, and thereafter any remaining assets will be distributed in kind to the holders of the Series 1999A Bonds, Series 1999B Bonds, Series 2001B Bonds and Series 2001C Bonds electing Option A, all as more fully set forth in the Chicago Municipal Bond Settlement Agreement and the Pooling Agreement.
- (viii) New UAL O'Hare Bonds. The Chicago Municipal Bond Settlement Agreement provides that United will issue \$149,646,114 in New UAL O'Hare Bonds, to be distributed as discussed above, on terms sufficient to ensure that such securities trade at par.

Pursuant to the Chicago Municipal Bond Settlement Agreement, all parties reserved the right to revive their Claims if the Chicago Municipal Bond Settlement Agreement is terminated. One basis for termination is the inability of United to confirm a plan of reorganization consistent with the terms of the Chicago Municipal Bond Settlement Agreement prior to December 31, 2005. United and certain of the parties to the settlement are currently in discussions to secure a consensual extension of this deadline, and the Debtors anticipate that such an extension will be agreed to. If United is unable to do so, any of the parties may, at their sole option, terminate the Chicago Municipal Bond Settlement Agreement immediately upon written notice thereof to the other parties. The City of Chicago, a party to these adversary proceedings, was, again, not a party to the Chicago Municipal Bond Settlement Agreement.

Despite the Chicago Municipal Bond Settlement, the City of Chicago has requested further discovery and a trial in the Chicago Municipal Bond Adversary Proceeding. The requested discovery relates primarily to: (1) the extent to which enforcement of Section 27.08 of the Airport Use Agreement

would place an impermissible burden on United's reorganization; and (2) the extent to which the City of Chicago would be harmed if Section 27.08 were found to be unenforceable. The Bankruptcy Court ordered discovery on these issues and scheduled a trial to commence on October 5, 2005. At the conclusion of the trial, the Debtors expect that the Bankruptcy Court will rule on whether Section 27.08 is enforceable against the Debtors.

b. San Francisco

United did not pay the semi-annual interest payments due on April 1, 2003, October 1, 2003, April 1, 2004, October 1, 2004, and April 1, 2005 under either the California Statewide Communities Development Authority Special Facilities Lease Bonds, 1997 Series A or the California Statewide Communities Development Authority Special Facilities Revenue Bonds, 2000 Series A. United filed a declaratory action with respect to the Series 1997A Bonds (but not the Series 2000A Bonds) on March 21, 2003, seeking a declaration that, among other things, the Series 1997A Bonds are a disguised financing arrangement and not a "true lease." All parties to the March 21, 2003 declaratory action filed motions for summary judgment. On March 30, 2004, the Bankruptcy Court issued a decision, holding the financing arrangement at issue in the SFO adversary proceeding not to be a "true lease." The District Court reversed the Bankruptcy Court on appeal. United appealed to the Seventh Circuit. On July 26, 2005, the Seventh Circuit reversed the District Court, ruling that the underlying transaction was not a "true lease," but rather a "disguised financing." On August 18, 2005, the Seventh Circuit denied the defendants' petitions for rehearing and rehearing en banc.

In regard to the various funds issued in connection with the San Francisco Municipal Bonds, HSBC Bank, as trustee for the Series 1997A Bonds, filed a motion seeking relief from the automatic stay to access monies remaining in the Series 1997A bond fund, interest account, reserve account, capitalized interest fund, and the construction fund. By agreed order entered by the Bankruptcy Court on May 23, 2003, the Court lifted the automatic stay with respect to an aggregate amount of \$9,684,868.33 in the Series 1997A bond fund, interest account, reserve account, and the capitalized interest fund to permit HSBC to disburse the same to stakeholders in accordance with the terms of that certain indenture of mortgage and deed of trust, dated August 1, 1997. The Bankruptcy Court denied HSBC's motion with respect to the monies in the construction fund on July 18, 2003. There remains approximately \$18.24 million in the Series 1997 construction fund. Currently, there are no amounts remaining in any of the Series 2000A bond trust funds or accounts.

United and the trustee for the Series 1997A Bonds stipulated to the existence of a valid, perfected security interest in United's leasehold interest in that certain maintenance base lease related to this obligation. The parties did not stipulate, however, to the value (if any) that should be assigned to that security interest, and an adversary proceeding is pending before the Bankruptcy Court to determine that issue. This stipulation expired by its own terms when the District Court reversed the judgment of the Bankruptcy Court regarding whether the Series 1997A Bonds are a disguised financing arrangement. United and the trustee for the Series 1997A Bonds are in discussions regarding the creation of a new stipulation as to the validity and perfection, but not valuation, of the trustee's security interest in such bonds. No discovery has taken place regarding the question of security interest valuation related to the Series 1997A Bonds, nor has a timetable for resolution of the adversary proceeding been set.

c. Denver

United did not make the semi-annual interest payments due on April 1, 2003, October 1, 2003, April 1, 2004, October 1, 2004, and April 1, 2005, for the City and County of Denver, Colorado, Special Facilities Airport Revenue Bonds Series 1992A. United filed its declaratory action with respect to the Series 1992A Bonds on March 21, 2003, seeking a declaration that, among other things, the Denver

Municipal Bond issuance was a “disguised” financing arrangement and not a “true lease”. All parties to the March 21, 2003 declaratory action filed motions for summary judgment. On March 30, 2004, the Bankruptcy Court ruled that the repayment obligations constitute a “true lease” for purposes of Section 365 of the Bankruptcy Code. On appeal, the District Court affirmed. On February 18, 2005, United appealed the District Court’s affirmation. On August 18, the Seventh Circuit set the following briefing schedule. United’s opening briefs are due on September 26, 2005; the defendants’ responsive briefs are due on October 26, 2005; and United’s reply brief is due on November 9, 2005. Pursuant to the Bankruptcy Court’s order, United has paid an aggregate of \$45 million into escrow for April 2003, October 2003, April 2004, October 2004, and April 2005 missed interest payments related to the Denver Series 1992A Bonds. Currently, there are no amounts remaining in any bond funds or accounts.

d. Los Angeles

United has not made the semi-annual interest payments due on April 1, 2003, October 1, 2003, April 1, 2004, October 1, 2004 and April 1, 2005 for the: (i) Adjustable-Rate Facilities Lease Refunding Revenue Bonds, Issue of 1984, United Air Lines, Inc.; (ii) the California Statewide Communities Development Authority (“CSCDA”) Special facility Revenue Bonds, Series 1997; and (iii) the CSCDA Special Facility Revenue Bonds, Series 2001. The Debtors also did not make the semi-annual interest payments due on May 15, 2003, November 15, 2003, May 15, 2004, November 15, 2004 and May 15, 2005 for the Regional Airports Improvement Corporation Facilities Lease Refunding Revenue Bonds, Issue of 1992, United Air Lines, Inc.

