UNITED AIR LINES INC
Form 10-Q
July 23, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No
001-06033	**UAL Corporation**	**Delaware**	**36-2675207**
001-11355	**United Air Lines, Inc.**	**Delaware**	**36-2675206**
	77 W. Wacker Drive		
	Chicago, Illinois 60601		
	(312) 997-8000		

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

UAL Corporation	Yes þ No o
United Air Lines, Inc.	Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

UAL Corporation	Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
United Air Lines, Inc.	Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

UAL Corporation	Yes o No þ
United Air Lines, Inc.	Yes o No þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

UAL Corporation	Yes þ No o
United Air Lines, Inc.	Yes þ No o

OMISSION OF CERTAIN INFORMATION

United Air Lines, Inc. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of July 17, 2009.

UAL Corporation	144,761,948 shares of common stock ($0.01 par value)
United Air Lines, Inc.	205 (100% owned by UAL Corporation) There is no market for United Air Lines, Inc. common stock.

UAL Corporation and Subsidiary Companies and
United Air Lines, Inc. and Subsidiary Companies
Report on Form 10-Q
For the Quarter Ended June 30, 2009

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UAL Corporation and Subsidiary Companies

Condensed Statements of Consolidated Operations (Unaudited)

(In millions, except per share amounts)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008 (Adjusted)
Operating revenues:		
Passenger United Airlines	$ 2,941	$ 4,099
Passenger Regional Affiliates	749	797
Cargo	121	237
Other operating revenues	207	238
	4,018	5,371
Operating expenses:		
Salaries and related costs	963	1,179
Regional Affiliates	708	847
Aircraft fuel	665	1,848
Purchased services	286	371
Aircraft maintenance materials and outside repairs	240	295
Landing fees and other rent	229	199
Depreciation and amortization	222	216
Distribution expenses	139	193
Aircraft rent	89	100
Cost of third party sales	60	65
Goodwill impairment (Note 14)		2,277
Other impairments and special items (Note 14)	88	223
Other operating expenses	222	252
	3,911	8,065
Earnings (loss) from operations	107	(2,694)
Other income (expense):		
Interest expense	(135)	(137)
Interest income	5	28
Interest capitalized	2	5
Miscellaneous, net	35	28
	(93)	(76)
Earnings (loss) before income taxes and equity in earnings of affiliates	14	(2,770)
Income tax benefit	(13)	(29)
Earnings (loss) before equity in earnings of affiliates	27	(2,741)

Equity in earnings of affiliates, net of tax		1		1
Net income (loss)	$	28	$	(2,740)
Earnings (loss) per share, basic and diluted	$	0.19	$	(21.57)

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

Table of Contents

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Operations (Unaudited)
(In millions, except per share amounts)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Adjusted)
Operating revenues:		
Passenger United Airlines	$ 5,642	$ 7,644
Passenger Regional Affiliates	1,408	1,512
Cargo	245	455
Other operating revenues	414	471
	7,709	10,082
Operating expenses:		
Salaries and related costs	1,884	2,225
Aircraft fuel	1,464	3,423
Regional Affiliates	1,379	1,626
Purchased services	573	720
Aircraft maintenance materials and outside repairs	465	612
Depreciation and amortization	455	436
Landing fees and other rent	450	429
Distribution expenses	257	377
Aircraft rent	177	199
Cost of third party sales	113	129
Goodwill impairment (Note 14)		2,277
Other impairments and special items (Note 14)	207	223
Other operating expenses	460	541
	7,884	13,217
Loss from operations	(175)	(3,135)
Other income (expense):		
Interest expense	(269)	(284)
Interest income	12	76
Interest capitalized	5	10
Miscellaneous, net	29	9
	(223)	(189)
Loss before income taxes and equity in earnings of affiliates	(398)	(3,324)
Income tax benefit	(42)	(32)
Loss before equity in earnings of affiliates	(356)	(3,292)
Equity in earnings of affiliates, net of tax	2	3

Net loss	$ (354)	$ (3,289)
Loss per share, basic and diluted	$ (2.44)	$ (26.52)

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

Table of Contents

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Financial Position (Unaudited)
(In millions, except shares)

	June 30, 2009	December 31, 2008 (Adjusted)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,566	$ 2,039
Restricted cash	68	54
Receivables, less allowance for doubtful accounts (2009 $18; 2008 $24)	921	714
Prepaid fuel	311	219
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2009 $64; 2008 $48)	228	237
Fuel hedge collateral deposits	185	953
Deferred income taxes	102	268
Prepaid expenses and other	373	382
	4,754	4,866
Operating property and equipment:		
Owned		
Flight equipment	8,539	8,766
Other property and equipment	1,717	1,751
	10,256	10,517
Less accumulated depreciation and amortization	(1,817)	(1,598)
	8,439	8,919
Capital leases:		
Flight equipment	1,740	1,578
Other property and equipment	43	39
	1,783	1,617
Less accumulated amortization	(279)	(224)
	1,504	1,393
	9,943	10,312
Other assets:		
Intangibles, less accumulated amortization (2009 $374; 2008 $339)	2,507	2,693
Aircraft lease deposits	314	297
Restricted cash	213	218
Investments	79	81
Other, net	996	998

		4,109		4,287
	$	18,806	$	19,465

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited).*

Table of Contents

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Financial Position (Unaudited)
(In millions, except shares)

	June 30, 2009	December 31, 2008 (Adjusted)
Liabilities and Stockholders Deficit		
Current liabilities:		
Advance ticket sales	$ 1,916	$ 1,530
Mileage Plus deferred revenue	1,353	1,414
Long-term debt maturing within one year	846	782
Accounts payable	791	833
Accrued salaries, wages and benefits	728	756
Fuel purchase commitments	311	219
Fuel derivative instruments	175	718
Current obligations under capital leases	165	168
Accrued interest	93	112
Other	722	749
	7,100	7,281
Long-term debt	5,604	5,862
Long-term obligations under capital leases	1,197	1,192
Other liabilities and deferred credits:		
Mileage Plus deferred revenue	2,905	2,768
Postretirement benefit liability	1,819	1,812
Advanced purchase of miles	1,087	1,087
Deferred income taxes	582	804
Other	1,141	980
	7,534	7,451
Commitments and contingent liabilities (Note 12)		
Stockholders deficit:		
Preferred stock		
Common stock at par, $0.01 par value; authorized 1,000,000,000 shares; outstanding 144,773,623 and 140,037,928 shares at June 30, 2009 and December 31, 2008, respectively	2	1
Additional capital invested	2,970	2,919
Retained deficit	(5,662)	(5,308)
Stock held in treasury, at cost	(28)	(26)
Accumulated other comprehensive income	89	93
	(2,629)	(2,321)
	$ 18,806	$ 19,465

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

Table of Contents

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Cash Flows (Unaudited)
(In millions)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Adjusted)
Cash flows provided (used) by operating activities:		
Net loss	$ (354)	$ (3,289)
Adjustments to reconcile to net cash provided (used) by operating activities		
Goodwill impairment		2,277
Other impairments and special items	207	223
Depreciation and amortization	455	436
Proceeds from lease amendment	160	
Increase in Mileage Plus deferred revenue and advanced purchase of miles	129	74
Increase in advance ticket sales	386	868
Net change in fuel derivative instruments and related pending settlements	(809)	(252)
Decrease in fuel hedge collateral	780	
Increase in receivables	(52)	(209)
Other, net	(80)	9
	822	137
Cash flows provided (used) by investing activities:		
Net sales of short-term investments		2,295
Decrease in restricted cash	20	101
Proceeds from asset sale-leaseback	94	
Proceeds from litigation on advance deposits		41
Additions to property, equipment and deferred software	(170)	(267)
Proceeds from disposition of property and equipment	46	14
Other, net	1	13
	(9)	2,197
Cash flows provided (used) by financing activities:		
Proceeds from issuance of long-term debt	134	84
Proceeds from issuance of common stock	63	
Decrease in lease deposits	22	154
Repayment of Credit Facility	(9)	(9)
Repayment of other debt	(386)	(351)
Special distribution to common shareholders		(251)
Principal payments under capital leases	(103)	(200)
Increase in deferred financing costs	(4)	(111)
Other, net	(3)	(10)
	(286)	(694)
Increase in cash and cash equivalents during the period	527	1,640

Cash and cash equivalents at beginning of the period		2,039		1,259
Cash and cash equivalents at end of the period	$	2,566	$	2,899

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited).*

Table of Contents

United Air Lines, Inc. and Subsidiary Companies
Condensed Statements of Consolidated Operations (Unaudited)
(In millions)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008 (Adjusted)
Operating revenues:		
Passenger United Airlines	$ 2,941	$ 4,099
Passenger Regional Affiliates	749	797
Cargo	121	237
Other operating revenues	209	238
	4,020	5,371
Operating expenses:		
Salaries and related costs	963	1,180
Regional Affiliates	708	847
Aircraft fuel	665	1,848
Purchased services	286	371
Aircraft maintenance materials and outside repairs	240	295
Landing fees and other rent	229	199
Depreciation and amortization	222	216
Distribution expenses	139	193
Aircraft rent	89	100
Cost of third party sales	60	64
Goodwill impairment (Note 14)		2,277
Other impairments and special items (Note 14)	88	223
Other operating expenses	221	280
	3,910	8,093
Earnings (loss) from operations	110	(2,722)
Other income (expense):		
Interest expense	(135)	(137)
Interest income	5	28
Interest capitalized	2	5
Miscellaneous, net	35	28
	(93)	(76)
Earnings (loss) before income taxes and equity in earnings of affiliates	17	(2,798)
Income tax benefit	(13)	(29)
Earning (loss) before equity in earnings of affiliates	30	(2,769)
Equity in earnings of affiliates, net of tax	1	1

