

UAL CORP /DE/  
Form 10-Q  
July 20, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

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

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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  No   
United Air Lines, Inc.            Yes  No

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  No

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
	Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
United Air Lines, Inc.	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
	Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

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

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  No   
United Air Lines, Inc.            Yes  No

**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 15, 2010.

UAL Corporation                    168,361,643 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.



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**UAL Corporation and Subsidiary Companies and**

**United Air Lines, Inc. and Subsidiary Companies**

**Report on Form 10-Q**

**For the Quarter Ended June 30, 2010**

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**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)**

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Operating revenues:		
Passenger United Airlines	\$ 3,712	\$ 2,941
Passenger Regional Affiliates	1,021	749
Cargo	190	121
Other operating revenues	238	207
	5,161	4,018
Operating expenses:		
Aircraft fuel	1,198	665
Salaries and related costs	1,020	963
Regional Affiliates	911	708
Purchased services	256	286
Aircraft maintenance materials and outside repairs	245	240
Landing fees and other rent	241	229
Depreciation and amortization	215	222
Distribution expenses	154	139
Impairments, merger-related costs and special items (Note 15)	106	88
Aircraft rent	81	89
Cost of third party sales	61	60
Other operating expenses	239	222
	4,727	3,911
Income from operations	434	107
Other income (expense):		
Interest expense	(171)	(135)
Interest income	2	5
Interest capitalized	3	2
Miscellaneous, net	3	35
	(163)	(93)
Income before income taxes and equity in earnings of affiliates	271	14
Income tax benefit	(2)	(13)
Income before equity in earnings of affiliates	273	27
Equity in earnings of affiliates, net of tax		1
Net income	\$ 273	\$ 28

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Earnings per share, basic	\$ 1.62	\$ 0.19
Earnings per share, diluted	\$ 1.29	\$ 0.19

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,	
	2010	2009
Operating revenues:		
Passenger United Airlines	\$ 6,738	\$ 5,642
Passenger Regional Affiliates	1,861	1,408
Cargo	347	245
Other operating revenues	456	414
	9,402	7,709
Operating expenses:		
Aircraft fuel	2,156	1,464
Salaries and related costs	1,968	1,884
Regional Affiliates	1,726	1,379
Purchased services	543	573
Landing fees and other rent	469	450
Aircraft maintenance materials and outside repairs	467	465
Depreciation and amortization	428	455
Distribution expenses	291	257
Aircraft rent	162	177
Impairments, merger-related costs and special items (Note 15)	124	207
Cost of third party sales	118	113
Other operating expenses	447	460
	8,899	7,884
Income (loss) from operations	503	(175)
Other income (expense):		
Interest expense	(349)	(269)
Interest income	3	12
Interest capitalized	5	5
Miscellaneous, net	27	29
	(314)	(223)
Income (loss) before income taxes and equity in earnings of affiliates	189	(398)
Income tax benefit	(1)	(42)
Income (loss) before equity in earnings of affiliates	190	(356)
Equity in earnings of affiliates, net of tax	1	2
Net income (loss)	\$ 191	\$ (354)
Earnings (loss) per share, basic	\$ 1.14	\$ (2.44)

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Earnings (loss) per share, diluted

\$ 0.96    \$ (2.44)

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, 2010	December 31, 2009
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 4,906	\$ 3,042
Restricted cash	53	128
Receivables, net of allowance for doubtful accounts	971	743
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2010 \$57; 2009 \$61)	280	472
Aircraft lease deposits maturing within one year	275	293
Deferred income taxes	51	63
Prepaid expenses and other	447	364
	6,983	5,105
Operating property and equipment:		
Owned:		
Flight equipment	8,354	8,303
Advances on flight equipment	51	
Other property and equipment	1,767	1,745
	10,172	10,048
Less accumulated depreciation and amortization	(2,293)	(2,010)
	7,879	8,038
Capital leases:		
Flight equipment	2,095	2,096
Other property and equipment	51	51
	2,146	2,147
Less accumulated amortization	(422)	(345)
	1,724	1,802
	9,603	9,840
Other assets:		
Intangibles, less accumulated amortization (2010 \$440; 2009 \$408)	2,416	2,455
Restricted cash	197	213
Investments	97	88
Aircraft lease deposits	10	33
Other, net	828	950
	3,548	3,739
	\$ 20,134	\$ 18,684

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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, 2010	December 31, 2009
<i>Liabilities and Stockholders Deficit</i>		
Current liabilities:		
Advance ticket sales	\$ 2,300	\$ 1,492
Mileage Plus deferred revenue	1,745	1,515
Long-term debt maturing within one year (Note 14)	1,415	545
Accounts payable	926	803
Accrued salaries, wages and benefits	817	701
Current obligations under capital leases	464	426
Other	906	991
	8,573	6,473
Long-term debt	6,281	6,378
Long-term obligations under capital leases	1,014	1,194
Other liabilities and deferred credits:		
Mileage Plus deferred revenue	2,356	2,720
Postretirement benefit liability	1,940	1,928
Advanced purchase of miles	1,115	1,157
Deferred income taxes	537	551
Other	1,074	1,094
	7,022	7,450
Commitments and contingent liabilities (Note 13)		
Stockholders deficit:		
Preferred stock		
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 168,361,795 and 167,610,620 shares at June 30, 2010 and December 31, 2009, respectively	2	2
Additional capital invested	3,146	3,136
Retained deficit	(5,765)	(5,956)
Stock held in treasury, at cost	(30)	(28)
Accumulated other comprehensive income (loss)	(109)	35
	(2,756)	(2,811)
	\$ 20,134	\$ 18,684

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)**

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows provided (used) by operating activities:</b>		
Net income (loss)	\$ 191	\$ (354)
Adjustments to reconcile to net cash provided (used) by operating activities		
Increase in advance ticket sales	808	386
Depreciation and amortization	428	455
Unrealized gain/loss on fuel derivatives and change in related pending settlements	(22)	(809)
Asset impairments and special items	90	207
Increase (decrease) in Mileage Plus deferred revenue and advanced purchase of miles	(60)	129
Decrease in fuel hedge collateral	4	780
Increase in receivables	(303)	(52)
Proceeds from lease amendment		160
Other, net	220	(80)
	1,356	822
<b>Cash flows provided (used) by investing activities:</b>		
Additions to property, equipment and deferred software	(124)	(170)
Advance deposits on aircraft	(42)	
Decrease in restricted cash	43	20
Proceeds from asset dispositions	25	46
Proceeds from asset sale-leasebacks		94
Other, net	3	1
	(95)	(9)
<b>Cash flows provided (used) by financing activities:</b>		
Proceeds from issuance of long-term debt	1,995	134
Repayment of debt	(1,274)	(395)
Principal payments under capital leases	(93)	(103)
Increase in deferred financing costs	(26)	(4)
Proceeds from issuance of common stock		63
Decrease in lease deposits	1	22
Other, net		(3)
	603	(286)
Increase in cash and cash equivalents during the period	1,864	527
Cash and cash equivalents at beginning of the year	3,042	2,039
Cash and cash equivalents at end of the period	\$ 4,906	\$ 2,566

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)

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Operating revenues:		
Passenger United Airlines	\$ 3,712	\$ 2,941
Passenger Regional Affiliates	1,021	749
Cargo	190	121
Other operating revenues	240	209
	5,163	4,020
Operating expenses:		
Aircraft fuel	1,198	665
Salaries and related costs	1,020	963
Regional Affiliates	911	708
Purchased services	256	286
Aircraft maintenance materials and outside repairs	245	240
Landing fees and other rent	241	229
Depreciation and amortization	215	222
Distribution expenses	154	139
Impairments, merger-related costs and special items (Note 15)	106	88
Aircraft rent	81	89
Cost of third party sales	61	60
Other operating expenses	239	221
	4,727	3,910
Income from operations	436	110
Other income (expense):		
Interest expense	(166)	(135)
Interest income	2	5
Interest capitalized	3	2
Miscellaneous, net	4	35
	(157)	(93)
Income before income taxes and equity in earnings of affiliates	279	17
Income tax benefit	(2)	(13)
Income before equity in earnings of affiliates	281	30
Equity in earnings of affiliates, net of tax		1
Net income	\$ 281	\$ 31