As to the Series 1997 and Series 2001 Bonds, the trustees and bondholders have not taken any action to recover the missed interest payments. As United considers its obligations under the Series 1997 and 2001 Bonds prepetition unsecured obligations, and no litigation has been brought to declare otherwise or compel payment, United does not intend to make any future interest or principal payments and intends to discharge the debt through the Plan.

United filed a declaratory action with respect to the Series 1984 and the Series 1992 Bonds on March 21, 2003, seeking a declaration that, among other things, the Series 1984 Bonds and the Series 1992 Bonds constitute “disguised” financing arrangements and not “true leases.” All parties to the March 21, 2003 declaratory action filed motions for summary judgment.

On March 30, 2004, the Bankruptcy Court held the repayment obligations relating to the Series 1984 Bonds and the Series 1992 Bonds not to be “true leases” for purposes of Section 365 of the Bankruptcy Code. On appeal, the District Court reversed, and on February 18, 2005, United appealed the District Court’s ruling. On August 18, the Seventh Circuit set the following briefing schedule. United’s opening briefs are due on September 26, 2005; the defendants’ responsive briefs are due on October 26, 2005; and United’s reply brief is due on November 9, 2005.

In regard to the various escrow funds relating to the Los Angeles Municipal Bonds, the Bankruptcy Court has issued a number of orders allowing for distributions to the relevant trustees and determining ownership rights in various funds. In particular, the Bankruptcy Court issued the following Orders:

- By Agreed Order entered by the Bankruptcy Court on May 23, 2003, the Bankruptcy Court lifted the automatic stay with respect to approximately \$10,701,075.91 held by the trustee in the Series 1997 reserve account and \$1,027,169.12 in the Series 1997 bond fund.

- By Agreed Order entered by the Bankruptcy Court on June 20, 2003, the Bankruptcy Court lifted the automatic stay with respect to approximately \$1,123,717.30 held by the trustee in the Series 2001 bond fund.
- By Agreed Order entered by the Bankruptcy Court on September 11, 2003, the Bankruptcy Court lifted the automatic stay with respect to all remaining monies held by the trustee in the 1997 construction fund, except \$4,891,600.00 (the “1997 Disputed Amounts”). The 1997 Disputed Amounts remain in the construction fund.
- By Agreed Order entered on November 21, 2003, the Bankruptcy Court the Bankruptcy Court lifted the automatic stay with respect to all remaining monies held by the trustee in the 2001 construction fund, except for \$1,455,465.28 (the “2001 Disputed Amounts”), conditioned upon either United or the trustee filing a complaint for declaratory relief to determine the parties rights as to the 2001 Disputed Amounts.

On December 16, 2003, United filed a complaint for declaratory relief against U.S. Bank seeking a declaration of United’s rights as to the 2001 Disputed Amounts. U.S. Bank answered United’s complaint and filed a counterclaim, to which United replied. Both parties moved for summary judgment. On September 20, 2004, the Bankruptcy Court issued its Memorandum of Opinion granting summary judgment in part as to both United and U.S. Bank. In particular, the Bankruptcy Court ordered turnover to United of those certain “Group I Costs” (incurred and requisitioned pre-petition) of \$1,191,547.29, as such amounts were United’s property and not subject to any security interests or setoff by the Trustees. As to those certain “Group II Costs” (incurred pre-petition, but requisitioned post-petition) of \$233,824.38 and \$4,891.60, the Bankruptcy Court ruled that they were owed by the bondholders to United but subject to setoff with United’s general debt to the bondholders pursuant to 11 U.S.C. § 553.

Finally, as to those certain “Group III Costs” (incurred post-petition and requisitioned post-petition) of \$30,093.51, the Bankruptcy Court ruled that such amounts were owned by the Trustees as a result of United’s failure to submit a written request to the trustee.

Through an agreed order submitted by United and HSBC (as trustee for the Series 1997 Bonds), and signed by the Bankruptcy Court on October 15, 2004, the Bankruptcy Court indicated that it would make the same findings of law and fact with respect to the issues pending between United and HSBC with respect to the Series 1997 Disputed Amounts that it had in the September 20 Memorandum of Opinion.

On February 24, 2005, the District Court affirmed the Bankruptcy Court’s ruling. Both United and U.S. Bank appealed the order of the District Court, and briefing is complete. The Seventh Circuit has scheduled oral argument for September 7, 2005 but has not set a timetable for disposition of these appeals.

Currently, there are no amounts remaining in any of the Series 1984 or Series 1992 Bond trust funds or accounts. United does not intend to make any future interest or principal payments and intends to discharge the debt through the Plan.