Net income (loss)	$ 31	$ (2,768)

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

Table of Contents

United Air Lines, Inc. and Subsidiary Companies
Condensed Statements of Consolidated Operations (Unaudited)
(In millions)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Adjusted)
Operating revenues:		
Passenger United Airlines	$ 5,642	$ 7,644
Passenger Regional Affiliates	1,408	1,512
Cargo	245	455
Other operating revenues	419	471
	7,714	10,082
Operating expenses:		
Salaries and related costs	1,884	2,226
Aircraft fuel	1,464	3,423
Regional Affiliates	1,379	1,626
Purchased services	573	720
Aircraft maintenance materials and outside repairs	465	612
Depreciation and amortization	455	436
Landing fees and other rent	450	429
Distribution expenses	257	377
Aircraft rent	179	200
Cost of third party sales	113	128
Goodwill impairment (Note 14)		2,277
Other impairments and special items (Note 14)	207	223
Other operating expenses	459	568
	7,885	13,245
Loss from operations	(171)	(3,163)
Other income (expense):		
Interest expense	(269)	(283)
Interest income	12	76
Interest capitalized	5	10
Miscellaneous, net	29	8
	(223)	(189)
Loss before income taxes and equity in earnings of affiliates	(394)	(3,352)
Income tax benefit	(42)	(33)
Loss before equity in earnings of affiliates	(352)	(3,319)
Equity in earnings of affiliates, net of tax	2	3

Net loss	$	(350)	$	(3,316)

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

Table of Contents

United Air Lines, Inc. and Subsidiary Companies
Condensed Statements of Consolidated Financial Position (Unaudited)
(In millions, except shares)

	June 30, 2009	December 31, 2008 (Adjusted)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,560	$ 2,033
Restricted cash	68	50
Receivables, less allowance for doubtful accounts (2009 $18; 2008 $24)	920	704
Prepaid fuel	311	219
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2009 $64; 2008 $48)	228	237
Fuel hedge collateral deposits	185	953
Deferred income taxes	96	265
Receivables from related parties	52	214
Prepaid expenses and other	360	376
	4,780	5,051
Operating property and equipment:		
Owned		
Flight equipment	8,539	8,766
Other property and equipment	1,717	1,751
	10,256	10,517
Less accumulated depreciation and amortization	(1,817)	(1,598)
	8,439	8,919
Capital leases:		
Flight equipment	1,740	1,578
Other property and equipment	43	39
	1,783	1,617
Less accumulated amortization	(279)	(224)
	1,504	1,393
	9,943	10,312
Other assets:		
Intangibles, less accumulated amortization (2009 $374; 2008 $339)	2,507	2,693
Aircraft lease deposits	314	297
Restricted cash	212	217
Investments	79	81

Other, net		984		984
		4,096		4,272
	$	18,819	$	19,635

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

Table of Contents

United Air Lines, Inc. and Subsidiary Companies
Condensed Statements of Consolidated Financial Position (Unaudited)
(In millions, except shares)

	June 30, 2009	December 31, 2008 (Adjusted)
Liabilities and Stockholder s Deficit		
Current liabilities:		
Advance ticket sales	$ 1,916	$ 1,530
Mileage Plus deferred revenue	1,353	1,414
Long-term debt maturing within one year	846	780
Accounts payable	792	833
Accrued salaries, wages and benefits	728	756
Fuel derivative instruments	175	718
Fuel purchase commitments	311	219
Current obligations under capital leases	165	168
Accrued interest	93	112
Other	811	1,016
	7,190	7,546
Long-term debt	5,604	5,861
Long-term obligations under capital leases	1,197	1,192
Other liabilities and deferred credits:		
Mileage Plus deferred revenue	2,905	2,768
Postretirement benefit liability	1,819	1,812
Advanced purchase of miles	1,087	1,087
Deferred income taxes	499	724
Other	1,141	981
	7,451	7,372
Commitments and contingent liabilities (Note 12)		
Stockholder s deficit:		
Common stock at par, $5 par value; authorized 1,000 shares; outstanding 205 at both June 30, 2009 and December 31, 2008		
Additional capital invested	2,898	2,831
Retained deficit	(5,610)	(5,260)
Accumulated other comprehensive income	89	93
	(2,623)	(2,336)
	$ 18,819	$ 19,635

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited).*

Table of Contents

United Air Lines, Inc. and Subsidiary Companies
Condensed Statements of Consolidated Cash Flows (Unaudited)
(In millions)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Adjusted)
Cash flows provided (used) by operating activities:		
Net loss	$ (350)	$ (3,316)
Adjustments to reconcile to net cash provided (used) by operating activities		
Depreciation and amortization	455	436
Proceeds from lease amendment	160	
Goodwill impairment		2,277
Other impairments and special items	207	223
Increase in Mileage Plus deferred revenue and advanced purchase of miles	129	74
Increase in advance ticket sales	386	868
Net change in fuel derivative instruments and related pending settlements	(809)	(252)
Decrease in fuel hedge collateral	780	
Increase in receivables	(45)	(207)
Other, net	(89)	93
	824	196
Cash flows provided (used) by investing activities:		
Net sales of short-term investments		2,259
Proceeds from asset sale-leaseback	94	
Decrease in restricted cash	16	72
Additions to property, equipment and deferred software	(170)	(267)
Proceeds from disposition of property and equipment	46	14
Other, net		13
	(14)	2,091
Cash flows provided (used) by financing activities:		
Proceeds from issuance of long-term debt	134	84
Capital contribution from parent	62	
Decrease in lease deposits	22	154
Dividend to parent		(258)
Repayment of Credit Facility	(9)	(9)
Repayment of other debt	(385)	(350)
Principal payments under capital leases	(103)	(200)
Increase in deferred financing costs	(4)	(111)
	(283)	(690)
Increase in cash and cash equivalents during the period	527	1,597
Cash and cash equivalents at beginning of the period	2,033	1,239

Cash and cash equivalents at end of the period	$ 2,560	$ 2,836

See accompanying *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)*.

UAL Corporation and Subsidiary Companies and
United Air Lines, Inc. and Subsidiary Companies
Combined Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

UAL Corporation (together with its consolidated subsidiaries, UAL), is a holding company and its principal, wholly-owned subsidiary is United Air Lines, Inc. (together with its consolidated subsidiaries, United). We sometimes use the words we, our, us, and the Company in this Form 10-Q for disclosures that relate to both UAL and United. This Quarterly Report on Form 10-Q is a combined report of UAL and United. Therefore, these *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)* (the Footnotes), apply to both UAL and United, unless otherwise noted. As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL.

Interim Financial Statements. The UAL and United unaudited condensed consolidated financial statements (the Financial Statements) shown here have been prepared as required by the U.S. Securities and Exchange Commission (the SEC). Some information and footnote disclosures normally included in financial statements that meet accounting principles generally accepted in the United States (GAAP) have been condensed or omitted as permitted by the SEC. The Company believes that the disclosures presented here are not misleading. The Financial Statements include all adjustments, including asset impairments, severance and normal recurring adjustments, which are considered necessary for a fair presentation of the Company s financial position and results of operations. Certain historical amounts have been reclassified to conform to the current year s presentation, including reclassification of December 31, 2008 derivative counterparty settlement payables of $140 million from Fuel derivative instruments to Other current liabilities in the Company s Financial Statements. These Financial Statements should be read together with the information included in the combined UAL and United Annual Report on Form 10-K for the year ended December 31, 2008 as updated by the Current Report on Form 8-K dated May 1, 2009 (the 2008 Annual Report).

Restricted Cash. For the 2009 and 2008 periods, restricted cash includes cash collateral to secure workers compensation obligations, cash collateral received from fuel hedge counterparties and reserves for institutions that process credit card ticket sales. Industry practice includes classification of restricted cash flows as operating cash flows by some airlines and investing cash flows by others. The Company classifies changes in restricted cash balances associated with workers compensation obligations and credit card reserves as an investing activity in its Financial Statements because it considers restricted cash arising from these activities similar to an investment. If UAL had classified these changes in its restricted cash balances as operating activities in the six months ended June 30, 2009 and 2008, its cash provided by operating activities of $822 million and $137 million, respectively, would have been reported as $842 million and $238 million, respectively. Additionally, cash (used) provided by investing activities for the six months ended June 30, 2009 and 2008 of $(9) million and $2,197 million, respectively, would have been reported as $(29) and $2,096 million, respectively.