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,	
	2010	2009
Operating revenues:		
Passenger United Airlines	\$ 6,738	\$ 5,642
Passenger Regional Affiliates	1,861	1,408
Cargo	347	245
Other operating revenues	460	419
	9,406	7,714
Operating expenses:		
Aircraft fuel	2,156	1,464
Salaries and related costs	1,968	1,884
Regional Affiliates	1,726	1,379
Purchased services	543	573
Landing fees and other rent	469	450
Aircraft maintenance materials and outside repairs	467	465
Depreciation and amortization	428	455
Distribution expenses	291	257
Aircraft rent	162	179
Cost of third party sales	118	113
Impairments, merger-related costs and special items (Note 15)	124	207
Other operating expenses	446	459
	8,898	7,885
Income (loss) from operations	508	(171)
Other income (expense):		
Interest expense	(339)	(269)
Interest income	3	12
Interest capitalized	5	5
Miscellaneous, net	28	29
	(303)	(223)
Income (loss) before income taxes and equity in earnings of affiliates	205	(394)
Income tax benefit	(1)	(42)
Income (loss) before equity in earnings of affiliates	206	(352)
Equity in earnings of affiliates, net of tax	1	2
Net income (loss)	\$ 207	\$ (350)

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, 2010	December 31, 2009
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 4,900	\$ 3,036
Restricted cash	53	128
Receivables, net of allowance for doubtful accounts	970	743
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2010 \$57; 2009 \$61)	280	472
Aircraft lease deposits maturing within one year	275	293
Receivables from related parties	108	73
Deferred income taxes	46	57
Prepaid expenses and other	434	352
	7,066	5,154
Operating property and equipment:		
Owned:		
Flight equipment	8,354	8,303
Advances on flight equipment	51	
Other property and equipment	1,767	1,745
	10,172	10,048
Less accumulated depreciation and amortization	(2,293)	(2,010)
	7,879	8,038
Capital leases:		
Flight equipment	2,095	2,096
Other property and equipment	51	51
	2,146	2,147
Less accumulated amortization	(422)	(345)
	1,724	1,802
	9,603	9,840
Other assets:		
Intangibles, less accumulated amortization (2010 \$440; 2009 \$408)	2,416	2,455
Restricted cash	196	212
Investments	97	88
Aircraft lease deposits	10	33
Other, net	822	943

3,541	3,731
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\$ 20,210	\$ 18,725
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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, 2010	December 31, 2009
<i>Liabilities and Stockholder's Deficit</i>		
Current liabilities:		
Advance ticket sales	\$ 2,300	\$ 1,492
Mileage Plus deferred revenue	1,745	1,515
Long-term debt maturing within one year (Note 14)	1,415	544
Accounts payable	929	806
Accrued salaries, wages and benefits	817	701
Current obligations under capital leases	464	426
Other	1,028	1,096
	8,698	6,580
Long-term debt	5,936	6,033
Long-term obligations under capital leases	1,014	1,194
Other liabilities and deferred credits:		
Mileage Plus deferred revenue	2,356	2,720
Postretirement benefit liability	1,940	1,928
Advanced purchase of miles	1,115	1,157
Deferred income taxes	455	469
Other	1,075	1,096
	6,941	7,370
Commitments and contingent liabilities (Note 13)		
Stockholder's deficit:		
Common stock at par, \$5 par value; authorized 1,000 shares; outstanding 205 at both June 30, 2010 and December 31, 2009		
Additional capital invested	3,411	3,401
Retained deficit	(5,681)	(5,888)
Accumulated other comprehensive income (loss)	(109)	35
	(2,379)	(2,452)
	\$ 20,210	\$ 18,725

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)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows provided (used) by operating activities:</b>		
Net income (loss)	\$ 207	\$ (350)
Adjustments to reconcile to net cash provided (used) by operating activities		
Increase in advance ticket sales	808	386
Depreciation and amortization	428	455
Unrealized gain/loss on fuel derivatives and change in related pending settlements	(22)	(809)
Asset impairments and special items	90	207
Increase (decrease) in Mileage Plus deferred revenue and advanced purchase of miles	(60)	129
Decrease in fuel hedge collateral	4	780
Increase in receivables	(302)	(45)
Proceeds from lease amendment		160
Other, net	199	(89)
	<b>1,352</b>	<b>824</b>
<b>Cash flows provided (used) by investing activities:</b>		
Additions to property, equipment and deferred software	(124)	(170)
Advance deposits on aircraft	(42)	
Decrease in restricted cash	43	16
Proceeds from asset dispositions	25	46
Proceeds from asset sale-leasebacks		94
Other, net	3	
	<b>(95)</b>	<b>(14)</b>
<b>Cash flows provided (used) by financing activities:</b>		
Proceeds from issuance of long-term debt	1,995	134
Repayment of debt	(1,273)	(394)
Principal payments under capital leases	(93)	(103)
Increase in deferred financing costs	(26)	(4)
Capital contribution from parent		62
Decrease in lease deposits	1	22
Other, net	3	
	<b>607</b>	<b>(283)</b>
Increase in cash and cash equivalents during the period	1,864	527
Cash and cash equivalents at beginning of the year	3,036	2,033
Cash and cash equivalents at end of the period	<b>\$ 4,900</b>	<b>\$ 2,560</b>

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



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**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 comply with 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 normal recurring adjustments and other adjustments such as asset impairment charges, which are considered necessary for a fair presentation of the Company s financial position and results of operations. Certain prior year amounts have been reclassified to conform to the current year s presentation. 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, 2009 (the 2009 Annual Report ).

**Restricted Cash.** Restricted cash primarily includes cash collateral associated with workers compensation obligations, reserves for institutions that process credit card ticket sales and cash collateral received from fuel hedge counterparties. Industry practice includes classification of restricted cash flows as investing cash flows by some airlines and as operating cash flows by others. Cash flows related to restricted cash activity are classified as investing activities in the Financial Statements because the Company considers restricted cash arising from these activities similar to an investment. UAL s cash flows associated with its restricted cash balances for the six months ended June 30, 2010 and 2009 were \$43 million and \$20 million, respectively.

**(2) Merger and Related Matters**

On May 2, 2010, UAL and Continental Airlines, Inc. ( Continental ) entered into an Agreement and Plan of Merger (the Merger Agreement ) providing for a merger of equals business combination of UAL and Continental. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, a wholly-owned subsidiary of UAL will merge with and into Continental, with Continental surviving as a wholly-owned subsidiary of UAL. Upon completion of the merger, UAL will be the parent company of both Continental and United Air Lines, Inc. and UAL s name will be changed to United Continental Holdings, Inc.

Subject to the terms and conditions of the Merger Agreement, which was approved by the boards of directors of UAL and Continental, if the merger is completed, each outstanding share of Continental common stock will be converted into the right to receive 1.05 shares of UAL common stock, with cash paid in lieu of any fractional shares of UAL common stock that a Continental stockholder would otherwise have been entitled to receive. Continental stock options, other equity awards (other than profit-based restricted stock units that will be converted into a fixed amount in cash) and convertible debt securities will be generally converted into stock options, equity awards and convertible debt securities with respect to UAL common stock, after giving effect to the exchange ratio.



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The Merger Agreement contains certain termination rights for both UAL and Continental, including if the merger is not consummated on or before December 31, 2010 (which is subject to extension under certain circumstances but generally not beyond September 30, 2011) and if the approval of the stockholders of either UAL or Continental is not obtained. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, including termination of the Merger Agreement by UAL or Continental as a result of an adverse change in the recommendation of the other party's board of directors, UAL may be required to pay to Continental, or Continental may be required to pay to UAL, a termination fee of \$175 million.

UAL is expected to incur substantial expenses in connection with the merger. While UAL has assumed that a certain level of expenses would be incurred, there are many factors that could affect the total amount or the timing of the expenses, and many of the expenses that will be incurred are, by their nature, difficult to estimate. These expenses could, particularly in the near term, exceed the savings that the combined company expects to achieve from the merger and likely will result in the combined company taking significant charges against earnings following the completion of the merger. The amount and timing of such charges are uncertain at the present time.

Completion of the merger is subject to obtaining certain regulatory clearances and the satisfaction or waiver of the other conditions as contained in the Merger Agreement. For additional information related to the merger refer to UAL's Registration Statement on Form S-4 which was filed with the SEC on June 25, 2010.

### **(3) New Accounting Pronouncements, Changes in Estimate and Change in Accounting**

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements. ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective beginning in the first quarter of 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after December 15, 2010. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not and will not affect the Company's financial condition, results of operations or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends certain concepts related to consolidation of variable interest entities. Among other accounting and disclosure requirements, this guidance 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's adoption of this guidance effective January 1, 2010 did not change its conclusions with regard to variable interest entities and did not have an impact on its Financial Statements.

In October 2009, the FASB issued ASU 2009-13, *Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force*. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company has not determined the impact of adoption of this guidance on its Financial Statements. This guidance becomes effective January 1, 2011; however, early adoption is permitted.

During the first quarter of 2010, the Company evaluated the impact of its previously announced widebody aircraft purchase commitments on the remaining useful lives and residual values of its B747 and B767 aircraft, which are expected to be replaced by the new aircraft. During the second quarter of 2010, the Company evaluated the residual values for certain of its widebody aircraft because of the decrease in value of its nonoperating B747 aircraft as discussed below in Note 15, Asset Impairments, Merger-related Costs and Special Items. Based on these evaluations, the Company adjusted aircraft retirement dates and residual values, resulting in increases in depreciation expense of \$9 million, or \$0.04 per diluted share, in the three months ended June 30, 2010, and \$11 million, or \$0.05 per diluted share, in the six months ended June 30, 2010. The expected impact of these changes in estimate is \$23 million for the last six months of 2010.