United and the trustees for the Series 1984 and Series 1992 Bonds stipulated to the existence of a valid, perfected security interest in United’s leasehold interest in that certain terminal lease related to this obligation. The parties did not stipulate, however, to the value (if any) that should be assigned to that security interest, and an adversary proceeding is pending before the Bankruptcy Court to determine that issue. This stipulation expired by its own terms when the District Court reversed the judgment of the Bankruptcy Court regarding whether the Series 1984 and Series 1992 Bonds are disguised financing

arrangements. United and the trustee for the Series 1997A Bonds are in discussions regarding the creation of a new stipulation as to the validity and perfection, but not valuation, of the trustee's security interest in such bonds. No discovery has taken place regarding the question of security interest valuation related to the Series 1984 and Series 1992 Bonds, nor has a timetable for resolution of the adversary been set.

e. New York/JFK

United did not pay the semi-annual interest payments due on April 1, 2003, October 1, 2003, April 1, 2004, October 1, 2004, and April 1, 2005 on the New York City Industrial Development Agency Special Facility Revenue Bonds Series 1997. United filed a declaratory action with respect to the Series 1997 Bonds on March 21, 2003, seeking a declaration that, among other things, the Series 1997 Bonds are a "disguised" financing arrangement and not a "true lease." All parties to the March 21, 2003 declaratory action filed motions for summary judgment. On March 30, 2004, the Bankruptcy Court issued rulings on the cross-motions for summary judgment, holding that the financing arrangement was a "disguised financing" and did not constitute a "true lease." On February 18, 2005, the District Court affirmed. On March 14, 2005, the defendant-trustee filed a Notice of Appeal with the Seventh Circuit. On August 18, 2005, the Seventh Circuit affirmed per curiam the judgment of the District Court. On September 1, 2005, the trustee with respect to the Series 1997 Bonds petitioned the Seventh Circuit for a panel rehearing. Currently, there are no amounts remaining in any of the Series 1997 Bonds trust funds or accounts. As United believes that the obligations under the Series 1997 Bonds are prepetition Unsecured Claims, United does not presently intend to make any future payments and intends to discharge the debt as part of the Plan.

f. Indianapolis

On December 1, 1991, United entered into a certain master lease agreement with the Indianapolis Airport Authority ("IAA"). United rejected the lease for the Indianapolis maintenance facility, effective as of May 9, 2003. United, thus, did not make the semi-annual interest payments due May 15, 2003, or any payments due thereafter, on the Indianapolis Airport Authority 6.50% Special Facility Revenue Bonds, Series 1995A (the "Indianapolis Municipal Bonds"). By agreed order entered by the Bankruptcy Court on May 23, 2003, the Bankruptcy Court lifted the automatic stay with respect to approximately \$37,702,899.53 in the construction fund and \$4,683,276.61 in the bond fund held by the trustee. Having rejected the master lease and all agreements relating to the Indianapolis Series 1995A Bonds, United does not presently intend to make any future payments with respect to the Indianapolis Municipal Bonds and presently intends to discharge the debt as part of the Plan.

United, IAA, and BNY as successor trustee have moved for summary judgment regarding what amount, if any, United must pay related to the Indianapolis Municipal Bonds. Specifically, IAA and BNY argue that they are entitled to an administrative expense for interest payments that were not yet due but which accrued between the Petition Date and the date that United rejected the Indianapolis maintenance facility. The Debtors have argued that such accrued interest is only a general Unsecured Claim. Briefing and argument are complete as to those motions, and the Bankruptcy Court has taken these motions under advisement pending disposition of appeals related to the Denver Municipal Bonds.

g. Boston

During the Chapter 11 Cases, United has not made any of the semi-annual interest payments (due April 1, 2003, October 1, 2003, April 1, 2004, October 1, 2004, and April 1, 2005) on the Massachusetts Port Authority Special Facilities Revenue Bonds, Series 1999A. There has been no litigation to compel payment. By agreed order dated May 23, 2003, the Bankruptcy Court lifted the automatic stay with

respect to approximately \$4,687,069.95 in the Series 1999A bond fund held by the trustee. Contemporaneously, approximately \$555,000 moved by HSBC from the construction fund to the bond fund was returned to the construction fund. As United considers its obligations under the Boston Series 1999A Municipal Bonds prepetition, unsecured obligations, and no litigation has been brought to declare otherwise or to compel payment, United does not intend to make any future interest or principal payments and intends to discharge the debt through the Plan.

h. Miami

United did not pay the semi-annual interest payments due on March 1, 2003, September 1, 2003, March 1, 2004, September 1, 2004 and March 1, 2005 on the Miami-Dade Industrial Development Authority Special Facilities Revenue Series 2000 Bonds. There has been no litigation to compel payment. By agreed order dated June 2, 2003, the Bankruptcy Court lifted the automatic stay with respect to approximately \$163,388.31 from the bond fund held by the trustee. By agreed order dated September 11, 2003, the Bankruptcy Court lifted the automatic stay with respect to approximately \$7,291,234.74 from the project fund held by the trustee.²¹ As United considers its obligations under the Series 2000 Bonds prepetition, unsecured obligations, and no litigation has been brought to declare otherwise or to compel payment, United does not intend to make any future interest or principal payments and intends to discharge the debt through the Plan.

8. Executory Contracts and Unexpired Leases

Executory Contract and Lease Rejections. As of the Petition Date, the Debtors were parties to thousands of executory contracts and unexpired leases. The Debtors sought to reject certain of these executory contracts and unexpired leases on the Petition Date. The Debtors also sought and received approval of streamlined procedures to reject additional executory contracts and unexpired leases that the Debtors determined to reject in their reasonable business judgment. The procedures allowed the Debtors to file and serve notices of intent to reject the executory contracts and unexpired leases, and provided parties with the ability to object to the rejection of such executory contracts and unexpired leases.

The Debtors have reviewed the executory contracts to which they are counterparties. For certain of these contracts, the Debtors have decided that they are no longer in need of the goods and services provided by such contracts, the contracts are for goods and services at a price that is above market, or the Debtors could receive higher quality goods and services. In these circumstances, among others, the Debtors have sought to reject certain executory contracts by filing a notice of intent to reject pursuant to the court-approved procedures or, in special circumstances, by filing a separate motion with the Bankruptcy Court. Pursuant to various notices filed by the Debtors or other orders entered by the Bankruptcy Court, as of September 7, 2005, the Debtors have rejected approximately 54 executory contracts and approximately 113 unexpired leases pursuant to Section 365(a) of the Bankruptcy Code.