(2) New Accounting Pronouncements

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (ASC) became the single official source of authoritative, nongovernmental GAAP. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the SEC. All other literature became non-authoritative. ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has not determined the impact that this statement may have on its financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (SFAS 166). This statement improves the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a continuing interest in transferred financial assets. In addition, SFAS 166 amends various concepts addressed by FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125*, including removing the concept of qualified special purpose entities. SFAS 166 must be applied to transfers occurring on or after the effective date. The Company will adopt SFAS 166 in its first annual and interim reporting periods beginning after November 15, 2009. The Company has not determined the impact that this statement may have on its financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). This statement amends certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. Among other accounting and disclosure requirements, SFAS 167 replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. The Company will adopt SFAS 167 in its first annual and interim reporting periods beginning after November 15, 2009. The Company has not determined the impact that this statement may have on its financial statements.

Adoption of FSP APB 14-1. The Company adopted FASB Staff Position (FSP) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (APB 14-1), effective January 1, 2009, which required retrospective application. This standard requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s non-convertible debt borrowing rate. The Company has two currently outstanding convertible debt instruments that are impacted by APB 14-1. Upon the original issuance of these two debt instruments in 2006, the Company recorded the net debt obligation as long-term debt in accordance with applicable accounting standards at that time. To adopt this standard effective January 1, 2009, the Company estimated the fair value, as of the date of issuance, of its two applicable convertible debt instruments as if the instruments were issued without the conversion options. The difference between the fair value and the principal amounts of the instruments was $254 million. This amount was retrospectively applied to the Company s Financial Statements from the issuance date of the debt instruments in 2006, and was retrospectively recorded as a debt discount and as a component of equity. The discount is being amortized over the expected five-year life of the notes resulting in non-cash increase to interest expense in historical and future periods. The full year 2008 interest expense impact is $48 million.

The following tables reflect UAL and United s previously reported amounts, along with the adjusted amounts after adoption.

	UAL			United		
(In millions, except per share)	**As Reported**	**As Adjusted**	**Effect of Change**	**As Reported**	**As Adjusted**	**Effect of Change**
Statement of Consolidated Operations (Unaudited)						
Three Months Ended June 30, 2008						
Interest expense	$ (126)	$ (137)	$ (11)	$ (126)	$ (137)	$ (11)
Nonoperating expense	(65)	(76)	(11)	(65)	(76)	(11)
Loss before income taxes and equity earnings in affiliates	(2,759)	(2,770)	(11)	(2,787)	(2,798)	(11)
Net loss	(2,729)	(2,740)	(11)	(2,757)	(2,768)	(11)
Loss per share, basic and diluted	(21.47)	(21.57)	(0.10)	NA	NA	NA
Total comprehensive loss	(2,744)	(2,755)	(11)	(2,772)	(2,783)	(11)
Six Months Ended June 30, 2008						
Interest expense	$ (261)	$ (284)	$ (23)	$ (260)	$ (283)	$ (23)
Nonoperating expense	(166)	(189)	(23)	(166)	(189)	(23)
Loss before income taxes and equity earnings in affiliates	(3,301)	(3,324)	(23)	(3,329)	(3,352)	(23)
Net loss	(3,266)	(3,289)	(23)	(3,293)	(3,316)	(23)
Loss per share, basic and diluted	(26.33)	(26.52)	(0.19)	NA	NA	NA
Total comprehensive loss	(3,293)	(3,316)	(23)	(3,320)	(3,343)	(23)

Statement of Consolidated Financial Position (Unaudited) (a)

As of December 31, 2008						
Long-term debt	$ 6,007	$ 5,862	$ (145)	$ 6,007	$ 5,861	$ (146)
Additional capital invested	2,666	2,919	253	2,578	2,831	253
Retained deficit	(5,199)	(5,308)	(109)	(5,151)	(5,260)	(109)

(a) The adoption of APB 14-1, also had minor impacts on Other assets and Deferred income taxes as reported in the Company s Financial Statements. The adoption required an increase to the Company s deferred tax liability and a decrease to its additional paid in capital. However, these impacts were substantially offset by a corresponding decrease in the valuation allowance for deferred tax assets and increase to additional paid in capital in accordance with applicable GAAP.

Table of Contents

The following table provides additional information about UAL s convertible debt instruments that may be settled for cash.

($ and shares in millions, except conversion prices)	June 30, 2009 $726 million notes	June 30, 2009 $150 million notes	December 31, 2008 $726 million notes	December 31, 2008 $150 million notes
Carrying amount of the equity component	$ 216	$ 38	$ 216	$ 38
Principal amount of the liability component	726	150	726	150
Unamortized discount of liability component	104	16	126	20
Net carrying amount of liability component	622	134	600	130
Remaining amortization period of discount	24 months	19 months	(a)	(a)
Conversion price	$ 32.64	$ 43.90	(a)	(a)
Number of shares to be issued upon conversion	22.2	3.4	(a)	(a)
Effective interest rate on liability component	12.8%	12.1%	(a)	(a)

(a) Not required to be disclosed.

The following table presents the associated interest cost related to UAL s convertible debt instruments that may be settled for cash, which consists of both the contractual interest coupon and amortization of the discount on the liability component.

	$726 million notes				$150 million notes			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2009	2008	2009	2008	2009	2008	2009	2008
Non-cash interest cost recognized (a)	$ 11	$ 9	$ 22	$ 19	$ 2	$ 2	$ 4	$ 4
Cash interest cost recognized	8	8	16	16	2	2	4	4

(a) Amounts represent the impact of adoption of APB 14-1 on interest expense for the three and six months ended June 30, 2009 and 2008. The related negative impact of adoption on earnings (loss) per share for the three and six months ended June 30, 2009 is $0.09 and $0.18, respectively.

Adoption of FSP EITF 03-6-1. The Company adopted FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (EITF 03-6-1), effective January 1, 2009, requiring retrospective application. EITF 03-6-1 clarifies that instruments granted in share-based payment transactions that are considered participating securities prior to vesting should be included in the earnings allocation under the two-class method of calculating earnings per share. The Company determined that its restricted shares granted under UAL s share-based compensation plans are participating securities because the restricted shares participate in dividends. However, the impact of these shares was not included in the common shareholder basic loss per share computation for the three months ended June 30, 2008 and the six months ended June 30, 2009 and 2008, because of losses in these periods. There were 0.9 million and 1.4 million nonvested restricted shares at June 30, 2009 and 2008, respectively, that would have been included in the common shareholder basic earnings per share computation had there been income in these periods.

Other Standards Adopted. Effective January 1, 2009, the Company prospectively adopted Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS 161) and SFAS No. 157, *Fair Value Measurements* (SFAS 157) with respect to fair value measurements required for the Company s nonfinancial assets and nonfinancial liabilities. The adoption of SFAS 157 with respect to the Company s nonfinancial assets and nonfinancial liabilities was delayed until January 1, 2009 by FSP No. 157-2, *Effective Date of FASB Statement No. 157.* See Note 11, Fair Value Measurements and Derivative Instruments, for disclosures related to the adoption of these two standards and the Company s adoption of FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1) and FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FAS 115-2), effective April 1, 2009.

Table of Contents

(3) Company Operational Plans

Since the second quarter of 2008, the Company has been implementing a plan to address volatility in crude oil prices, industry over-capacity and the severe global recession. The Company is reducing capacity and permanently removing 100 aircraft from its Mainline fleet by the end of 2009, including its entire B737 fleet and six B747 aircraft. In connection with the capacity reductions, the Company is further streamlining its operations and corporate functions in order to cumulatively reduce the size of its workforce by approximately 9,000 positions by the end of 2009. The Company s completed and future workforce reductions have occurred, and may continue to occur, through furloughs and furlough-mitigation programs, such as voluntary early-out options. The tables below summarize the accrual activity and expense related to the Company s implementation of its operational plans.

(In millions)

Reserve Activity	Severance	Leased Aircraft
Balance at December 31, 2008	$ 81	$ 16
Payments	(29)	(7)
Accruals	1	19
Balance at June 30, 2009	$ 53	$ 28

	Three Months Ended June 30,		Six Months Ended June 30,	
Expense Recognized	2009	2008	2009	2008
Severance	$ 6	$ 82	$ 1	$ 82
Leased aircraft	13		24	

All of these charges are within the Mainline segment where the fleet reductions are occurring. Severance expense and leased aircraft expense are classified within Salaries and related costs and Other impairments and special items, respectively, in the Company s Financial Statements.

The charges related to leased aircraft consist of the present value of future lease payments for aircraft that have been removed from service in advance of their lease termination dates as of June 30, 2009, estimated payments for lease return maintenance conditions related to B737 aircraft and write-off of associated lease fair value valuation balances, which were initially established as part of fresh-start accounting when the Company emerged from bankruptcy. Periodic lease payments will be made over the lease terms of these aircraft unless early return agreements are reached with the lessors; and, lease return maintenance condition payments, if any, will be made upon return of the aircraft to the lessors. The total expected payments for leased aircraft that were removed from service at June 30, 2009 and that are expected to be removed from service in the second half of 2009 are $110 million, payable through 2013. Actual lease payments may be less if the Company is able to negotiate early termination of any of its leases.

The following table provides information regarding the Company s operating fleet. Amounts reported are applicable to UAL and United, except where noted otherwise.