The Company follows a deferred revenue accounting policy to record the fair value of its Mileage Plus frequent flyer obligation. The Company defers the portion of the sales proceeds of ticketed revenue on

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United and its alliance partners, as well as revenue associated with mileage sales to third parties, that represents the estimated air transportation fair value of the miles awarded. This deferred revenue is then recognized when the miles are redeemed. Some of these miles will never be redeemed by Mileage Plus members, and the Company historically recognized an estimate of revenue from the expected expired miles, which is referred to as breakage, over an estimated redemption period. The Company reviews its breakage estimates annually based upon the latest available information regarding mileage redemption and expiration patterns.

During the first quarter of 2010, the Company obtained additional historical data, previously unavailable, which has enabled the Company to refine its estimate of the amount of breakage in the mileage population. This new data enables the Company to better identify historical differences between certain of its mileage breakage estimates and the amounts that have actually been experienced. As a result, the Company increased its estimate of the number of frequent flyer miles expected to expire. In conjunction with this change in estimate, the Company also adopted a change to the accounting methodology used to recognize Mileage Plus breakage. Both the change in estimate and methodology have been applied prospectively effective January 1, 2010. The new accounting method recognizes breakage as a component of the weighted average redemption rate on actual redemptions as compared to the Company's prior method which recognized a pool of breakage dollars over an estimated redemption period. The Company believes that this is a preferable change to the accounting methodology for breakage because breakage will be recognized as a component of the rate at which actual miles are redeemed.

The Company estimates these changes increased passenger revenue by approximately \$75 million, or \$0.45 per basic share, in the three months ended June 30, 2010, and approximately \$140 million, or \$0.83 per basic share, in the six months ended June 30, 2010. The related diluted per share impacts were \$0.32 per share for the three months ended June 30, 2010, and \$0.67 per share for the six months ended June 30, 2010. The Company expects similar amounts will be recognized in the last six months of 2010.

**(4) Company Operational Plans**

During 2009, the Company reduced the size of its workforce and completed the removal of 100 aircraft from its Mainline fleet. One of the six B747 aircraft, which was removed from service in 2009, was brought back into service in 2010 to increase the number of spare widebody aircraft. The table below summarizes the accrued liabilities related to these operational plans.

(In millions)	Severance		Leased Aircraft	
	2010	2009	2010	2009
Balance at January 1	\$ 45	\$ 81	\$ 83	\$ 16
Payments	(22)	(29)	(24)	(7)
Accruals		1		19
Balance at June 30	\$ 23	\$ 53	\$ 59	\$ 28

The total expected future payments for leased aircraft that were removed from service are \$64 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 remaining severance obligations are expected to be paid through the first quarter of 2012.

**(5) Per Share Amounts (UAL Only)**

UAL basic per share amounts were computed by dividing income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding. UAL diluted per share amounts were computed by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding plus potentially dilutive common shares outstanding during the period. 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. UAL's 6% Senior Notes due 2031 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 included in the diluted earnings per share calculation as it is UAL's intent to redeem these notes with cash.

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(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Basic earnings per share:</b>				
Earnings (loss) available to common stockholders	\$ 273	28	\$ 191	\$ (354)
Basic weighted average shares outstanding	168.0	145.1	167.7	144.9
Earnings (loss) per share, basic	\$ 1.62	\$ 0.19	\$ 1.14	\$ (2.44)
<b>Diluted earnings (loss) per share:</b>				
Earnings (loss) available to common stockholders	\$ 273	\$ 28	\$ 191	\$ (354)
Effect of 4.5% Senior Limited-Subordination Convertible Notes due 2021	21			
Effect of 5% Senior Convertible Notes due 2021	4			
Effect of 6% Senior Convertible Notes due 2029	5		10	
Earnings (loss) available to common stockholders including the effect of dilutive securities	\$ 303	\$ 28	\$ 201	\$ (354)
<b>Diluted Shares Outstanding</b>				
Basic weighted average shares outstanding	168.0	145.1	167.7	144.9
Restricted shares and units and stock options	1.7		1.6	
4.5% Senior Limited-Subordination Convertible Notes due 2021	22.2			
5% Senior Convertible Notes due 2021	3.4			
6% Senior Convertible Notes due 2029	39.7		39.7	
Diluted weighted average shares outstanding	235.0	145.1	209.0	144.9
Earnings (loss) per share, diluted	\$ 1.29	\$ 0.19	\$ 0.96	\$ (2.44)
<b>Potentially dilutive shares excluded from diluted per share amounts:</b>				
Restricted shares and units and stock options	5.4	6.7	5.5	7.6
4.5% Senior Limited-Subordination Convertible Notes due 2021		22.2	22.2	22.2
5% Senior Convertible Notes due 2021		3.4	3.4	3.4

**(6) Share-Based Compensation**

On April 1, 2010, the Company made a general grant of 1,274,700 restricted stock units to certain of its management employees pursuant to the UAL 2008 Incentive Compensation Plan (the "ICP"). 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 awards may be settled in cash or common shares at the discretion of the Human Resources Subcommittee of the UAL Board of Directors (the "Board of Directors"). The Company's intent is to settle the restricted stock units granted on April 1, 2010 in shares.

Pursuant to its authority under the ICP, the UAL Board of Directors made a determination that the proposed merger transaction between UAL and Continental should be considered a "change of control" for purposes of outstanding awards under the ICP. Accordingly, except as described below, upon the completion of the proposed merger, all outstanding equity-based awards granted under the ICP will immediately vest and all outstanding long-term cash incentive awards will be deemed to have been achieved at target and will be paid on a pro rata basis. In addition, the Human Resources Subcommittee amended the terms of outstanding equity-based awards granted under the 2006 Management Equity Incentive Plan to provide that, except as described below, such awards will immediately vest upon completion of the merger. As described in the Company's Form 8-K filed with the SEC on May 4, 2010, Glenn Tilton, UAL's chairman, president and chief executive officer, and the Company's other officers have agreed to waive their rights to accelerated vesting of equity-based awards upon completion of the merger. In addition, the Company's officers (other than Mr. Tilton) have agreed to waive their rights to accelerated vesting and payout of long-term cash incentive awards upon completion of the proposed merger.

**(7) Income Taxes**

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In the 2010 and 2009 periods, the Company had an insignificant effective tax rate and a 10.6% effective tax rate, respectively, as compared to the U.S. federal statutory rate of 35%, principally because of offsets from valuation allowance adjustments. The tax benefit in 2009 was primarily due to impairment of indefinite lived intangible assets. As of June 30, 2010 and December 31, 2009, UAL had a valuation allowance of \$2,905 million and \$3,060 million, respectively. As of June 30, 2010 and December 31, 2009, United had a valuation allowance of \$2,816 million and \$2,977 million, respectively. In addition to the reduction in valuation allowance of \$78 million resulting from net operating loss ( NOL ) utilization offset of earnings, in 2010 the valuation allowance also decreased due to a decrease of \$133 million in the deferred tax asset related to postretirement benefits resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act ( HR 3590 ) and the Health Care Education and Affordability Reconciliation Act ( HR 4872 ) (collectively, the Acts ) and was partially offset by a \$56 million increase due to losses on components of other comprehensive income/loss.

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

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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, 2010 and December 31, 2009, 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.

The Company's ability to utilize its net operating loss ( NOL ) carryforward tax benefit may be impaired if the Company were to have a change of ownership within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended. To reduce the possibility of a potential adverse effect on the Company's ability to utilize its NOL carryforward for federal income tax purposes, the Company's restated certificate of incorporation contains a 5% ownership limitation ( 5% Ownership Limitation ) applicable to all stockholders except the Pension Benefit Guaranty Corporation ( PBGC ). The Board of Directors and the Company's stockholders have approved an amendment to the UAL restated certificate of incorporation to extend the effective period of the 5% Ownership Limitation through February 1, 2014 or until such later date as may be approved by the Board of Directors in its sole discretion. The 5% Ownership 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 Board of Directors.