The Debtors' decisions to reject the leases resulted from internal corporate decisions to discontinue or consolidate certain business operations. The Debtors decided to reject certain other leases because of an internal corporate decision to no longer operate city ticket offices. Also, the Debtors

²¹ Pursuant to an agreement for transfer of leasehold interest dated December 3, 2004 with AMB Covina MIA Cargo Center, LLC ("AMB Covina"), approved by the Bankruptcy Court on December 17, 2004, as amended as of January 7, 2005, and approved by the Bankruptcy Court on January 26, 2005, United assigned its interest in the development lease (which governs the lease of the land upon which United constructed a cargo facility and GSE facility using the proceeds of the Series 2000 Bonds) to AMB Covina free and clear of the Series 2000 Bonds.

decided to reject certain other leases because of an internal corporate decision to close the Oakland and Indianapolis wide-body aircraft maintenance center operations and consolidate such maintenance operations at San Francisco.

Stub Rent Litigation. The Debtors lease nonresidential real property in airports and other locations, with many of these leases requiring rent to be paid in advance on the first day of each month. Because of their dwindling cash reserves, the Debtors were unable to make most of the December 1, 2002 payments before they filed their Chapter 11 petitions on December 9, 2002. The lease amounts for the period December 1 through December 31, 2002, including the period of December 9 through December 31, 2002 (the “Stub Rent”), remain unpaid. Various lessors sought to compel payment of the Stub Rent under Section 365(d)(3) of the Bankruptcy Code. The Bankruptcy Court denied these motions on March 27, 2003, but left open the possibility of the Creditors recovering Stub Rent as an Administrative Claim under Section 503(b) of the Bankruptcy Code. Certain lessors filed motions under Section 503(b) of the Bankruptcy Code, which the Debtors opposed on the ground that these Claims should be resolved during the Claims adjudication and reconciliation process.

On May 23, 2003, the Bankruptcy Court ruled that the Debtors did not have to pay Stub Rent for leases that had not yet been rejected or assumed, but generally should proceed with paying Stub Rent on Rejected Leases. The Bankruptcy Court further directed the Debtors and lessors to develop a set of procedures for streamlining and resolving these Claims. The Debtors, certain lessors, and the Creditors’ Committee developed a process of negotiation, mediation, and arbitration for disposing of Claims on account of Stub Rent (the “Stub Rent Procedures”), with the Bankruptcy Court resolving certain procedural and legal disputes about the Stub Rent Procedures on June 17, 2003 and July 18, 2003. The Bankruptcy Court approved and authorized payment under the Stub Rent Procedures on August 29, 2003. As of September 1, 2005, the Debtors have made Stub Rent payments in the total amount of approximately \$275,000. The Debtors estimate that they will pay, at most, Stub Rent in the aggregate additional amount of \$1.2 million with respect to Rejected Leases.

Section 365(d)(4) Deadline. By order dated February 6, 2003, the Bankruptcy Court extended the time within which the Debtors must assume or reject unexpired leases of non-residential real property pursuant to Section 365(d)(4) of the Bankruptcy Code through and including August 6, 2003, and by order dated July 21, 2003, the Bankruptcy Court further extended the time within which the Debtors must assume or reject unexpired leases of non-residential real property pursuant to Section 365(d)(4) of the Bankruptcy Code through and including the earlier to occur of: (i) December 15, 2003; or (ii) the date on which a hearing on the Disclosure Statement concludes. By order dated December 1, 2003, the Bankruptcy Court further extended the Section 365(d)(4) deadline through and including the earlier to occur of: (i) the expiration of the Debtors’ exclusive period to file a plan of reorganization (as such exclusive period may be extended from time to time); and (ii) the conclusion of a hearing on the Debtors’ Disclosure Statement. However, on September 2, 2005, the Debtors filed a motion seeking to extend the time within which the Debtors must assume or reject unexpired leases pursuant to Section 365(d)(4) of the Bankruptcy Code through and including the date on which a plan of reorganization is confirmed. A hearing is scheduled on this motion for September 16.

9. Management Retention Initiatives

In the months preceding and following the Chapter 11 filing, a large number of employees critical to the Debtors’ continuing business operations were actively recruited and many left the employ of the Debtors for alternative employment both within and outside the airline industry. In an effort to retain those employees who have skill sets deemed essential to the future success of the Debtors’ business, the Debtors have developed a key employee retention plan (“KERP”), comprised of a retention component and a severance component. On February 6, 2003, the Bankruptcy Court granted the Debtors authority to

implement and/or continue their KERP. As a result of negotiations with the Creditors' Committee, the retention component of the KERP was limited to 350 individuals, with an aggregate award amount of \$22.7 million, unless further notice is provided to the Creditors' Committee, the AFA, and if an objection is filed, the Bankruptcy Court. The amounts to be paid under the KERP were largely scheduled to occur (1) in October 2003 and (2) on the Effective Date. In October 2003, the Debtors paid their employees eligible for the KERP an aggregate amount of approximately \$11 million. Due to attrition among the 350 participants in the KERP, the Debtors anticipate that they will pay no more than approximately \$10 million on the Effective Date. The cost of the severance component of the KERP was predicted to be as great as \$75 million depending on the extent of the downsizing of the Debtors' operations. To date, however, the Debtors have only paid \$7.5 million to employees in connection with the severance component of the KERP.

The initial KERP did not extend to professional and technical employees, primarily in the Debtors' information services division, who are critical to the Debtors' continuing business operations and reorganization (the "Key Professional and Technical Employees"). The Debtors experienced significant attrition of these Key Professional and Technical Employees, who possess highly marketable skills and whose replacement would be extremely challenging to the Debtors. To combat the attrition of Key Professional and Technical Employees, the Debtors developed a key employee retention program (the "Technical Employee KERP") targeted to providing retention awards for select professional and technical employees. As a result of negotiations with the Creditors' Committee, participation and aggregate award amounts were limited to 520 participants and \$7.5 million in awards without further notice to the Creditors' Committee and, if the Creditors' Committee objects, the Bankruptcy Court. On February 6, 2003, the Bankruptcy Court authorized, but did not require, the Debtors to implement the Technical Employee KERP. The amounts to be paid under the Technical Employee KERP are scheduled to occur (1) on the Effective Date and (2) six months after the Effective Date. Because the Technical Employee KERP is not limited to specific individuals (like the KERP), the Debtors anticipate that they will pay their employees eligible for the Technical Employee KERP all of the \$7.5 million approved by the Bankruptcy Court.