	B737s (Mainline)			All Other Mainline			Total	Regional	
	Owned	Leased	Total	Owned	Leased	Total	Mainline	Affiliates	Total
Aircraft at December 31, 2008	18	28	46	191	172	363	409	280	689
Added to (removed from) operating fleet	(13)	(9)	(22)	(1)		(1)	(23)	16	(7)
Transferred from leased to owned				1	(1)				
Transferred from owned to leased				(9)	9				
Aircraft at June 30, 2009	5	19	24	182	180	362	386	296	682
Nonoperating at December 31, 2008 (a)	24	12	36	3		3	39		39

Removed from operating fleet	13	9	22	1		1	23		23
Returned to lessors		(9)	(9)				(9)		(9)
Nonoperating at June 30, 2009 (a)	37	12	49	4		4	53		53

(a) At December 31, 2008 and June 30, 2009, United had one less owned and one more leased nonoperating B737 aircraft as compared to the UAL amounts shown in this table.

At June 30, 2009 and December 31, 2008, the Company had 63 and 62 unencumbered aircraft, respectively. See Note 13, Debt Obligations and Other Financing Transactions, for information related to a sale-leaseback transaction completed during the first quarter of 2009 and aircraft and other assets pledged as collateral.

Table of Contents

Other Costs. As the Company continues to complete its operational plans discussed above, it may incur additional costs related to its conversion of the Company s fleet of Ted aircraft, costs to exit additional facilities such as airports no longer served, lease termination costs, additional severance costs and asset impairment charges, among others. Such future costs and charges may be material.

(4) Common Stockholders Deficit

During the six months ended June 30, 2009, UAL received net proceeds of $62 million from the issuance of 5.4 million shares of common stock, of which 4.0 million shares were sold during the first six months of 2009 and 1.4 million shares were sold in 2008. UAL contributed the $62 million of common stock sale proceeds to United.

For the six months ended June 30, 2009, UAL acquired 199,086 common shares for treasury. These shares were acquired from participants for tax withholding obligations under UAL s share-based compensation plans. In addition, UAL distributed approximately 900,000 shares according to the bankruptcy plan of reorganization in the six months ended June 30, 2009. Approximately 1.1 million shares remain to be issued under the reorganization plan.

(5) Per Share Amounts (UAL Only)

UAL basic per share amounts were computed by dividing loss available to common shareholders by the weighted-average number of shares of common stock outstanding. UAL s $563 million of 6% senior notes are callable at any time at 100% of par value, and can be redeemed with either cash or UAL common stock at UAL s option. These notes are not deemed potentially dilutive shares, as UAL has the ability and intent to redeem these notes with cash.

The table below represents the computation of UAL basic and diluted per share amounts and the number of securities that have been excluded from the computation of diluted per share amounts. Nonvested, participating restricted shares did not impact basic or diluted loss per share in the 2009 and 2008 periods that had losses. See Note 2, New Accounting Pronouncements, for additional information related to the adoption of EITF 03-6-1.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2009**	**2008 (Adjusted)**	**2009**	**2008 (Adjusted)**
Basic earnings (loss) per share:				
Net income (loss)	$ 28	$ (2,740)	$ (354)	$ (3,289)
Preferred stock dividend requirements				(2)
Earnings (loss) available to common stockholders (a)	$ 28	$ (2,740)	$ (354)	$ (3,291)
Basic weighted average shares outstanding	145.1	127.1	144.9	124.1
Earnings (loss) per basic share	$ 0.19	$ (21.57)	$ (2.44)	$ (26.52)
Diluted earnings (loss) per share:				
Earnings (loss) available to common stockholders	$ 28	$ (2,740)	$ (354)	$ (3,291)
Diluted weighted average shares outstanding	145.1	127.1	144.9	124.1
Earnings (loss) per share, diluted	$ 0.19	$ (21.57)	$ (2.44)	$ (26.52)
Potentially dilutive shares excluded from diluted per share amounts:				
Stock options	6.7	4.3	6.7	4.3

Restricted shares (a)		1.4	0.9	1.4
2% preferred securities		2.2		5.2
4.5% senior limited-subordination convertible notes	22.2	22.2	22.2	22.2
5% convertible notes	3.4	3.4	3.4	3.4
	32.3	33.5	33.2	36.5

(a) Net income available to participating securities (unvested restricted shares) was not material for the second quarter of 2009. Losses are not allocated to participating securities in the computation of earnings (loss) per common share.

Table of Contents

(6) Share-Based Compensation Plans

Effective April 1, 2009, the Company made a general grant of 1,773,600 restricted stock units (RSUs) and 2,431,800 stock options to certain of its management employees. These grants were made pursuant to the UAL 2008 Incentive Compensation Plan which was approved by UAL s Board of Directors and shareholders in 2008 and replaced the 2006 Management Equity Incentive Plan, effective June 12, 2008. These awards vest pro-rata over three years on the anniversary of the grant date. The terms of the awards do not provide for the acceleration of vesting upon retirement. The RSUs may be settled in cash or stock at the discretion of the Human Resources Subcommittee of the UAL Board of Directors. The Company s intent is to settle the RSUs in cash; therefore, the obligations related to these RSUs are classified as liabilities on the Company s Financial Statements and will be remeasured each reporting period throughout the requisite service period. The remeasurement is based upon the market share price on the last day of the reporting period. A cumulative adjustment is recorded during each reporting period to adjust compensation expense based on the current value of the awards.

Compensation expense associated with the UAL share-based compensation plans has been pushed down to United. Share-based compensation expense was not significant in either the three or six months ended June 30, 2009. The Company recognized share-based compensation expense of $7 million and $18 million during the three and six months ended June 30, 2008, respectively. The Company s unrecognized share-based compensation expense was $24 million and $18 million as of June 30, 2009 and December 31, 2008, respectively. At June 30, 2009 and December 31, 2008, 3.0 million and 8.1 million awards were available for future issuance under the Company s share-based compensation plans for employees, respectively. The weighted average grant date fair value and exercise price of options awarded in the six months ended June 30, 2009 was $3.70 and $4.91, respectively. The table below summarizes stock option activity for the six months ended June 30, 2009.

	Options
Outstanding at beginning of period	4,353,672
Granted	2,487,200
Canceled	(164,566)
Outstanding at end of period	6,676,306
Exercisable (vested) at end of period	2,908,837

The fair value of RSUs was $3.19 at June 30, 2009, which was based upon the closing share price on June 30, 2009. The table below summarizes UAL s RSU and restricted stock activity for the six months ended June 30, 2009.

	Restricted Stock Units	**Restricted Stock**
Nonvested at beginning of period		1,430,675
Granted	1,795,600	42,400
Vested		(597,616)
Terminated	(18,600)	(24,788)
Nonvested at end of period	1,777,000	850,671

(7) Income Taxes

For the three and six months ended June 30, 2009, UAL and United each recorded $13 million and $42 million, respectively, of tax benefits primarily due to impairment of indefinite-lived intangibles. For the six months ended June 30, 2009, UAL and United each had an effective tax rate of 10.6%. In the 2008 periods, the Company had an insignificant effective tax rate, as compared to the U.S. federal statutory rate of 35%, principally because of goodwill impairment charges in the second quarter that are not deductible for income tax purposes and the tax benefits of the Company s remaining net operating losses for the periods were almost completely offset by a valuation allowance. The tax benefit in the 2008 periods was primarily due to an $80 million intangible asset impairment.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, including the reversals of deferred tax liabilities during the periods in which those temporary differences will become deductible. The Company s management assesses the realizability of its deferred tax assets, and records a valuation allowance for the deferred tax assets when it is more likely than not that a portion, or all of the deferred tax assets will not be realized. As a result, the Company has a valuation allowance against its deferred tax assets as of June 30, 2009 and December 31, 2008, to reflect management s assessment regarding the realizability of those assets. The Company expects to continue to maintain a valuation allowance on deferred tax assets until there is sufficient positive evidence of future realization.

If reversed, the current valuation allowance of $2,975 million and $2,900 million for UAL and United, respectively, will be allocated to reduce income tax expense. As of December 31, 2008, UAL and United had a valuation allowance of $2,886 million (as adjusted) and $2,812 million (as adjusted), respectively. The valuation allowance as of December 31, 2008, as previously reported, was retrospectively adjusted for the adoption of APB 14-1 which is discussed in Note 2, New Accounting Pronouncements. UAL s valuation allowance increased by $89 million in the first six months of 2009 primarily due to an increase in its net operating loss carryforward.

Table of Contents

As of June 30, 2009, UAL and United had a federal net operating loss (NOL) carry forward of approximately $7.5 billion, and a combined federal and state income tax NOL carry forward tax benefit of approximately $2.8 billion, which may be used to reduce taxes in future years. If not used, federal tax benefits of $1.0 billion expire in 2022, $0.4 billion expire in 2023, $0.5 billion expire in 2024, $0.4 billion expire in 2025, $20 million expire in 2026, $0.1 billion in 2028 and $0.2 billion in 2029. In addition, the state tax benefit of $180 million, if not used, expires over a five to twenty year period.