**(8) Postretirement Plans**

The Company 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, as shown in the table 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 in the 2009 periods were 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 includes the following components:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Service cost	\$ 8	\$ 7	\$ 15	\$ 14
Interest cost	29	28	58	57
Expected return on plan assets	(1)		(1)	(1)
Gain due to curtailment		(1)		(7)
Amortization of unrecognized gain and prior service cost	(3)	(5)	(6)	(10)
Net periodic benefit costs	\$ 33	\$ 29	\$ 66	\$ 53

In March 2010, the President of the United States signed into law comprehensive health care reform legislation under the Acts. The Acts contain provisions which could impact the Company's accounting for retiree medical benefits in future periods. Other than the reduction of deferred tax assets for postretirement benefits, which was recorded in the first quarter of 2010, the extent of that impact, if any, cannot be determined until regulations are promulgated under the Acts and additional interpretations of the Acts become available. The Company will continue to assess the accounting implications of the Acts as related regulations and interpretations of the Acts become available. Based on the analysis to date of the provisions in the Acts, a re-measurement of the Company's retiree plan liabilities is not required at this time. In addition, the Company may consider plan amendments in future periods that may have accounting implications.

**(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, 2010 and 2009. The Company evaluates segment financial performance based on earnings before income taxes, impairments, merger-related costs, and special items.

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(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>UAL segment information</b>				
Revenue:				
Mainline	\$ 4,140	\$ 3,269	\$ 7,541	\$ 6,301
Regional Affiliates	1,021	749	1,861	1,408
<b>Total</b>	<b>\$ 5,161</b>	<b>\$ 4,018</b>	<b>\$ 9,402</b>	<b>\$ 7,709</b>
Segment earnings (loss):				
Mainline	\$ 267	\$ 62	\$ 179	\$ (218)
Regional Affiliates	110	41	135	29
Impairments, merger-related costs and special items (a)	(106)	(88)	(124)	(207)
Less: equity earnings (b)		(1)	(1)	(2)
<b>Consolidated earnings (loss) before income taxes and equity in earnings of affiliates</b>	<b>\$ 271</b>	<b>\$ 14</b>	<b>\$ 189</b>	<b>\$ (398)</b>
<b>United segment information</b>				
Revenue:				
Mainline	\$ 4,142	\$ 3,271	\$ 7,545	\$ 6,306
Regional Affiliates	1,021	749	1,861	1,408
<b>Total</b>	<b>\$ 5,163</b>	<b>\$ 4,020</b>	<b>\$ 9,406</b>	<b>\$ 7,714</b>
Segment earnings (loss):				
Mainline	\$ 275	\$ 65	\$ 195	\$ (214)
Regional Affiliates	110	41	135	29
Impairments, merger-related costs and special items (a)	(106)	(88)	(124)	(207)
Less: equity earnings (b)		(1)	(1)	(2)
<b>Consolidated earnings (loss) before income taxes and equity in earnings of affiliates</b>	<b>\$ 279</b>	<b>\$ 17</b>	<b>\$ 205</b>	<b>\$ (394)</b>

(a) Asset impairment, merger-related costs, 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, 2010, UAL's total comprehensive income was \$124 million and \$47 million, respectively. For the three and six months 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, 2010, United's total comprehensive income was \$131 million and \$63 million, respectively. For the three and six months periods ended June 30, 2009, United's total comprehensive income (loss) was \$29 million and \$(354) million, respectively. Comprehensive income (loss) in the 2010 and 2009 periods 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. Comprehensive income in the 2010 periods also includes the impact of fuel hedge gains/losses on derivative contracts designated as cash flow hedges. The Company did not apply cash flow hedge accounting to its fuel hedge instruments in 2009.

**(11) Fair Value Measurements**

**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

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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.

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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; and 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 tables below present disclosures about fair value measurements of financial assets and financial liabilities recognized in the Company's Financial Statements.

(In millions)	Total Fair Value Measurement	Quoted Prices in Active Markets		
		for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Fair Value Measurements at June 30, 2010</b>				
<b>Assets and Liabilities Measured at Fair Value on a Recurring Basis:</b>				
<b>Financial assets:</b>				
Money market funds	\$ 4,655	\$ 4,655	\$	\$
Noncurrent EETC available-for-sale securities	61			61
Current fuel derivative purchased call options	75		75	
Current fuel derivative swaps	6		6	
<b>Total financial assets</b>	<b>\$ 4,797</b>	<b>\$ 4,655</b>	<b>\$ 81</b>	<b>\$ 61</b>
<b>Financial liabilities:</b>				
Current fuel derivative instruments	\$ 64	\$	\$ 64	\$
<b>Total financial liabilities</b>	<b>\$ 64</b>	<b>\$</b>	<b>\$ 64</b>	<b>\$</b>
<b>Fair Value Measurements at December 31, 2009</b>				
<b>Financial assets:</b>				
Money market funds	\$ 3,061	\$ 3,061	\$	\$
Noncurrent EETC available-for-sale securities	51			51
Current fuel derivative purchased call options	94		94	
Current fuel derivative swaps	44		44	
<b>Total financial assets</b>	<b>\$ 3,250</b>	<b>\$ 3,061</b>	<b>\$ 138</b>	<b>\$ 51</b>
<b>Financial liabilities:</b>				
Current fuel derivative swaps	\$ 5	\$	\$ 5	\$
<b>Total financial liabilities</b>	<b>\$ 5</b>	<b>\$</b>	<b>\$ 5</b>	<b>\$</b>

**Level 3 Financial Assets and Liabilities**



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(In millions)	Available-for-Sale Securities		Available-for-Sale Securities	
	Three Months		Six Months Ended	
	Ended		June 30, 2010	
	June 30, 2010		June 30, 2010	
Balance at beginning of period	\$	58	\$	51
Unrealized gains relating to instruments held at reporting date		3		12
Return of principal				(2)
Balance at end of period	\$	61	\$	61

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As of June 30, 2010, the Company's EETC securities have an amortized cost basis of \$71 million and unrealized losses of \$10 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, 2010, 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, money market funds and investments presented in the table above have the same fair values as their carrying values. The table below presents the carrying values and estimated fair values of the Company's financial instruments not presented in the table above.

(In millions)	June 30, 2010	
	Carrying Amount	Fair Value
UAL long-term debt (including current portion) (a)	\$ 7,696	\$ 8,234
Lease deposits	285	291

(a) United's carrying value and fair value of long-term debt, which exclude the UAL 6% Senior Convertible Notes due 2029, are \$7,351 million and \$7,362 million, respectively.

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

Description	Fair Value Methodology
<i>Cash, Cash Equivalents, Restricted Cash, Accounts Receivable, Fuel Hedge Collateral Deposits, Accounts Payable and Other Accrued Liabilities</i>	Money market funds are classified within cash and cash equivalents. The carrying amounts approximate fair value because of the short-term maturity of these assets.
<i>Enhanced Equipment Trust Certificates</i>	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.
<i>Fuel Derivative Instruments</i>	Derivative contracts are privately negotiated contracts and are not exchange traded. Fair value measurements are estimated using 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.
<i>Long-Term Debt</i>	The fair value is based on the quoted market prices for the same or similar issues and discounted cash flow models using appropriate market rates. The Company's credit risk was considered in estimating fair value.
<b>Fair Value of Nonfinancial Assets</b>	

See Note 15, Asset Impairments, Merger-related Costs and Special Items, for information related to fair value measurements of nonfinancial assets performed during the 2010 and 2009 periods.

**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



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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, 2010, the Company had a net derivative asset of \$21 million with certain of its counterparties; therefore, this amount represents the potential credit-risk loss if all of these counterparties fail to perform. The Company had a net derivative payable of \$4 million with its remaining fuel counterparties at June 30, 2010.

Based on the fair value of the Company's fuel derivative instruments, our counterparties may require us 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 reviews the credit risk associated with its derivative counterparties and may require collateral based on contract terms from its counterparties in the event the Company has a significant net derivative asset with its counterparties. The Company routinely reviews the credit risk associated with its counterparties which may hold the Company's collateral to assess whether the collateral is fully recoverable from its counterparties. As described in the preceding paragraph the Company's net derivative position with each of its counterparties as of June 30, 2010, was not material; therefore, no material amounts of collateral were held by the Company or its counterparties as of June 30, 2010.

The Company considered its own credit risk and its counterparties' 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.

**(12) 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 were not accounted for as fair value or cash flow hedges under accounting principles related to hedge accounting prior to the second quarter of 2010. Effective April 1, 2010, the Company designated substantially all of its outstanding fuel derivative contracts, which settle in periods subsequent to June 30, 2010, as cash flow hedges under applicable accounting standards. In addition, substantially all new fuel derivative contracts entered into subsequent to April 1, 2010 were designated as cash flow hedges.

Accounting pronouncements pertaining to derivative instruments and hedging are complex with stringent requirements, including documentation of hedging strategy, statistical analysis to qualify a commodity for hedge accounting both on a historical and a prospective basis, and strict contemporaneous documentation that is required at the time each hedge is designated as a cash flow hedge. As required, the Company assesses the effectiveness of each of its individual hedges on a quarterly basis. The Company also examines the effectiveness of its entire hedging program on a quarterly basis utilizing statistical analysis. This analysis involves utilizing regression and other statistical analyses that compare changes in the price of jet fuel to changes in the prices of the commodities used for hedging purposes.