The Debtors also requested approval from the Bankruptcy Court to assume the employment agreement, dated as of September 5, 2002, by and among UAL, United, and Glenn F. Tilton, UAL's Chairman, President and Chief Executive Officer of the Debtors. On February 21, 2003, the Bankruptcy Court entered an order approving the assumption of the employment agreement between the Debtors and Mr. Tilton.

10. Performance Incentive Plans

Prior to the Petition Date, the Debtors had, in the ordinary course of their business, maintained an annual performance-based cash incentive plan (the "PIP"). Under the terms of the PIP, participants received additional cash compensation if the Debtors met specified performance criteria and the individual employee's performance warranted additional compensation. Prior to the beginning of each year, the Human Resources Subcommittee of UAL's board of directors established a threshold level of pre-tax profit margin that the Debtors had to obtain before any award would be made under the PIP for that year. The Human Resources Subcommittee also determined the appropriate performance objectives for each year relating to other specified areas, including financial performance, operational performance, and customer satisfaction. As part of the Debtors' first-day motions, the Bankruptcy Court authorized, but did not require, the Debtors to maintain and administer their PIP and other incentive plans in the ordinary course during the Chapter 11 Cases. United's performance in 2003 warranted a payout under the PIP of 187.8% of target, or approximately \$70 million in total. The Human Resources Subcommittee has not determined the amounts to pay participants either individually or in aggregate. Therefore, any

incentive award for 2003 under the PIP is not calculable at this time. In addition, ULS's performance in 2003 warranted a payout under ULS's PIP of 133% of target for a total of approximately \$4 million.

Union employees were not participants in the PIP. As part of its restructuring, the Debtors and their Unions implemented, effective as of January 1, 2004, the UAL Corporation Success Sharing Program — Performance Incentive Plan (the “Success Sharing Performance Incentive Plan”), which replaced the incentive plan provided under the PIP and extends to all Union-represented and SAM employees. The goal of the Success Sharing Performance Incentive Plan is to create a commonality of interest among employees and to improve focus on operational and financial improvement. Under the Success Sharing Performance Incentive Plan, employees receive cash payments based on the achievement of certain financial and non-financial milestones. The performance milestones approved by the Human Resources Subcommittee of the UAL board of directors. Under the Success Sharing Performance Incentive Plan, payouts related to meeting operating profitability goals are made on an annual basis as soon as reasonably practicable following the year in which such payout was earned (for SAM employees, the amount, if any, of such payment would also be based on the individual's performance), while payments related to meeting operational and cost goals are made on a quarterly basis as soon as reasonably practicable after the end of the quarter. The Debtors made payments to employees totaling approximately \$100 million based on performance milestones achieved during 2004. As part of the 2005 Restructuring Agreements, union-represented employees reduced their level of participation in Success Sharing, from 5%, at target levels of performance, to 1%. The Debtors have made payments to employees totaling approximately \$47 million based on performance milestones achieved during the first two quarters of 2005. The Success Sharing Performance Incentive Plan is one component of the Debtors' overall Success Sharing Program, which also includes a profit sharing component (the “Success Sharing Profit Sharing Plan”).

In addition, effective as of July 1, 2000, the Debtors instituted a Long-Term Incentive Plan for ULS employees (the “ULS LTIP”). The Debtors created the ULS LTIP to focus and motivate ULS employees to support the Debtors' e-business initiatives and sales of Mileage Plus miles to third parties. The ULS LTIP was designed so that participants could share in the incremental value created by ULS. The ULS LTIP incorporated certain vesting requirements, and the Debtors could unilaterally amend or terminate the plan at their discretion. In general, ULS employees were not eligible to participate in UAL's incentive stock option program. Under the ULS LTIP, rather than tying awards to UAL's stock price, incentive awards were to be paid based on the incremental value created through businesses within ULS's portfolio (*e.g.*, Mileage Plus, Orbitz, and MyPoints.com). Each participant was granted, at the inception of the ULS LTIP or upon hiring or promotion, a portion of the future value created. Payouts under the ULS LTIP were to occur upon a liquidating event in either cash or equity. Because of the uncertainty regarding how or when a ULS investment would be liquidated, the ULS LTIP had a sunset provision (June 30, 2004) to provide greater assurance to participants.

As part of its first-day orders, the Bankruptcy Court also authorized, but did not require, the Debtors to honor and continue the ULS LTIP. Considering cash flow limitations associated with the Chapter 11 Cases and the Debtors' ongoing restructuring, the Debtors evaluated the feasibility of honoring the ULS LTIP, all in light of balancing the Debtors' fiduciary duties in these Chapter 11 Cases against the goal of retaining an engaged and motivated ULS workforce. As a result, effective as of June 24, 2003, the Debtors amended the ULS LTIP so that: (i) participants' vested interests and awards under the ULS LTIP were frozen as of the Petition Date; (ii) payouts under the ULS LTIP are limited to 60% of award amount as of the Petition Date; (iii) aggregate distributions made to participants after the Petition Date will not exceed \$11 million in value; (iv) the Debtors may propose in the Plan to make any remaining payouts to ULS LTIP participants upon the Effective Date in cash or equity; and (v) any participant who voluntarily terminates employment with the Debtors or non-Debtor subsidiaries of the

Debtors forfeits any potential payment under the ULS LTIP. The Debtors intend to make payments under the ULS LTIP, as amended, to eligible employees subsequent to the Debtors' exit from bankruptcy.

11. Management Equity Incentive Plan

On the Effective Date, Reorganized UAL will implement the UAL Corporation 2005 Management Equity Incentive Plan (the "Management Equity Incentive Plan"). The Management Equity Incentive Plan provides, among other things, for grants of stock options, stock appreciation rights, and restricted stock awards. Officers and other employees of Reorganized UAL and its subsidiaries are eligible for grants under the Management Equity Incentive Plan.

The Debtors, with the assistance of their employee benefits advisors, Towers Perrin, have developed the Management Equity Incentive Plan to provide the Reorganized Debtors' management with incentives to maximize stockholder value and otherwise contribute to the success of the Reorganized Debtors and to attract, retain, and reward the best available persons for positions of responsibility. To determine the competitive landscape for equity grants to management, Towers Perrin examined the public filings of approximately 45 companies that have emerged from bankruptcy over the last 8 years.