The Company s ability to utilize these benefits may be impaired if the Company were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code. To reduce the possibility of a potential adverse effect on the Company s ability to utilize its NOL carry forward benefits, the Company s certificate of incorporation contains a 5% Ownership Limitation, applicable to all stockholders except the Pension Benefit Guaranty Corporation (PBGC). The 5% Ownership Limitation remains effective until February 1, 2011. Generally, the 5% limitation prohibits (i) the acquisition by a single stockholder of shares representing 5% or more of the common stock of UAL and (ii) any acquisition or disposition of common stock by a stockholder that already owns 5% or more of UAL s common stock, unless prior written approval is granted by the UAL Board of Directors. At this time, the Company does not believe the limitations imposed by the Internal Revenue Code on the usage of the NOL carry forward and other tax attributes following an ownership change will have an effect on the Company. Therefore, the Company does not believe its exit from bankruptcy has had any material impact on the use of its remaining NOL carry forward and other tax attributes.

In addition to the deferred tax assets listed above, the Company had an $809 million unrecorded tax benefit at June 30, 2009 attributable to the difference between the amount of the financial statement expense and the allowable tax deduction for UAL common stock issued to certain unsecured creditors and employees pursuant to the Plan of Reorganization. The Company has deferred recognition of the tax benefit until it is realized as a reduction of taxes payable. If not realized, the unrecognized tax benefits of $161 million will expire in 2025, $489 million in 2026 and $159 million over a period from 2027 through 2050. UAL s income tax returns for tax years after 2003 remain subject to examination by the Internal Revenue Service and state taxing jurisdictions. United is included in UAL s consolidated income tax returns.

(8) Retirement and Postretirement Plans

UAL and United contribute to defined contribution plans on behalf of most of their employees, particularly within the U.S. Internationally, the Company maintains a number of small pension plans covering much of its local, non-U.S. workforce. The Company also provides certain health care benefits, primarily in the U.S., to retirees and eligible dependents, as well as certain life insurance benefits to certain retirees, which are reflected as Other Benefits in the tables below. The Company has reserved the right, subject to collective bargaining and other agreements, to modify or terminate the health care and life insurance benefits for both current and future retirees. The curtailment gains for the three and six months ended June 30, 2009 are attributed to a reduction in future service for certain of the Company s postretirement plans due to reductions in workforce.

The Company s net periodic benefit cost included the following components.

	Pension Benefits		Other Benefits	
(In millions)	**2009**	**2008**	**2009**	**2008**
Three Months Ended June 30,				
Service cost	$ 1	$ 1	$ 7	$ 8
Interest cost	2	2	28	30
Expected return on plan assets	(1)	(3)		(1)
Gain due to curtailment			(1)	
Amortization of unrecognized gain and prior service cost			(5)	(4)
Net periodic benefit costs	$ 2	$	$ 29	$ 33

Six Months Ended June 30,				
Service cost	$ 3	$ 3	$ 14	$ 16
Interest cost	4	5	57	60
Expected return on plan assets	(3)	(6)	(1)	(2)
Gain due to curtailment			(7)	
Amortization of unrecognized gain and prior service cost		(1)	(10)	(8)
Net periodic benefit costs	$ 4	$ 1	$ 53	$ 66

19

Table of Contents

(9) Segment Information

The Company manages its business by two reportable segments: Mainline and Regional Affiliates (United Express operations). The table below includes segment information for UAL and United for the three and six month periods ended June 30, 2009 and 2008.

(In millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008 (Adjusted)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Adjusted)
UAL segment information				
Revenue:				
Mainline	$ 3,269	$ 4,574	$ 6,301	$ 8,570
Regional Affiliates	749	797	1,408	1,512
Total	$ 4,018	$ 5,371	$ 7,709	$ 10,082
Segment earnings (loss):				
Mainline	$ 62	$ (219)	$ (218)	$ (707)
Regional Affiliates	41	(50)	29	(114)
Goodwill impairment		(2,277)		(2,277)
Other impairments and special items (a)	(88)	(223)	(207)	(223)
Less: equity earnings (b)	(1)	(1)	(2)	(3)
Consolidated earnings (loss) before income taxes and equity in earnings of affiliates	$ 14	$ (2,770)	$ (398)	$ (3,324)
United segment information				
Revenue:				
Mainline	$ 3,271	$ 4,574	$ 6,306	$ 8,570
Regional Affiliates	749	797	1,408	1,512
Total	$ 4,020	$ 5,371	$ 7,714	$ 10,082
Segment earnings (loss):				
Mainline	$ 65	$ (247)	$ (214)	$ (735)
Regional Affiliates	41	(50)	29	(114)
Goodwill impairment		(2,277)		(2,277)
Asset impairment and special items (a)	(88)	(223)	(207)	(223)
Less: equity earnings (b)	(1)	(1)	(2)	(3)
Consolidated earnings (loss) before income taxes and equity in earnings of affiliates	$ 17	$ (2,798)	$ (394)	$ (3,352)

(a) Asset impairment and special items are only applicable to the Mainline segment.

(b) Equity earnings are part of the Mainline segment.

(10) Comprehensive Income (Loss)

For the three and six month periods ended June 30, 2009, UAL s total comprehensive income (loss) was $26 million and $(358) million, respectively. For the three and six month periods ended June 30, 2008, UAL s total comprehensive loss was $2,755 million (as adjusted) and $3,316 million (as adjusted), respectively. For the three and six month periods ended June 30, 2009, United s total comprehensive income (loss) was $29 million and $(354) million, respectively. For the three and six month periods ended June 30, 2008, United s total comprehensive loss was $2,783 million (as adjusted) and $3,343 million (as adjusted), respectively. Comprehensive loss in the 2009 and 2008 periods primarily includes the amortization of deferred net periodic pension and other postretirement benefit gains that were recorded as a component of accumulated other comprehensive income and changes in the fair value of the Company s available-for-sale Enhanced Equipment Trust Certificate (EETC) investments. See Note 2, New Accounting Pronouncements, for a discussion of the adjustments made to the 2008 amounts.

(11) Fair Value Measurements and Derivative Instruments

Fair Value Information. A fair value hierarchy that prioritizes the inputs used to measure fair value has been established by GAAP. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The table below presents disclosures about fair value measurements of financial assets and financial liabilities recognized in the Company s Financial Statements.

		Fair Value Measurements at Reporting Date Using			
(In millions)	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses) (Level 3)
Assets and Liabilities Measured at Fair Value on a Recurring Basis:					
Financial assets:					
Noncurrent EETC available-for-sale securities	$ 44	$	$	$ 44	$
Current fuel derivative instruments	165		165		
Fuel derivative instrument receivables (a)	16		16		
Total financial assets	$ 225	$	$ 181	$ 44	$
Financial liabilities:					
Current fuel derivative instruments	$ 175	$	$ 175	$	$
Noncurrent fuel derivative instruments	3		3		
Fuel derivative instrument payables (a)	61		61		
Total financial liabilities	$ 239	$	$ 239	$	$

(a) Fuel derivative instrument receivables and payables represent pending settlements of contract premiums and expired contracts.

The Company records derivative instruments as a derivative asset or liability (on a gross basis) in its Financial Statements, and accordingly records any related collateral on a gross basis. The table below presents the fair value amounts of assets and liabilities as of June 30, 2009. SFAS 161 was applied prospectively; therefore, the December 31, 2008 amounts are not presented.

	Asset Derivatives		Liability Derivatives	
(In millions)	**Balance Sheet Location**	**June 30, 2009**	**Balance Sheet Location**	**June 30, 2009**
Derivatives not receiving hedge accounting treatment:				
Fuel contracts due within one year	Receivables	$ 165	Fuel derivative instruments	$ 175
Fuel contracts due after one year			Other Liabilities	3
Total derivatives		$ 165		$ 178

Table of Contents

Level 3 Financial Assets and Liabilities

	Available-for-Sale Securities	
(In millions)	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2009**
Balance at beginning of period	$ 42	$ 46
Unrealized gains relating to instruments held at reporting date	2	
Return of principal		(2)
Balance at end of period	$ 44	$ 44

As of June 30, 2009, the Company s EETC securities have an amortized cost basis of $85 million and unrealized losses of $41 million and represent a portion of the Company s previously issued and outstanding EETC securities which were repurchased in open market transactions in 2007. As of June 30, 2009, these investments have been in an unrealized loss position for a period of over twelve months. However, United has not recognized an impairment loss in earnings related to these securities because United does not intend or expect to be required to sell the securities and expects to recover its entire amortized cost basis. United expects to collect the full principal balance and all related interest payments. All changes in the fair value of these investments have been classified within Accumulated other comprehensive income in the Financial Statements.

Derivative instruments and investments presented in the table above have the same fair value as their carrying value. The table below presents the carrying values and estimated fair values of the Company s financial instruments not presented in the table above.

	June 30, 2009	
(In millions)	**Carrying Amount**	**Fair Value**
Long-tem debt (including current portion)	$ 6,450	$ 4,381
Lease deposits	319	340

Fair value of the above financial instruments was determined as follows.