Upon proper qualification, the Company accounts for its fuel derivative instruments as cash flow hedges. All derivatives designated as hedges that meet certain requirements are granted special hedge accounting treatment. Generally, utilizing the special hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective, as defined, are recorded in Accumulated other comprehensive income (loss) (AOCI) until the underlying jet fuel is consumed and recorded in fuel expense. The Company is exposed to the risk that periodic changes will not be effective, as defined, or that the derivatives will no longer qualify for special hedge accounting. Ineffectiveness, as

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defined, results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company's expected future cash outlay to purchase and consume jet fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is recorded to Aircraft fuel in the income statement. Likewise, if a hedge ceases to qualify for hedge accounting, any change in the fair value of derivative instruments since the last period is recorded to Aircraft fuel in the income statement in the period of the change; however, any amounts previously recorded to AOCI would remain there until such time as the original forecasted transaction occurs, at which time these amounts would be reclassified to Aircraft fuel.

If the Company terminates a derivative prior to its contractual settlement date, then the cumulative gain or loss recognized in AOCI at the termination date remains in AOCI until the forecasted transaction occurs. In a situation where it becomes probable that a hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. The Company did not have any such situations since it began applying hedge accounting on April 1, 2010.

All cash flows associated with purchasing and selling derivatives are classified as operating cash flows in the Financial Statements.

The Company records each derivative instrument 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 fuel derivative assets and liabilities and the location of amounts recognized in the Company's Financial Statements. As of June 30, 2010, all of the Company's fuel derivatives were designated as cash flow hedges. As of December 31, 2009, none of the Company's fuel derivatives were designated as cash flow hedges.

(In millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	June 30, 2010	Balance Sheet Location	June 30, 2010
<b>Derivatives Designated as Cash Flow Hedges</b>				
Fuel contracts due within one year	Receivables	\$ 81	Other current liabilities	\$ 64
<b>Derivatives Not Designated as Cash Flow Hedges</b>				
Fuel contracts due within one year	Receivables	\$ 138	Other current liabilities	\$ 5

The following tables present the impact of fuel derivative instruments and their location within the Financial Statements for the three and six month periods ended June 30, 2010 and 2009. Hedge gains/losses were not allocated to Regional Affiliates expense for any periods presented.

(in millions)	Mainline Fuel		Nonoperating		Total	
	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
<b>Fuel derivatives not designated as cash flow or fair value hedges</b>						
Cash net gains (losses) on settled contracts	\$ (14)	\$ (157)	\$	\$ (95)	\$ (14)	\$ (252)
Non-cash net mark-to-market gains (losses)	(37)	305		135	(37)	440
Total fuel hedge gains (losses)	\$ (51)	\$ 148	\$	\$ 40	\$ (51)	\$ 188

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(in millions)	Mainline Fuel		Nonoperating		Total	
	Six Months Ended		Six Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,	
	2010	2009	2010	2009	2010	2009
Cash net gains (losses) on settled contracts	\$ (29)	\$ (399)	\$	\$ (176)	\$ (29)	\$ (575)
Non-cash net mark-to-market gains (losses)	(6)	496		207	(6)	703
<b>Total fuel hedge gains (losses)</b>	<b>\$ (35)</b>	<b>\$ 97</b>	<b>\$</b>	<b>\$ 31</b>	<b>\$ (35)</b>	<b>\$ 128</b>

(In millions)	Amount of (Gain) Loss Recognized in AOCI on		Amount of (Gain) Loss Recognized	
	Derivatives (effective portion)		in Income on Derivatives	
	Three and Six Months Ended		(ineffective portion)	
	June 30, (a)		Three and Six	
	2010	2009	2010	2009
<b>Fuel derivatives designated as cash flow or hedges</b>	\$ 146	\$	\$ 3	\$

(a) Any gain/loss upon settlement of instruments related to this AOCI will be reclassified into earnings within twelve months. The Company did not have any AOCI related to fuel hedges prior to the quarter ended June 30, 2010; therefore, no reclassifications from AOCI to earnings occurred during any of the periods presented.

As of June 30, 2010, for the last six months of 2010 and the year ended December 31, 2011, the Company had hedged approximately 72% and 14%, respectively, of its expected consolidated fuel consumption with a combination of swaps and purchased call options. The Company's hedge position at June 30, 2010, consisted of a notional amount of 14 million barrels with purchased call options at a weighted-average crude oil equivalent strike price of \$82 per barrel and 14 million barrels with swaps at a crude oil equivalent average price of \$81 per barrel. This derivative position hedges a portion of the Company's fuel consumption purchases through June 2011.

**(13) 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 tax/financing parties against tort liabilities that arise out of the use, occupancy, operation or maintenance of the leased premises or financed aircraft. Currently, the Company 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.** Approximately 82% of United's employees are represented by various U.S. labor organizations. In April 2009, United served Section 6 notices to all six of its labor unions to commence the collective bargaining process as all of United's domestic labor contracts became amendable during January 2010. United has filed for mediation assistance in conjunction with four of its six unions: the Air Line Pilots Association (ALPA), the Association of Flight Attendants-Communication Workers of America, the International Association of Machinists and Aerospace Workers and the Professional Airline Flight Control Association. These filings were consistent with commitments contained in current labor contracts which provided that the parties would jointly invoke the mediation services of the National Mediation Board in the event agreements had not been reached by August 1, 2009. While the labor contract with the International Brotherhood of Teamsters also contemplates filing for mediation, the parties have agreed to continue in direct negotiations. The current contract with the International Federation of Professional and Technical Engineers does not contemplate filing for mediation.

As a result of United's recent announcement regarding its proposed merger with Continental, ALPA has opted to suspend Section 6 negotiations and focus on joint negotiations with both United and Continental concurrently. United and Continental announced on July 20, 2010 that they have agreed in principle with ALPA on a Transition and Process Agreement which will provide a framework for conducting pilot operations of the two groups until the operating certificates of the two carriers are combined.

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The outcome of these labor negotiations may materially impact the Company's future financial results. However, the Company is unable at this time to assess the timing or magnitude of the impact, if any.

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**Legal and Environmental Contingencies.** 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.

The Company anticipates that if ultimately found liable, its damages from claims arising from the events of September 11, 2001, could be significant; however, the Company believes that, under the Air Transportation Safety and System Stabilization Act of 2001, its liability will be limited to its insurance coverage.

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 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 its consolidated financial position and results of operations.

**Contingent Senior Unsecured Notes.** UAL is obligated to issue up to \$500 million aggregate principal amount of 8% Contingent Senior Notes (the 8% Notes) to the PBGC in up to eight equal tranches of \$62.5 million upon the occurrence of certain financial triggering events (with one tranche issued as a result of each triggering event up to the eight total tranches). An issuance trigger event occurs when, among other things, the Company's earning before income taxes, depreciation, amortization and rent (EBITDAR) exceeds \$3.5 billion over the prior twelve months ending June 30 or December 31 of any applicable fiscal year, beginning with the fiscal year ending December 31, 2009 and ending with the fiscal year ended December 31, 2017. In certain circumstances, UAL common stock may be issued in lieu of issuance of the 8% Notes.

**Commitments.** During the first quarter of 2010, the Company executed definitive agreements to purchase 25 Boeing 787-8 Dreamliner aircraft and 25 Airbus A350 XWB aircraft, with future purchase rights for an additional 50 planes of each aircraft type, subject to availability of such aircraft at the time of exercise of the future purchase rights. The 25 Boeing 787-8 Dreamliner aircraft and 25 Airbus A350 XWB aircraft are expected to be delivered between 2016 and 2019. The Company has secured considerable backstop financing commitments from its aircraft and engine manufacturers, subject to certain customary conditions. The backstop financing commitments, as well as the Company's deferral and substitution rights for the aircraft, will allow the Company to manage changing market conditions throughout the aircraft delivery cycle. There is no guarantee that we will be able to obtain any or all of the backstop financing for the aircraft and engines when necessary.

As of June 30, 2010, the Company had commitments of \$7.8 billion that would require the payment of \$175 million in the last six months of 2010, \$210 million in 2011, \$70 million in 2012, \$65 million in 2013, \$90 million in 2014 and \$7.2 billion thereafter. These capital purchase commitments are primarily for the acquisition of the aforementioned aircraft, aircraft improvements, information technology assets and the relocation of the Company's operations center.



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During the six months ended June 2010, the Company entered into a facility lease, which begins July 1, 2011, at one of its hub locations. This lease extends the Company's existing lease by ten years. Future rents are dependent on airport operating costs. Based on current airport rates, the new lease will increase the Company's future operating lease payments by approximately \$34 million in 2011, \$68 million in each of 2012, 2013 and 2014, and \$442 million thereafter.