Based upon Towers Perrin's research and recommendation, the Reorganized Debtors will reserve up to [___]% of the equity of Reorganized UAL Corporation for issuance under the Management Equity Incentive Plan. The Management Equity Incentive Plan is contained in the Plan Supplement as Exhibit 32.

12. Director Equity Incentive Plan

On the Effective Date, Reorganized UAL will implement the UAL Corporation 2005 Director Equity Incentive Plan (the "Director Equity Incentive Plan"). The Director Equity Incentive Plan provides, among other things, for grants of equity-based awards. The purpose of the Director Equity Incentive Plan is to attract and retain the services of experienced and knowledgeable non-employee directors by providing such directors with greater flexibility in the form and timing of receipt of compensation for their service on the Reorganized UAL board of directors and an opportunity to obtain a greater proprietary interest in the Company's long-term success and progress. Towers Perrin reviewed the director equity grants at 24 companies that have emerged from bankruptcy over the last 5 years. Based upon Towers Perrin's research and recommendation, the Reorganized Debtors will reserve up to [___]% of the equity of Reorganized UAL for issuance under the Director Equity Incentive Plan. The Director Equity Incentive Plan is contained in the Plan Supplement as Exhibit 33.

13. Estimation of Claims and Interests

The Debtors received authority to estimate certain significantly large Claims (\$13 billion in the aggregate), where adjudication of the partially unliquidated or contingent character of those Claims would unduly delay the Debtors' restructuring, emergence from Chapter 11, and distribution to Creditors pursuant to Section 502(c) of the Bankruptcy Code. The Claims subject to the estimation procedures approved by the Bankruptcy Court were specified in the Bankruptcy Court's order. The Debtors deemed this authority necessary: (a) to obtain greater clarity regarding the total amount of ultimately allowable Claims; (b) to ensure that the Debtors were able to develop an appropriate capital structure on exit; (c) to classify and treat Claims in a plan of reorganization appropriately; (d) to avoid having to fully litigate baseless Claims that would cause unnecessary delay in the solicitation and voting process (so as to avoid dramatically skewed voting results); and (e) to maximize distributions to Creditors as soon as possible after Confirmation without having to establish inappropriately large reserves on account of billions of dollars of baseless Claims.

The procedures approved by the Bankruptcy Court provided for the Holders of the Claims, the Debtors, and the Creditors' Committee to engage in limited discovery, submit documentary support for their positions, and to participate in a Claims estimation hearing. After the hearing, the Bankruptcy Court will estimate each Claim for all purposes, including for voting and distribution purposes. The procedures also included provisions to allow the Bankruptcy Court or the District Court to estimate Claims on account of personal injury tort and wrongful death in accordance with Section 158 of Title 28 of the United States Code. In addition, the Debtors expressly reserved their rights to seek estimation of those Claims not subject to the authorized procedures.

14. Exit Financing

The Debtors have used the Chapter 11 process to position themselves to compete with the best carriers and confront the challenges of a volatile industry. The Debtors have substantially reduced labor and non-labor costs; renegotiated mainline fleet costs for unprecedented savings; addressed pension issues; improved revenue performance; enhanced their domestic and global network; launched several innovations; and continued to provide reliable operational performance while significantly improving service for customers. The Debtors today are vastly different than three years ago.

Following the substantial completion of their restructuring initiatives, the Debtors commenced a revision of their business plan with the goal of using the updated business plan as a platform for obtaining exit financing, filing and obtaining confirmation of a feasible plan of reorganization, and exiting Chapter 11. The Debtors' new business plan incorporates the savings discussed above, as well as a comprehensive update of the Debtors' fuel and revenue forecasts and addresses ways in which the Debtors can meet the challenges in both of these critical areas. The business plan is also updated to reflect changes to the Debtors' aircraft fleet, and addresses ways in which the Debtors can improve the productivity of their aircraft and improve capacity. The revised business plan also seeks to optimize the use of real estate and other assets of the Debtors. Finally, the revised business plan addresses external factors that could have a material impact on the Debtors' revenues and performance in the future, including the possibility of an increase in the cost of fuel, industry consolidation, direct low-cost carrier competition, and an economic downturn.

The Debtors believe that these essential changes will provide stable finances and the cost structure necessary for them to be competitive upon exit from Chapter 11 in a challenging industry environment. The Debtors also believe that the business transformation accomplished during the course of the bankruptcy will enable them to take advantage of strategic options that may exist after they exit Chapter 11. For example, several airline industry analysts believe that the U.S. airline industry is ripe for a period of consolidation, following a wave of combinations in the European, Asia/Pacific, Latin American and Middle East industries. Upon exit from Chapter 11, United's new cost structure and business flexibility, combined with a renewed focus on operations excellence, will position it to compete aggressively in any industry consolidation, if it so chooses.

The changes accomplished by the Debtors during the Chapter 11 process, as well as the revised business plan, have also favorably positioned the Debtors to obtain a competitive exit financing package. The Debtors have been working with potential exit financing lenders to place a \$2.5 billion exit financing package, which will be used to repay the DIP Facility Claims, make other payments required to be made on the Effective Date, and conduct their post-reorganization operations. The New Credit Facility will likely be comprised of a term loan, together with a revolving credit facility. The New Credit Facility would likely be guaranteed by UAL and all of United's and UAL's domestic subsidiaries. As security for the New Credit Facility, any New Credit Facility lender is likely to require a first priority Lien on substantially all unencumbered assets. The New Credit Facility also will likely include a standard package of financial covenants, which could include, but may not be limited to, a minimum unrestricted cash

maintenance requirement, leverage ratios, an interest coverage ratio, minimum collateral coverage and annual maximum capital expenditure limitations. Finally, a New Credit Facility would likely require some level of annual amortization.

The Debtors also believe that junior capital, in the form of a rights offering or other public or private equity offering, may provide additional capacity to enable the Reorganized Debtors to execute their post-reorganization business plan. The Debtors believe that a rights offering could deliver new equity into the emerging company, provide investor validation of the Plan and business plan, increase the liquidity of the New UAL Common Stock and broaden the Reorganized Debtors' investor base. In addition, a rights offering could allow unsecured creditors to increase their ownership in the Reorganized Debtors.