Description	**Fair Value Methodology**
Cash, Cash Equivalents, Restricted Cash, Accounts Receivable, Fuel Hedge Collateral Deposits, Accounts Payable and Other Accrued Liabilities	The carrying amounts approximate fair value because of the short-term maturity of these investments.
Enhanced Equipment Trust Certificates	The EETCs are not actively traded on an exchange. Fair value is based on the trading prices of United s EETCs or similar EETC instruments issued by other airlines. The Company uses internal models and observable and unobservable inputs to corroborate third party quotes. Because certain inputs are unobservable, the Company categorized inputs to the EETC fair value valuation as Level 3. Significant inputs to the valuation models include contractual terms, risk-free interest rates and credit spreads.
Fuel Derivative Instruments	Derivative contracts are privately negotiated contracts and are not exchange traded. Fair value measurements are estimated with option

	pricing models that employ observable and unobservable inputs. Inputs to the valuation models include contractual terms, market prices, yield curves, fuel price curves and measures of volatility, among others.
Foreign Currency Derivative Instruments	Fair value is determined with a formula utilizing observable inputs. Significant inputs to the valuation models include contractual terms, risk-free interest rates and forward exchange rates.
Long-Term Debt	The fair value is based on the quoted market prices for the same or similar issues, discounted cash flow models using appropriate market rates and the Black-Scholes model to value conversion rights in UAL s convertible debt instruments. The Company s credit risk was considered in estimating fair value.

Derivative Credit Risk and Fair Value

The Company is exposed to credit losses in the event of nonperformance by counterparties to its derivative instruments. The Company enters into master netting agreements with its derivative counterparties. While the Company records derivative instruments on a gross basis, the Company monitors its net derivative position with each counterparty to monitor credit risk. As of June 30, 2009, the Company had a net derivative asset of $132 million with certain of its derivative counterparties; therefore, this amount represents the potential credit-risk loss if these counterparties fail to perform excluding the impact of collateral described below. The Company had a net derivative payable of $145 million with its remaining counterparties at June 30, 2009.

Based on the fair value of the Company s fuel derivative instruments, our counterparties may require the Company to post collateral when the price of the underlying commodity decreases and we may require our counterparties to provide us with collateral when the price of the underlying commodity increases. The Company was required to post $185 million of cash collateral with certain of its fuel derivative counterparties at June 30, 2009. The Company routinely reviews the credit risk associated with its counterparties and believes its collateral is fully recoverable from its counterparties as of June 30, 2009. The collateral is classified as Fuel hedge collateral deposits in the accompanying Financial Statements.

The Company reviews the credit risk associated with its derivative counterparties and may require collateral from its counterparties in the event the Company has a significant net derivative asset with the counterparties. As of June 30, 2009, the Company received cash collateral of $29 million from one of its fuel derivative counterparties because the Company was in a net unrealized gain position with this counterparty. The collateral was recorded as restricted cash and a corresponding obligation to return the collateral was recorded as an Other current liability in the Company s Financial Statements.

The Company considered counterparty credit risk in determining the fair value of its financial instruments. The Company considered credit risk to have a minimal impact on fair value because varying amounts of collateral are either provided by or received from United s hedging counterparties based on current market exposure and the credit-worthiness of the counterparties.

Derivative Instruments

The following section includes additional information regarding derivative instruments not already disclosed above.

Aircraft Fuel Hedges. The Company has a risk management strategy to hedge a portion of its price risk related to projected jet fuel requirements. Jet fuel is one of the Company s most significant operating expenses. Jet fuel is a commodity with significant price volatility. Prices fluctuate based on market expectations of supply and demand, among other factors. Increases in fuel prices may adversely impact the Company s financial performance, operating cash flows and financial position as greater amounts of cash may be required to obtain jet fuel for operations. The Company periodically enters into derivative contracts to mitigate the adverse financial impact of potential increases in the price of jet fuel. The Company does not enter into derivative instruments for non-risk management purposes. The Company s fuel hedges are not accounted for as fair value or cash flow hedges under applicable GAAP.

The following table presents the fuel hedge gains (losses) recognized during the periods presented and their classification in the Financial Statements.

	Mainline Fuel Three Months Ended June 30,		**Nonoperating Income (Expense) Three Months Ended June 30,**		**Total Three Months Ended June 30,**	
(In millions)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Fuel hedges (a):						
Cash net gains (losses) on settled contracts	$ (157)	$ 51	$ (95)	$ 1	$ (252)	$ 52
Non-cash net mark-to-market gains	305	187	135	21	440	208
Total	$ 148	$ 238	$ 40	$ 22	$ 188	$ 260

Table of Contents

(In millions)	Mainline Fuel Six Months Ended June 30, 2009	2008	Nonoperating Income (Expense) Six Months Ended June 30, 2009	2008	Total Six Months Ended June 30, 2009	2008
Fuel hedges (a):						
Cash net gains (losses) on settled contracts	$ (399)	$ 63	$ (176)	$ 1	$ (575)	$ 64
Non-cash net mark-to-market gains	496	216	207	21	703	237
Total	$ 97	$ 279	$ 31	$ 22	$ 128	$ 301

(a) Fuel hedge gains (losses) are not allocated to Regional Affiliates expense.

As presented in the table below, the Company utilizes various types of hedging instruments including purchased calls, puts, swaps, collars, 3-way collars and 4-way collars. The swaps utilized by the Company generally provide that the counterparty will pay (receive) to (from) United when the price of the underlying commodity is above (below) the price specified in the swap agreement. A collar involves the purchase of fuel call options with the simultaneous sale of fuel put options with identical expiration dates. Generally, the Company s hedge instruments are based on crude oil, heating oil or jet fuel. As of June 30, 2009, the Company s hedge positions were primarily based on either heating oil or jet fuel. Certain of these instruments remain outstanding as of June 30, 2009, as summarized in the table below.

	Percentage of Projected Fuel Requirements Hedged	Barrels hedged (in 000s) Purchased Puts	Sold Puts	Swaps/ Purchased Calls	Sold Calls	Weighted-average crude equivalent price per barrel (c) Payment Obligation Ends	Payment Obligation Begins	Hedge Protection Begins	Hedge Protection Ends
	%					$	$	$	$
Third Quarter 2009:									
Calls	27			3,900		NA	NA	61(a)	NA
Swaps	24			3,500		NA	68	68	NA
Collars	2		375	225		NA	113	133	NA
3-way collars	18		3,075	2,625	2,625	NA	100	115	148
4-way collars	2	225	225	225	225	63	78	95	135
Total	73	225	3,675	10,475	2,850				

Purchased puts	14	1,950				NA	NA	50	NA
Last Six Months of 2009:									
Calls	28			7,750		NA	NA	64(b)	NA
Swaps	19			5,300		NA	66	66	NA
Collars	2		675	375		NA	113	135	NA
3-way collars	13		4,500	3,675	3,675	NA	100	117	151
4-way collars	2	450	450	450	450	63	78	95	135
Total	64	450	5,625	17,550	4,125				
Purchased puts	13	3,525				NA	NA	51	NA

(a) Call position average includes the following two groupings of positions: 25% of consumption with protection beginning at $56 per barrel and 3% of consumption beginning at $106 per barrel.

(b) Call position average includes the following two groupings of positions: 26% of consumption with protection beginning at $60 per barrel and 2% of consumption beginning at $106 per barrel.

(c) Instruments in heating oil and jet fuel are converted to crude oil price equivalents.

As of June 30, 2009, the Company had hedged approximately 8% of its consolidated fuel consumption for 2010. In addition to the hedges described in the table above, the Company has entered into hedges against adverse increases in the spread between the price of crude oil and the price of refined petroleum products (referred to as a crack spread). As the Company consumes refined products, adverse increases in this spread can negatively impact the Company s results of operations. Increases (decreases) in the crack spread above (below) the contract price would generally result in cash receipts (payments) by United from (to) its respective fuel hedge counterparties to these hedge instruments. As of June 30, 2009, the notional amount of hedges of the crack spread was 8.5 million barrels, at an average price of approximately $7, over the last six months of 2009.

Table of Contents

Foreign Exchange. The Company generates revenues and incurs expenses in numerous foreign currencies. Such expenses include fuel, aircraft leases, commissions, catering, personnel expense, advertising and distribution costs, customer service expense and aircraft maintenance. Changes in foreign currency exchange rates impact the Company s results of operations and cash flows through changes in the dollar value of foreign currency-denominated operating revenues and expenses. When management believes risk reduction can be effectively achieved, the Company may use foreign currency forward contracts to hedge a portion of its exposure to changes in foreign currency exchange rates. The Company does not enter into foreign currency derivative contracts for purposes other than risk management. As of June 30, 2009, the notional amount of foreign currencies hedged with the forward contracts in U.S. dollar terms was approximately $61 million. During the six months ended June 30, 2008, the Company recorded hedge losses of $9 million. Hedge gains (losses) were not significant in the other periods presented in these Financial Statements. Foreign currency derivative gains and losses are classified in nonoperating expense in the Company s *Financial Statements*. None of the Company s foreign exchange contracts were designated as hedging instruments under applicable GAAP.

Fair Value of Nonfinancial Assets

The table below presents disclosures about fair value measurements of nonfinancial assets and nonfinancial liabilities during the six months ended June 30, 2009.