*Municipal Bond Guarantees.* The Company has guaranteed interest and principal payments on \$270 million of the Denver International Airport bonds, which are due in 2032 unless the Company elects not to extend its lease in which case the bonds are due in 2023. The bonds were issued in two tranches approximately \$170 million aggregate principal amount of 5.25% discount bonds and \$100 million aggregate principal amount of 5.75% premium bonds. The outstanding bonds and related guarantee are not recorded in the Company's Financial Statements at June 30, 2010 or December 31, 2009. The related lease expense is recorded on a straight-line basis resulting in ratable accrual of the final \$270 million lease obligation over the expected lease term through 2032.

*Other Contingencies.*

The Company is party to a multiyear services agreement, and has engaged in discussions with the counterparty to amend or restructure certain performance obligations. In the event that these discussions are not successful, the counterparty may assert claims for damages, and the Company could incur other cash and non-cash costs, which in the aggregate could exceed \$100 million. The ultimate outcome of these discussions and the exact amount of the damages and costs, if any, to the Company cannot be predicted with certainty at this time.

**(14) Debt Obligations and Other Financing Transactions**

As of June 30, 2010 and December 31, 2009, assets with a net carrying value of \$8.6 billion and \$8.0 billion, respectively, principally aircraft and related spare parts, route authorities and Mileage Plus intangible assets were pledged under various loan and other agreements.

As described in the Company's 2009 Annual Report UAL has \$150 million face value 5% Senior Convertible Notes due in 2021 that may be redeemed at the noteholders' option on February 1, 2011, and \$726 million face value 4.5% Senior Limited-Subordination Convertible Notes due 2021 that may be redeemed at the noteholders' option on June 30, 2011. As of June 30, 2010, UAL has included \$814 million, which is net of discount, within the current portion of long-term debt, because the noteholders have the option to put the debt to the Company within one year. If a noteholder exercises the option, UAL may elect to pay the repurchase price in cash, shares of its common stock or a combination thereof. These UAL instruments have been pushed down to United; therefore, the obligations are also reflected as a current obligation as of June 30, 2010, in United's Financial Statements.

*Credit Facilities*

The Company has a \$255 million revolving loan commitment available under its Amended and Restated Revolving Credit, Term Loan and Guaranty Agreement, dated as of February 2, 2007 (the "Amended Credit Facility"). The Company used \$253 million and \$254 million of the commitment capacity for letters of credit at June 30, 2010 and December 31, 2009, respectively. In addition, under a separate agreement, the Company had \$4 million and \$20 million of letters of credit issued as of June 30, 2010 and December 31, 2009, respectively. Through a separate arrangement, the Company has an additional \$150 million available under an unused credit facility.

*Financing Arrangements*

Below is a summary of financing transactions that occurred during the six months ended June 30, 2010. These transactions are more fully described in the Company's 2009 Annual Report.

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In January 2010, United issued the remaining \$612 million of equipment notes related to the Series 2009-1 EETCs of which \$568 million was used to complete the pre-payment of the remaining principal of the equipment notes issued in connection with the Series 2001-1 EETCs and the remaining proceeds of \$44 million, before expenses and accrued interest due on the equipment notes related to the Series 2001-1 EETCs, provided the Company with incremental liquidity. During 2010, the Company received cash proceeds of \$21 million, which was recorded as a nonoperating gain, from the distribution of the remaining Series 2001-1 EETC trust assets upon repayment of the note obligations.

In January 2010, United also issued the remaining \$696 million of equipment notes related to the Series 2009-2 EETCs of which \$493 million was used to pre-pay the remaining principal of the equipment notes issued in connection with the Series 2000-2 EETCs and the remaining proceeds of \$203 million, before expenses and accrued interest due on the equipment notes related to the Series 2000-2 EETCs, provided the Company with incremental liquidity.

The EETC repayments discussed above combined with the portion of the Series 2009-1 and 2009-2 issued in 2009, reduced scheduled debt principal payments in 2010 and 2011 by approximately \$440 million and \$275 million, respectively. The equipment notes related to the Series 2009-1 and 2009-2 EETCs are secured by aircraft and have stated interest rates ranging from 9.75% to 12.0%.

In January 2010, the Company also issued \$500 million aggregate principal amount of 9.875% Senior Secured Notes due 2013 and \$200 million aggregate principal amount of 12.0% Senior Second Lien Notes due 2013 (together, the Senior Notes). The Senior Notes are secured by United's route authority to operate between the United States and Japan and beyond Japan to points in other countries, certain airport takeoff and landing slots and airport gate leaseholds utilized in connection with these routes. During the six months ended June 30, 2010, the Company pledged certain aircraft, engines, flight simulators and certain domestic slots to secure its obligations under the Amended Credit Facility and to allow the release of the collateral securing the Company's obligations under the Senior Notes. During April 2010, the Company received \$728 million upon perfection of the collateral securing the Company's obligations under the Senior Notes and satisfaction of certain other customary conditions. These proceeds are net of \$28 million of issuance discount and fees and include the return of \$56 million that had been placed in escrow by the Company pending completion of the financing.

***Amended Credit Facility Covenants***

The Company's Amended Credit Facility requires compliance with certain covenants, including a fixed charge coverage ratio. The required fixed charge coverage ratio was 1.4 to 1.0 for the twelve month period ended June 30, 2010, which increases to 1.5 to 1.0 for all subsequent twelve month periods measured at the end of each calendar quarter. The Company was in compliance with this ratio and all of its Amended Credit Facility covenants as of June 30, 2010.

Although the Company was in compliance with all required financial covenants under the Amended Credit Facility as of June 30, 2010, continued compliance depends on many factors, some of which are beyond the Company's control, including the overall industry revenue environment and the level of fuel costs. There are no assurances that the Company will continue to comply with its debt covenants under the Amended Credit Facility. Failure to comply with applicable covenants in any reporting period would result in a default under the Amended Credit Facility, which could have a material adverse impact on the Company depending on the Company's ability to obtain a waiver of, or otherwise mitigate, the impact of the default.

Additional details on the Company's Amended Credit Facility covenants are available in the 2009 Annual Report.

***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 credit card processing agreements, the financial institutions either require, or 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).

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The Company's credit card processing agreement with Paymentech and JPMorgan Chase Bank, N.A. contains a cash reserve requirement. The amount of any such cash reserve will be determined based on the amount of unrestricted cash held by the Company as defined under the Amended Credit Facility. If the Company's unrestricted cash balance is at or more than \$2.5 billion as of any calendar month-end measurement date, its required reserve will remain at \$25 million. However, if the Company's unrestricted cash is less than \$2.5 billion, its required reserve will increase to a percentage of relevant advance ticket sales. Based on the Company's June 30, 2010 unrestricted cash balance, the Company was not required to provide cash collateral above the current \$25 million reserve balance.

Under the credit card processing agreement with American Express, the Company will be required to provide reserves based primarily on its unrestricted cash balance and net current exposure as of any calendar month-end measurement date. The agreement with American Express permits the Company to provide certain replacement collateral in lieu of cash collateral, as long as the Company's unrestricted cash is above \$1.35 billion. Based on the Company's unrestricted cash balance at June 30, 2010, the Company was not required to provide any reserves under this agreement.

Additional details on the Company's credit card processing agreements are available in the 2009 Annual Report.

**(15) Asset Impairments, Merger-related Costs and Special Items**

For the three and six month periods ended June 30, 2010 and 2009, asset impairment, merger-related costs and special items include the following:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Tradename impairments	\$	\$ 40	\$	\$ 150
Aircraft and aircraft-related impairments		73		90
Merger-related costs		28		28
LAX municipal bond litigation				27
Lease termination and other special items		5		21
			6	30
Total asset impairments, merger-related costs and special items	\$	106	\$	88
			\$	124
				\$ 207

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The Company's tradename and aircraft impairments in the table above were the result of fair value measurements. The table below provides additional information related to these fair value measurements during the six month 2010 and 2009 periods, including the classification of these measurements within a fair value hierarchy as described in Note 11, Fair Value Measurements above.

(In millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses) (Level 3)
Nonfinancial Assets Measured at Fair Value on a Nonrecurring Basis:		
<b>2010:</b>		
Nonoperating aircraft	\$ 180	\$ (73)
Aircraft-related assets	\$	\$ (17)
<b>2009:</b>		
Tradenames	\$ 420	\$ (150)

On a quarterly basis, the Company reviews the carrying values of its five nonoperating B747 aircraft and 32 nonoperating B737 aircraft, which are being marketed for sale, to assess whether the carrying values are recoverable. As a result of this assessment in the second quarter of 2010, the carrying values of these nonoperating aircraft were reduced to estimated fair values, resulting in the impairment noted in the table above. The decline in estimated fair value during the second quarter was due to the Company's observation of recent market transactions for similar aircraft. The Company primarily utilized a market approach to estimate the fair value of these aircraft; however, the market for aircraft is not active and the Company's estimates required the use of unobservable inputs such as adjustments for the maintenance condition of the aircraft. As a result, this fair value measure was considered a Level 3 measurement. In addition, during the first quarter of 2010, the Company estimated that certain of its aircraft-related assets were fully impaired, resulting in a charge of \$17 million.