The Debtors and their advisors, together with the Creditors' Committee and their advisors, are analyzing a rights offering implemented in conjunction with the Debtors' exit from the Chapter 11 Cases. While they have not conclusively determined whether to commence a rights offering (or any other public or private equity offering), they are exploring a variety of potential transactions in which they would offer Unsecured Creditors the opportunity to purchase, on a pro rata basis, approximately \$500 million in value of New UAL Common Stock.

If the Debtors do commence a rights offering (or other public or private equity offering), any such offering would be offered to unsecured creditors entitled to vote on the Plan. If commenced, a rights offering would represent, in the aggregate, the right to purchase approximately \$500 million in value of New UAL Common Stock. The purchase price per share of the New UAL Common Stock would likely be determined based upon the equity value of the Reorganized Debtors as of the Effective Date.

The Debtors do not believe that the sale of equity under any of the transactions currently under consideration will cause a material change to any of the financial assumptions set forth within this Disclosure Statement. Furthermore, the Plan is in no way contingent on the ability of the Debtors to obtain any such rights offering, nor would the failure to consummate a rights offering or other equity transaction have a material adverse impact on the ability of the Debtors to reorganize pursuant to the Plan.

The Debtors have contacted several investment banks and have distributed requests for proposals to determine their interest in participating in an equity offering as a standby purchaser, or "backstop." Once the proposals have been received and analyzed a determination will be made as to whether to incorporate a rights offering in connection with the implementation of the Plan.

In addition to exit financing and a rights offering, the Debtors continue to explore other options available to allow them to optimize their post-reorganization capital structure and maximize the value of their Estates. The Debtors continue to consider all viable financing options and they reserve the right to propose any financing alternative that they believe will maximize the value of their Estates and the recovery of their Creditors.

15. Exclusivity

Section 1121(b) of the Bankruptcy Code establishes an initial period of 120 days after the Bankruptcy Court enters an order for relief under Chapter 11 of the Bankruptcy Code during which only the debtor may file a plan. If the debtor files a plan within such 120-day period, Section 1121(c)(3) extends the exclusivity period by an additional 60 days to permit the debtor to seek acceptances of such plan. Section 1121(d) also permits the bankruptcy court to extend these exclusivity periods "for cause." Without further order of the Bankruptcy Court, the Debtors' initial exclusivity period to file a plan would have expired on April 8, 2003. However, by orders dated March 24, 2003, and September 19, 2003, the

Bankruptcy Court twice extended the time periods of the Debtors' exclusive authority: (i) to file a plan of reorganization through and including October 6, 2003, and through and including March 8, 2004; and (ii) to seek acceptance of such plan through and including December 5, 2003, and May 7, 2004. The orders authorizing these extensions reserved the Debtors' right to seek additional extensions of these exclusive periods. By order dated February 25, 2004, the Bankruptcy Court again extended the Debtors' exclusivity periods to April 7, 2004 (to file a plan), and June 7, 2004 (to solicit acceptances). In connection with the order entered on February 25, 2004, the Bankruptcy Court effectively ruled that it would thereafter consider whether to further extend the Debtors' exclusivity periods on a month-to-month basis. On March 19, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to May 7, 2004 (to file a plan), and July 7, 2004 (to solicit acceptances). On April 16, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to June 30, 2004 (to file a plan) and August 30, 2004 (to solicit acceptances). On June 24, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to July 30, 2004 (to file a plan) and September 29, 2004 (to solicit acceptances). On August 24, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to September 30, 2004 (to file a plan) and November 30, 2004 (to solicit acceptances). On September 17, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to November 1, 2004 (to file a plan) and December 31, 2004 (to solicit acceptances). On October 15, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to December 1, 2004 (to file a plan) and January 31, 2005 (to solicit acceptances). On November 19, 2004, the Bankruptcy Court entered an order further extending the exclusivity periods to January 31, 2005 (to file a plan and March 31, 2005 (to solicit acceptances). On January 21, 2005, the Bankruptcy Court entered an order further extending the exclusivity periods to April 30, 2005 (to file a plan) and June 30, 2005 (to solicit acceptances). On April 22, 2005, the Bankruptcy Court entered an order further extending the exclusivity periods to July 1, 2005 (to file a plan) and September 1, 2005 (to solicit acceptances). On June 17, 2005, the Bankruptcy Court entered an order further extending the exclusivity periods to September 1, 2005 (to file a plan) and November 1, 2005 (to solicit acceptances). On August 26, 2005, the Bankruptcy Court entered an order further extending the exclusivity periods to November 1, 2005 (to file a plan) and January 2, 2006 (to solicit acceptances).

16. Avoidance Actions

In analyzing potential avoidance of prepetition transfers under Sections 547 and 550 of the Bankruptcy Code, the Debtors identified approximately 2,191 preferential transfers of \$18.6 million in the aggregate. On December 8, 2004, the Debtors filed approximately 200 preference actions and another 27 actions to avoid statutory Liens under Section 545 of the Bankruptcy Code. Subsequent to filing the preference complaints, the Debtors have made efforts to consensually resolve the majority of the avoidance actions rather than engage in protracted litigation. To date, the Debtors have resolved approximately 770 preference claims. In addition, the Debtors have settled or otherwise resolved all but two of the statutory Lien avoidance actions. In one remaining action, the Debtors have filed a motion for summary judgment against the City and County of Denver seeking to reclassify the secured portions of their Claim for personal property taxes to unsecured. This action is not due to be ruled on by the Bankruptcy Court until October 21, 2005, and there is still a possibility that a consensual resolution will be reached before then. The other matter is the Claim of Los Angeles County. Los Angeles has agreed that it is not seeking secured status for its Claim, and the parties are currently in discussions to consensually resolve the amount of the Claim.