		Fair Value Measurements during 2009			
(In millions)	**June 30, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains/ (Losses) (Level 3)**
Nonfinancial Assets Measured at Fair Value on a Recurring Basis:					
Tradenames	$ 420	$	$	$ 420	$ (150)

During the six months ended June 30, 2009, the Company estimated the fair value of its tradenames using a discounted cash flow model. The key inputs to the discounted cash flow model were the Company s historical and estimated future revenues, an assumed royalty rate, and discount rate among others. While certain of these inputs are observable, significant judgment was required to select certain inputs from observed market data. The decrease in fair value of the tradename was due to lower estimated revenues resulting from the weak economic environment and the Company s capacity reductions, among other factors. Certain of the Company s tradenames with a carrying amount of $570 million were written down to their fair value of $420 million, resulting in an impairment charge of $150 million, which was included in earnings for the six months ended June 30, 2009. See Note 14, Asset Impairments and Special Items, for additional information related to this asset impairment.

(12) Commitments, Contingent Liabilities and Uncertainties

General Guarantees and Indemnifications. In the normal course of business, the Company enters into numerous real estate leasing and aircraft financing arrangements that have various guarantees included in the contracts. These guarantees are primarily in the form of indemnities. In both leasing and financing transactions, the Company typically indemnifies the lessors, and any financing parties, against tort liabilities that arise out of the use, occupancy, operation or maintenance of the leased premises or financed aircraft. Currently, management believes that any future payments required under these guarantees or indemnities would be immaterial, as most tort liabilities and related indemnities are covered by insurance (subject to deductibles). Additionally, certain leased premises such as fueling stations or storage facilities include indemnities of such parties for any environmental liability that may arise out of or relate to the use of the leased premises.

Labor Negotiations. All of United s domestic labor contracts become amendable on or about January 1, 2010. Consistent with its contractual commitments, United served Section 6 notices to all six of its labor unions during April 2009 to commence the collective bargaining process. Negotiations with each union began during the second quarter of 2009. The outcome of these negotiations may materially impact the Company s future financial results. However, it is too early in the process to assess the timing or magnitude of the impact, if any.

Bankruptcy Contingencies. The Company emerged from bankruptcy protection in 2006 pursuant to a plan of reorganization confirmed by the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the Bankruptcy Court). The following discussion provides a summary of significant bankruptcy-related contingencies and related reserves.

Table of Contents

There is pending litigation before the Bankruptcy Court of the U.S. District Court for the Northern District of Illinois regarding the extent to which the Los Angeles International Airport (LAX) municipal bond debt is entitled to secured status under Section 506(a) of the Bankruptcy Code. In 2007, the Bankruptcy Court issued its written opinion holding that the value of the security interest was approximately $33 million, which was affirmed by the District Court. On May 5, 2009, the United States Court of Appeals for the Seventh Circuit reversed the lower courts and held that LAX bondholders were entitled to a full recovery of the principal amount due on the bonds, approximately $60 million. United filed a petition for rehearing, which was subsequently denied. The matter has now been remanded to the Bankruptcy Court for further proceedings. United accrued $60 million and $33 million (plus accrued interest) as its estimated obligation to LAX bondholders at June 30, 2009 and December 31, 2008, respectively.

The table below includes the Company s estimated obligations related to the administrative and priority claims and other bankruptcy-related claim reserves including reserves related to LAX litigation and other legal, professional and tax matters, among others, for the six months ended June 30, 2009. These reserves are primarily classified in other current liabilities in the Financial Statements.

(In millions)		
Balance at December 31, 2008	$	96
Payments		(33)
Accruals		26
Balance at June 30, 2009	$	89

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

Given the Air Transportation Safety and System Stabilization Act of 2001, the resolution of the majority of the wrongful death and personal injury cases by settlement and the withdrawal of all related proofs of claim from the Company s Chapter 11 reorganization, and that claimants recoveries are limited to insurance proceeds, the Company believes that it will have no financial exposure for claims arising out of the events of September 11, 2001.

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

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

Table of Contents

On June 5, 2009, the U.S. Equal Employment Opportunity Commission (EEOC) filed a lawsuit on behalf of five named individuals and other similarly situated employees alleging that United s reasonable accommodation policy for employees with medical restrictions does not comply with the requirements of the Americans with Disabilities Act. The Company is starting an investigation into this matter and cannot assess its possible exposure at this time. Although the Company intends to vigorously defend itself in connection with this lawsuit, the law in this area is unsettled and, as a result, there can be no assurances as to the ultimate result of this action.

Contingent Senior Unsecured Notes. UAL is obligated to issue up to $500 million of 8% senior unsecured notes to the PBGC in up to eight equal tranches of $62.5 million upon the occurrence of certain financial triggering events. Beginning with the Company s fiscal year ending December 31, 2009 and concluding with its fiscal year ending December 31, 2017, a triggering event may occur when, among other things, the Company s EBITDAR exceeds $3.5 billion over a prior twelve month period. In certain circumstances, UAL common stock may be issued in lieu of issuance of the notes.

Commitments. At June 30, 2009, future commitments for the purchase of property and equipment, principally aircraft, include approximately $0.5 billion of binding commitments and $2.3 billion of nonbinding commitments. The nonbinding commitments of $2.3 billion are related to 42 A319 and A320 aircraft. These orders may be cancelled which would result in the forfeiture of $91 million of advance payments provided to the manufacturer. The Company reached an agreement with the engine manufacturer eliminating all provisions pertaining to firm commitments and support for future Airbus aircraft. While this permits future negotiations on engine pricing with any engine manufacturer, restructured aircraft manufacturer commitments have assumed that aircraft will be delivered with installed engines at list price. During the second quarter of 2008, the Company recorded an impairment charge to decrease the carrying value of the advance deposits and associated capitalized interest to zero in the Company s Financial Statements based on the Company s belief that it is highly unlikely that it will take future delivery of these aircraft. These aircraft purchase orders are still included in the Company s total nonbinding commitment amount, as the Company has not formally terminated the orders. In addition, the Company has capital commitments related to its international premium travel experience product enhancement program. As of June 30, 2009, the Company s commitments would require the payment of approximately $0.2 billion in the last six months of 2009, $0.3 billion for the combined years of 2010 and 2011, $1.3 billion for the combined years of 2012 and 2013 and $1.0 billion thereafter. Additionally, the Company has committed to purchase approximately $210 million of equipment or services from a technology vendor over a seven-year period, which is not reflected in the commitments described above.

Municipal Bond Guarantee. The Company has guaranteed interest and principal payments on $270 million of the Denver International Airport bonds, which were originally issued in 1992, but were subsequently redeemed and reissued in 2007 and are due in 2032 unless the Company elects not to extend its lease in which case the bonds are due in 2023. The outstanding bonds and related guarantee are not recorded in the Company s Financial Statements at June 30, 2009 or December 31, 2008. The related lease agreement is recorded on a straight-line basis resulting in ratable accrual of the final $270 million lease obligation over the lease term.

(13) Debt Obligations and Other Financing Transactions

As of both June 30, 2009 and December 31, 2008, assets with a net carrying value of $7.9 billion, principally aircraft and engines, route authorities and Mileage Plus intangible assets were pledged under various loan and other agreements. Spare parts with a carrying value of approximately $0.7 billion became encumbered in July 2009 upon closing of the financing described in Note 16, Subsequent Events.

Table of Contents

Amended Credit Facility and Letters of Credit

The Company has a $255 million revolving loan commitment available under Tranche A of its credit facility. The Company used $254 million of the Tranche A commitment capacity for letters of credit at both June 30, 2009 and December 31, 2008. In addition, under a separate agreement, the Company had $27 million of letters of credit issued as of June 30, 2009 and December 31, 2008.

Financing Arrangements

In January 2009, the Company completed a $94 million sale-leaseback agreement for nine aircraft. The leaseback agreement, which has a one-year term, a single one-year renewal option, and a bargain purchase option, was accounted for as a capital lease. This transaction resulted in an approximately $94 million non-cash increase to capital lease assets and capital lease obligations. Additionally, capital lease assets increased by approximately $84 million for the deferred loss on the sale.

In January 2009, the Company amended its lease of the Chicago O Hare International Airport cargo facility. This amendment resulted in proceeds to the Company of approximately $160 million in return for the Company s agreement to vacate its currently leased cargo facility earlier than the lease expiration date in order for the airport authority to continue with its long-term airport modernization plan. The Company currently has not determined its future cargo plans, as the Company is not required to vacate its current facility until approximately mid-2011. The Company expects to account for this relocation payment as a lease incentive and has recorded a deferred credit of $160 million as of June 30, 2009. Future accounting treatment of this deferred credit will be impacted by the Company s future cargo plans. As of December 31, 2008, the Company had leasehold improvements in its current cargo facility of approximately $38 million. The Company will ratably accelerate the amortization of these assets so that they are fully amortized by the Company s required relocation date in mid-2011.

In March 2009, the Company entered into a $134 million term loan agreement. This agreement requires quarterly interest and principal payments with the remaining principal balance due at the end of the five year term. The applicable interest rate is variable. The loan is callable 42 months after its issuance and is secured by certain of the Company s spare engines. The agreement also cross-collateralizes the Company s other obligations with this lender. See Note 16, Subsequent Events, for information related to United s issuance of senior secured notes in July 2009.