The intangible asset impairments in the table above were due to interim impairment tests of the Company's tradenames performed in the first and second quarters of 2009. The Company performed interim impairment tests due to events and changes in circumstances during those periods that indicated an impairment might have occurred. The primary factor deemed by management to have constituted a potential impairment triggering event was a significant decline in unit revenues experienced in the 2009 periods. 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 observable and unobservable market data. This fair value measurement was considered a Level 3 measurement. The decrease in fair value of the tradenames was due to estimated lower revenues resulting from the weak economic environment and the Company's capacity reductions, among other factors.

The merger-related costs in the 2010 periods consist of third-party costs for legal, finance, advisory and other services associated with the Company's planned merger with Continental. These costs were incurred as part of the initial assessment of the merger and ongoing activities to complete the merger. The lease termination and other special items in 2009 periods were primarily due to charges to accrue future rent obligations associated with the removal from service of the Company's B737 aircraft. The LAX municipal bond litigation charge of \$27 million in the 2009 periods related to a pending legal matter that was unresolved upon the Company's emergence from bankruptcy in 2006.

Due to extreme fuel price volatility, the uncertain economic environment, including credit market conditions, as well as other uncertainties, the Company can provide no assurance that a material impairment of its tangible or intangible assets 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.

**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 United. 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 3,400 flights a day to more than 230 destinations through its Mainline and United Express services, based on its flight schedule from July 2010 to July 2011. United offers approximately 1,100 average daily Mainline departures to approximately 120 destinations in 31 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 approximately 2,300 average daily departures to more than 180 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 substantially all 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.

**Recent Developments.**

On May 2, 2010, UAL and Continental Airlines, Inc. (Continental) entered into an Agreement and Plan of Merger (the Merger Agreement) providing for a merger of equals business combination of UAL and Continental. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, a wholly-owned subsidiary of UAL will merge with and into Continental, with Continental surviving as a wholly-owned subsidiary of UAL. Upon completion of the merger, UAL will be the parent company of both Continental and United Air Lines, Inc. and UAL's name will be changed to United Continental Holdings, Inc. Subject to the terms and conditions of the Merger Agreement, which was approved by the boards of directors of UAL and Continental, if the merger is completed, each outstanding share of Continental common stock will be converted into the right to receive 1.05 shares of UAL common stock. See Note 2, Merger and Related Matters for additional information.

**Summary of Financial Results.** The air travel business is subject to seasonal fluctuations. 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. In addition, the Company's results of operations may be impacted by fuel price volatility, adverse weather, air traffic control delays, 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, 2010 as compared to the year-ago periods. See *Results of Operations*, below, for additional information regarding year-over-year changes in our financial results. Operating revenues improved in 2010 as compared to 2009 as the Company began to benefit from capacity reductions and improved economic conditions, which contributed to an increase in business travel, premium service demand and yields. In the six months ended June 30, 2010, consolidated yield increased 18% and consolidated traffic increased 3% despite a 1% decrease in capacity, as compared to the year-ago period. The revenue benefit was partially offset by increased consolidated fuel expense, which was primarily due to an increase in market prices for fuel in the 2010 periods and higher net hedge gains in the year-ago periods. In addition, other revenue-driven expenditures such as distribution costs increased, partially offsetting the revenue gains.

(In millions)	Three months ended June 30,				Six months ended June 30,			
	2010	2009	Favorable (unfavorable) \$ Change % Change		2010	2009	Favorable (unfavorable) \$ Change % Change	

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UAL Information								
Total revenues	\$ 5,161	\$ 4,018	\$ 1,143	28.4	\$ 9,402	\$ 7,709	\$ 1,693	22.0
Mainline fuel purchase cost	1,147	813	(334)	(41.1)	2,121	1,561	(560)	(35.9)
Operating non-cash fuel hedge (gains) losses	37	(305)	(342)		6	(496)	(502)	
Operating cash fuel hedge losses	14	157	143	91.1	29	399	370	92.7
Regional Affiliates fuel expense (a)	288	178	(110)	(61.8)	537	342	(195)	(57.0)
Asset impairment, merger-related costs and special charges (see below)	106	88	(18)	20.5	124	207	83	40.1
Severance and other charges (see below)	16	15	(1)	(6.7)	18		(18)	
Other operating expenses	3,119	2,965	(154)	(5.2)	6,064	5,871	(193)	(3.3)
Nonoperating non-cash fuel hedge gains		(135)	(135)	(100.0)		(207)	(207)	(100.0)
Nonoperating cash fuel hedge losses		95	95	100.0		176	176	100.0
Other nonoperating expense (b)	163	132	(31)	(23.5)	313	252	(61)	(24.2)
Income tax benefit	(2)	(13)	(11)	(84.6)	(1)	(42)	(41)	(97.6)
Net income (loss)	\$ 273	\$ 28	\$ 245	NM	\$ 191	\$ (354)	\$ 545	
United net income (loss)	\$ 281	\$ 31	\$ 250	NM	\$ 207	\$ (350)	\$ 557	

(a) Regional Affiliates fuel expense is classified as part of Regional Affiliates expense in the Company's Financial Statements.

(b) Includes equity in earnings of affiliates.

NM Not meaningful

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Details of significant items impacting the Company's results include:

(In millions)	Three Months Ended		Six Months Ended		Income statement classification
	June 30, 2010	2009	June 30, 2010	2009	
Intangible asset impairments	\$	\$ 40	\$	\$ 150	
Aircraft and aircraft-related impairments	73		90		
Merger-related costs	28		28		
LAX municipal bond litigation		27		27	
Lease termination and other special items	5	21	6	30	
<i>Total asset impairments, merger-related costs and special items</i>	106	88	124	207	Impairments, merger-related costs and special items
Severance	1	6	(1)	1	Salaries and related costs
Employee benefit obligation adjustment		(1)		(33)	Salaries and related costs
Loss on asset sales	10		10		Other operating expenses
Accelerated depreciation related to early asset retirement	5	10	9	32	Depreciation and amortization
<i>Severance and other charges</i>	16	15	18		
<i>Total asset impairments, merger-related costs, special items and other charges</i>	122	103	142	207	
Net operating non-cash fuel hedge (gains) losses	37	(305)	6	(496)	Aircraft fuel
Net nonoperating non-cash fuel hedge gains		(135)		(207)	Miscellaneous, net
<i>Total non-cash fuel hedge gains (losses)</i>	37	(440)	6	(703)	
Income tax benefit on impairments and other charges	(2)	(12)	(1)	(42)	Income tax benefit
<i>Total asset impairments, merger-related costs and other charges (net of tax) and non-cash fuel hedge gains/losses</i>	\$ 157	\$ (349)	\$ 147	\$ (538)	

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The table below shows Mainline fuel and non-fuel unit costs in the second quarter of 2010 as compared to the year-ago period. Fuel costs are mostly uncontrollable by the Company.

(In millions, except unit costs)	Three Months Ended June 30,		2010 expense per ASM (in cents)	2009 expense per ASM (in cents)	% change per ASM
	2010	2009			
Mainline ASMs	31,042	31,562			
Mainline fuel expense	\$ 1,198	\$ 665	3.86	2.11	82.9
Asset impairments, merger-related costs, special items and other charges (see above)	122	103	0.39	0.33	18.2
Other operating expenses	2,496	2,435	8.04	7.71	4.3
Total Mainline operating expense	3,816	3,203	12.29	10.15	21.1
Regional Affiliates expense	911	708			
Consolidated operating expense	\$ 4,727	\$ 3,911			

**Liquidity.** The following table provides a summary of UAL's cash flows from operating, financing and investing activities for the six months ended June 30, 2010 and 2009 and its total cash and restricted cash at June 30, 2010 and December 31, 2009.

(In millions)	Six Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	\$ 1,356	\$ 822
Net cash used by investing activities	(95)	(9)
Net cash provided (used) by financing activities	603	(286)
	<b>As of June 30, 2010</b>	<b>As of December 31, 2009</b>
Cash and cash equivalents	\$ 4,906	\$ 3,042
Restricted cash	250	341
Total cash	\$ 5,156	\$ 3,383

UAL cash from operations increased in the 2010 period as compared to the year-ago period primarily due to improved revenue performance. The revenue benefits were partially offset by increased cash operating expenditures such as distribution costs, which are largely revenue-driven, and fuel costs which increased due to increased market prices for fuel in 2010. The 2009 operating cash flows included the receipt of \$160 million related to the future relocation of the Company's Chicago O'Hare International Airport (O'Hare) cargo operations.