17. ULS Equity Transfer

On November 19, 2004, the Bankruptcy Court granted the Debtors' motion to (1) authorize UAL to contribute 100% of the stock of ULS to United, and (2) convert ULS into a limited liability company which will be treated as a subsidiary of United and not a separate entity for tax purposes. As owner and

operator of the Debtors' third-party Mileage Plus program, ULS generated net income from its operation of the Mileage Plus Program and its other business lines. In contrast, United has generated several billion dollars of net operating losses in recent years from the operation of its airline business.

Rather than offsetting ULS's income with United's losses, certain tax regulations specific to the State of Illinois required United and ULS to maintain separate calculations and apportionment factors for determining the percentage of their income that is taxed in Illinois. As a result, in Illinois, the Debtors were required to pay substantial income taxes even though the Debtors did not generate net income on a consolidated basis.

Additionally, according to applicable accounting standards, the earnings of ULS from the Mileage Plus program and other transactions were not fully reported as passenger revenue, which had the effect of making it difficult for financial analysts and prospective investors to evaluate the financial performance of the Debtors' operations compared to competitor airlines, thereby affecting the Debtors' ability to raise investment capital.

To solve the tax and accounting issues, the Debtors sought authority to allow UAL to contribute 100% of the stock of ULS to United. Following the contribution, ULS was converted into a wholly-owned, single-member limited liability company. United will, as a result, elect to treat ULS as a disregarded entity for federal and Illinois income tax purposes.

In addition, in March 2005, the Debtors filed a motion requesting the authority to allow ULS to transfer to Confetti, Inc. (n/k/a Ameniti Travel Clubs, Inc.) ("Ameniti") a number of non-core loyalty business programs, including its United Silver Wings Plus, United Cruises, and Ameniti Luxury Travel Club programs. In addition to transferring these programs to Ameniti, the Debtors also requested that the Bankruptcy Court authorize ULS to transfer Ameniti's stock to MyPoints.com, Inc. The Debtors made this request to simplify their financial reporting, managing, and accounting, as well as better focus their attention on the Debtors' core business. The Bankruptcy Court granted the Debtors' motion on March 18, 2005.

D. Appointment of the Creditors' Committee

On December 13, 2002, the Office of the United States Trustee appointed the Creditors' Committee. The members of the Creditors' Committee include Airbus, Pratt & Whitney, Lufthansa/LSG Sky Chefs, Goodrich Corporation, Galileo International, AFA, ALPA, IAM, PBGC, Bank of New York, HSBC Bank, US Bank, and R² Investments. Subsequently, Stark Investments replaced R² Investments on the Creditors' Committee. The City of Chicago and the City of San Francisco are ex officio members of the Creditors' Committee. The Creditors' Committee retained Sonnenschein, Nath & Rosenthal LLP as its legal advisors and KPMG LLP ("KPMG") and Saybrook Capital as its financial advisors. KPMG subsequently sold its corporate recovery practice to Mesirow Financial Consulting LLC ("Mesirow") and the employees of KPMG working on the Creditors' Committee's behalf became employees of Mesirow. As a result, the Creditors' Committee filed an application to retain Mesirow in the capacity previously served by KPMG. The Bankruptcy Court approved the Creditors' Committee's application to retain Mesirow.

Since the formation of the Creditors' Committee, the Debtors have consulted with the Creditors' Committee concerning the administration of the Chapter 11 Cases. The Debtors have kept the Creditors' Committee informed about their operations and have sought the concurrence of the Creditors' Committee to the extent its constituency would be affected by actions and transactions taken outside of the ordinary course of the Debtors' businesses. The Creditors' Committee has, together with the Debtors' management and professional advisors, participated actively in, among other things, reviewing their

business plan and operations. The Debtors and their professional advisors have met with the Creditors' Committee and its professional advisors on numerous occasions in connection with the negotiation of the Plan.

On August 23, 2004, the Creditors' Committee organized working groups (the "Working Groups"), comprised of certain members of the Creditors' Committee, the members' professionals, and the Creditors' Committee's professionals to work directly with United's senior management to identify and evaluate, among other things, potential additional costs savings, and to work constructively toward the development of a viable business plan to secure non-guaranteed exit financing. The Working Groups focused on some of the most important elements of United's ongoing restructuring, including exit financing, United Express, aircraft maintenance, network and business model, and other cost improvements.

ARTICLE IV. SUMMARY OF THE PLAN OF REORGANIZATION

The purpose of the Plan is to provide the Debtors with a capital structure that can be supported by cash flows from operations. The Debtors believe that the reorganization contemplated by the Plan is in the best interests of their Creditors. If the Plan is not confirmed, the Debtors believe that they will be forced to either file an alternate plan of reorganization or liquidate under Chapter 7 of the Bankruptcy Code. In either event, the Debtors believe that the Debtors' Unsecured Creditors would realize a less favorable distribution of value, or, in certain cases, none at all, for their Claims and Interests. See ARTICLE V.C hereof and the Liquidation Analysis set forth as Appendix B hereto and included in the Plan Supplement as Exhibit 27.

A. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor can reorganize its business for the benefit of itself, its creditors, and interest holders. Chapter 11 also strives to promote equality of treatment for similarly situated creditors and similarly situated interest holders with respect to the distribution of a debtor's assets.

The commencement of a Chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the filing date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession."

The consummation of a plan of reorganization is the principal objective of a Chapter 11 case. A plan of reorganization sets forth the means for satisfying claims against, and interests in, a debtor. Confirmation of a plan of reorganization by the Bankruptcy Court makes the plan binding upon the debtor, any issuer of securities under the plan, any person or entity acquiring property under the plan, and any creditor of or equity holder in the debtor, whether or not such creditor or equity holder (a) is impaired under or has accepted the plan, or (b) receives or retains any property under the plan. Subject to certain limited exceptions and other than as provided in the plan itself or the confirmation order, a confirmation order discharges the debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

A Chapter 11 plan may specify that the legal, contractual, and equitable rights of the holders of claims or interests in certain classes are to remain unaltered by the reorganization effectuated by the plan. Such classes are referred to as "unimpaired" and, because of such favorable treatment, are deemed to accept the plan. Accordingly, the Debtors need not solicit votes from the holders of claims or equity interests in such classes. A Chapter 11 plan also may specify that certain classes will not receive any