Credit Card Processing Agreements

The Company has agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. Under certain of the Company s card processing agreements, the financial institutions have the right to require that United maintain a reserve (reserve) equal to a portion of advance ticket sales that have been processed by that financial institution, but for which the Company has not yet provided the air transportation (referred to as relevant advance ticket sales).

As further described in the 2008 Annual Report, the Company s agreements with Paymentech and JPMorgan Chase Bank and with American Express require the Company to provide cash reserves approximately three weeks following the end of each month if the Company s unrestricted cash, cash equivalents and short-term investments at month-end were below certain levels. The Company amended its agreement with Paymentech and JPMorgan Chase Bank to provide non-cash collateral in lieu of cash reserves, effective through January 19, 2010, unless terminated earlier by the Company.

Under the American Express agreement, in addition to certain other risk protections provided to American Express, the Company will be required to provide reserves if its unrestricted cash balance (as defined in the agreement) falls below $2.4 billion. Additionally, the Company also has the ability to provide non-cash collateral in lieu of cash collateral if its unrestricted cash balance is above $1.35 billion. Until September 2009, the Company is not required to post reserves under the American Express agreement as long as its unrestricted cash balance at month-end is equal to or above $2.0 billion.

(14) Asset Impairments and Special Items

Impairment Testing. As of June 30, 2009, the Company performed interim impairment testing of its tradenames due to a significant decline in its unit revenues and forecasted future revenues. In addition, as of February 28, 2009, the Company performed an interim impairment test of all indefinite-lived intangible assets and certain of its definite-lived intangible assets due to events and changes in circumstances during the first quarter of 2009 that indicated an impairment might have occurred. Similarly, the Company tested its aircraft for impairment during the first quarter of 2009. The primary factor deemed by management to have constituted a potential impairment triggering event was a significant decline in unit revenues experienced in the first quarter of 2009.

Indefinite-lived intangible assets tested for impairment included tradenames, international route authorities, London-Heathrow slots and code sharing agreements. The Company utilized appropriate valuation techniques to separately estimate the fair values of all of its indefinite-lived intangible assets as of February 28, 2009, and compared those estimates to related carrying values. The methods used to test these assets were primarily income methodologies, which were based on estimated future cash flows, except for the valuation of the London-Heathrow slots, for which fair value was estimated using the market approach. The only impairment of indefinite-lived intangible assets was related to the carrying value of United s tradenames. During the three and six months ended June 30, 2009, the Company recorded an impairment charge of $40 million and $150 million, respectively, to decrease the carrying value of the tradenames to estimated fair value.

For purposes of testing impairment of certain definite-lived intangible assets at February 28, 2009, the Company determined whether the carrying amounts of its long-lived assets were recoverable by comparing their carrying amount to the sum of the undiscounted cash flows attributable to their use. The Company determined that the carrying value of its definite lived intangible assets was fully recoverable based on this testing.

Similarly during 2008, the Company performed an interim impairment test of its goodwill, all intangible assets and certain of its long-lived assets (principally aircraft and related spare engines and spare parts) as of May 31, 2008 due to events and changes in circumstances during the first and second quarters of 2008 that indicated an impairment might have occurred. Factors deemed by management to have collectively constituted an impairment triggering event included record high fuel prices, significant losses in the first and second quarters of 2008, a softening U.S. economy, analyst downgrade of UAL common stock, rating agency changes in outlook for the Company s debt instruments from stable to negative, the announcement of the planned removal from UAL s fleet of 100 aircraft in 2008 and a significant decrease in the fair value of the Company s outstanding equity and debt securities during the six months ended June 30, 2008, including a decline in UAL s market capitalization to significantly below book value.

For purposes of testing impairment of aircraft in 2009 and 2008, the Company compared the carrying amount of each aircraft fleet type to its estimated future undiscounted cash flows attributable to the fleet type. In 2009, for all but two fleet types, the Company determined that the fleet types were not impaired as estimated cash flows exceeded carrying value. For the two fleet types which had estimated undiscounted cash flows less than carrying value, the Company estimated the fair value of these fleet types and determined that the aircraft were not impaired as the estimated fair value exceeded the carrying value. The fair value of these two fleet types was estimated using a market approach.

Due to extreme fuel price volatility, tight credit markets, the depressed value of UAL s market capitalization and its debt securities, the uncertain economic environment, as well as other uncertainties, the Company can provide no assurance that a material impairment charge will not occur in a future period. The Company will continue to monitor circumstances and events in future periods to determine whether additional asset impairment testing is warranted.

As a result of this impairment testing, the Company recorded impairment charges during the three and six months ended June 30, 2009 and 2008, as presented in the table below. All of these impairment charges are within the Mainline segment. All of the impairments other than the goodwill impairment, which is separately identified, are classified within Other impairments and special items in the Company s Financial Statements.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2009**	**2008**	**2009**	**2008**
Goodwill impairment	$	$ 2,277	$	$ 2,277
Indefinite-lived intangible assets:				
Codeshare agreements		60		60
Tradenames	40	20	150	20
Intangible asset impairments	40	80	150	80
Tangible assets:				
Pre-delivery advance deposits including related capitalized interest		105		105

B737 aircraft, B737 spare parts and other				38				38
Aircraft and related deposit impairments				143				143
Total impairments	$	40	$	2,500	$	150	$	2,500

Table of Contents

Special items. Special items included charges of $21 million and $30 million during the three and six months ended June 30, 2009, respectively, primarily related to the Company s operational plans as discussed in Note 3, Company Operational Plans. In addition, both the three and six months ended June 30, 2009 included special charges of $27 million related to a pending legal matter which has been unresolved since the Company s emergence from bankruptcy in 2006. See Note 12, Commitments, Contingent Liabilities and Uncertainties, for additional information regarding this matter.

(15) Related Party Transactions

During the six months ended June 30, 2009, UAL contributed cash of $62 million to United from the proceeds that UAL generated from the issuance of UAL common stock, as discussed in Note 4, Common Stockholders Deficit.

(16) Subsequent Events

The Company s management has evaluated its subsequent events for disclosure in this quarterly filing on Form 10-Q through July 22, 2009, the date on which the Financial Statements were issued, and has identified the following event. On July 2, 2009, United issued $175 million aggregate principal amount of 12.75% Senior Secured Notes due 2012 (the Notes). The Notes were issued at a discount of $17 million from their principal amount at maturity. Interest on the principal of the Notes is payable quarterly. The Notes are secured by a lien on certain aircraft spare parts owned by United and are guaranteed by UAL. United is required to maintain certain collateral ratios including a ratio of the outstanding principal to each of the following: total collateral, Section 1110 collateral and rotables/repairables collateral. If any of these ratios fall below the required minimum, United would be required to provide additional collateral or redeem some or all of the Notes to comply with the minimum ratio. In addition, the Notes have a mandatory pro-rata redemption requirement if certain of United s in-service fleet falls below certain specified amounts.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

UAL Corporation (together with its consolidated subsidiaries, UAL), is a holding company and its principal, wholly-owned subsidiary is United Air Lines, Inc. (together with its consolidated subsidiaries, United). We sometimes use the words we, our, us and the Company in this Form 10-Q for disclosures that relate to both UAL and Uni United s operations consist primarily of the transportation of persons, property, and mail throughout the U.S. and abroad. United provides these services through full-sized jet aircraft (which we refer to as its Mainline operations), as well as smaller aircraft in its regional operations conducted under contract by United Express® carriers.

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

This Quarterly Report on Form 10-Q is a combined report of UAL and United including their respective unaudited condensed consolidated financial statements (the Financial Statements). As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL as included within the *Combined Notes to Condensed Consolidated Financial Statements (Unaudited)* (the Footnotes), unless otherwise noted. United s operating revenues and operating expenses comprise nearly 100% of UAL s revenues and operating expenses. In addition, United comprises approximately the entire balance of UAL s assets, liabilities and operating cash flows. Therefore, the following qualitative discussion is applicable to both UAL and United, unless otherwise noted. Any significant differences between UAL and United results are separately disclosed and explained. United meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format allowed under that General Instruction.

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

Recent Developments.

During the second quarter of 2009, the Company initiated a fleet modernization review with a request for proposal that has the potential to result in a large order of next-generation wide body and narrow body aircraft to replace its older fleet types. This process could present a unique opportunity for the Company to improve its cost structure and fleet strategy.

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

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

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

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

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

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

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

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

	Three months ended June 30,				Six months ended June 30,			
			Favorable (unfavorable)				Favorable (unfavorable)	
(In millions)	**2009**	**2008 (Adjusted (a))**	**$ Change**	**% Change**	**2009**	**2008 (Adjusted (a))**	**$ Change**	**% Change**
UAL Information								
Total revenues	$ 4,018	$ 5,371	$ (1,353)	(25.2)	$ 7,709	$ 10,082	$ (2,373)	(23.5)
Mainline fuel purchase cost	813	2,086	1,273	61.0	1,561	3,702	2,141	57.8

Operating non-cash fuel hedge gains (b)	(305)	(187)	118	63.1	(496)	(216)	280	129.6
Operating cash fuel hedge (gains) losses (b)	157	(51)	(208)		399	(63)	(462)	
Regional Affiliate fuel expense (c)	178	355	177	49.9	342	633	291	46.0
Asset impairment and special charges (see below)	88 &nbs							