The Company expects its cash flows from operations and its unrestricted cash to be sufficient to meet its operating expenses, lease obligations and debt service requirements for the near term; however, the Company's future liquidity could be impacted by changes in fuel prices, fuel hedge collateral requirements, inability to adequately increase revenues to offset high fuel prices, declines in revenue from reduced demand, failure to meet future debt covenants and other factors. See *Liquidity and Capital Resources* and *Item 3. Quantitative and Qualitative Disclosures about Market Risk*, below, for a discussion of these factors and the Company's significant operating, investing and financing cash flows.

**Commitments.** During the first quarter of 2010, the Company executed definitive agreements to purchase 25 Boeing 787-8 Dreamliner aircraft and 25 Airbus A350 XWB aircraft, with future purchase rights for an additional 50 planes of each aircraft type, subject to availability of such aircraft at the time of exercise of the future purchase rights. The 25 Boeing 787-8 Dreamliner aircraft and 25 Airbus A350 XWB aircraft are



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expected to be delivered between 2016 and 2019. The Company has secured considerable backstop financing commitments from its aircraft and engine manufacturers, subject to certain customary conditions. The backstop financing commitments, as well as the Company's deferral and substitution rights for the new aircraft, will allow the Company to manage changing market conditions throughout the aircraft delivery cycle. There is no guarantee that we will be able to obtain any or all of the backstop financing for the aircraft and engines on acceptable terms when necessary.

As of June 30, 2010, the Company had commitments of \$7.8 billion that would require the payment of \$175 million in the last six months of 2010, \$210 million in 2011, \$70 million in 2012, \$65 million in 2013, \$90 million in 2014 and \$7.2 billion thereafter. These capital purchase commitments are primarily for the acquisition of the aforementioned aircraft, aircraft improvements, information technology assets and the relocation of the Company's operations center.

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During the six months ended June 2010, the Company entered into a facility lease, which begins July 1, 2011, at one of its hub locations. This lease extends the Company's existing lease by ten years. Future rents are dependent on airport operating costs. Based on current airport rates, the new lease will increase the Company's future operating lease payments by approximately \$34 million in 2011, \$68 million in each of 2012, 2013 and 2014, and \$442 million thereafter.

**Contingencies.** The following discussion provides an overview of the status of contingencies identified by the Company. For further details on these matters, see Note 13, Commitments, Contingent Liabilities and Uncertainties, in the Footnotes.

**Labor Negotiations.** Approximately 82% of United's employees are represented by various U.S. labor organizations. In April 2009, United served Section 6 notices to all six of its labor unions to commence the collective bargaining process as all of United's domestic labor contracts became amendable during January 2010. United has filed for mediation assistance in conjunction with four of its six unions: the Air Line Pilots Association (ALPA), the Association of Flight Attendants-Communication Workers of America, the International Association of Machinists and Aerospace Workers and the Professional Airline Flight Control Association. These filings were consistent with commitments contained in current labor contracts which provided that the parties would jointly invoke the mediation services of the National Mediation Board in the event agreements had not been reached by August 1, 2009. While the labor contract with the International Brotherhood of Teamsters also contemplates filing for mediation, the parties have agreed to continue in direct negotiations. The current contract with the International Federation of Professional and Technical Engineers does not contemplate filing for mediation.

As a result of United's recent announcement regarding its proposed merger with Continental, ALPA has opted to suspend Section 6 negotiations and focus on joint negotiations with both United and Continental concurrently. United and Continental announced on July 20, 2010 that they have agreed in principle with ALPA on a Transition and Process Agreement which will provide a framework for conducting pilot operations of the two groups until the operating certificates of the two carriers are combined.

The outcome of these labor negotiations may materially impact the Company's future financial results. However, the Company is unable at this time to assess the timing or magnitude of the impact, if any.

**Municipal Bond Obligations and Off-Balance Sheet Financing.** United has guaranteed \$270 million of the City and County of Denver, Colorado Special Facilities Airport Revenue Bonds (United Air Lines Project) Series 2007A. These bonds are callable by United. The outstanding bonds and related guarantee are not recorded in the Company's Financial Statements. However, the related lease agreement is accounted for on a straight-line basis resulting in a ratable accrual of the final \$270 million payment over the expected lease term through 2032.

### *Other Contingencies.*

The Company is party to a multiyear services agreement, and has engaged in discussions with the counterparty to amend or restructure certain performance obligations. In the event that these discussions are not successful, the counterparty may assert claims for damages, and the Company could incur other cash and non-cash costs, which in the aggregate could exceed \$100 million. The ultimate outcome of these discussions and the exact amount of the damages and costs, if any, to the Company cannot be predicted with certainty at this time.

**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.

The Company anticipates that if ultimately found liable, its damages from claims arising from the events of September 11, 2001, could be significant; however, the Company believes that, under the Air Transportation Safety and System Stabilization Act of 2001, its liability will be limited to its insurance coverage.

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 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 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

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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 its consolidated financial position and results of operations.

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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 United States ( U.S. ) and abroad, could adversely affect operations and increase operating costs in the airline industry. There are certain climate change laws and regulations that have already gone into effect and that apply to United, including the European Union ( EU ) emissions trading scheme (discussed below), environmental taxes for certain international flights (including the United Kingdom's Air Passenger Duty), limited greenhouse gas reporting requirements and land-based planning laws which could apply to airports and could affect airlines in certain circumstances. Other areas of developing regulations include the State of California rule-makings regarding air emissions from ground support equipment and a federal rule-making concerning the discharge of deicing fluid. An EU Directive required EU member countries to enact legislation that would include aviation within the EU's existing carbon emissions trading scheme, effective in 2012. The legality of applying such a scheme to non-EU airlines has been widely questioned. In December 2009, the Air Transportation Association, joined by United, Continental and American Airlines, filed a lawsuit in the United Kingdom challenging regulations that transpose into UK law the EU emissions trading scheme as applied to U.S. carriers. In addition, non-EU countries are considering filing a formal challenge before the United Nations International Civil Aviation Organization with respect to the EU's inclusion of non-EU carriers. It is not clear whether the emissions trading scheme will withstand such challenges. If the scheme is found to be valid, however, it could significantly increase the costs of carriers operating in the EU (by requiring the purchase of carbon credits), although the precise cost to United is difficult to calculate with any certainty due to a number of variables, and will depend, among other things, on United's carbon emissions from flights to and from the EU and the price of carbon credits. Regulatory actions may be taken in the future by the U.S. government, state governments within the U.S., foreign governments, the International Civil Aviation Organization or by signatory countries through a new global climate change treaty to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to United are difficult to predict, but the impact to the Company and the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, operational requirements (such as requiring increased fuel efficiency), or a requirement to purchase carbon credits.

## Results of Operations

United's operating revenues and operating expenses comprise substantially all of UAL's revenues and operating expenses. Therefore, the following discussion is applicable to both UAL and United, unless otherwise noted. There were no significant differences between UAL and United results in the 2010 or 2009 periods presented herein.

### *Second Quarter 2010 Compared to Second Quarter 2009*

As highlighted in the summary of financial results table in *Overview* above, UAL's net income of \$273 million for the three months ended June 30, 2010 was a significant improvement as compared to net income of \$28 million in the year-ago period. The most significant changes were higher revenues resulting from increases in both yields and traffic in the second quarter of 2010 due to an improvement in the global economy. The revenue benefit was partially offset by increased expenses in areas such as fuel, distribution costs and interest expense, as described below.

*Operating Revenues.* The table below illustrates the year-over-year change in UAL and United operating revenues.

(In millions)	Three Months Ended		\$	%
	June 30,			
	2010	2009	Change	Change
Passenger United Airlines	\$ 3,712	\$ 2,941	\$ 771	26.2
Passenger Regional Affiliates	1,021	749	272	36.3
Cargo	190	121	69	57.0
Other operating revenues	238	207	31	15.0
<b>UAL total</b>	<b>\$ 5,161</b>	<b>\$ 4,018</b>	<b>\$ 1,143</b>	<b>28.4</b>
United total	\$ 5,163	\$ 4,020	\$ 1,143	28.4

The table below presents selected UAL and United passenger revenues and operating data from our Mainline segment, broken out by geographic region and from our Regional Affiliates segment (United Express operations), expressed as second quarter period-to-period changes.

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	<b>Domestic</b>	<b>Pacific</b>	<b>Atlantic</b>	<b>Latin</b>	<b>Total Mainline</b>	<b>Regional Affiliates</b>	<b>Consolidated</b>
Increase (decrease) from 2009:							
Passenger revenues (in millions) (a)	\$ 276	\$ 271	\$ 178	\$ 46	\$ 771	\$ 272	\$ 1,043
Passenger revenues	15.4%	52.4%	31.7%	63.4%	26.2		