

UAL CORP /DE/  
Form 10-K/A  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K/A**

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2000

OR

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

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

Commission File No. 1-6033

UAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

36-2675207

(IRS Employer  
Identification No.)

Location: 1200 East Algonquin Road, Elk Grove Township, Illinois

60007

Mailing Address: P. O. Box 66919, Chicago, Illinois

60666

(Address of principal executive offices)

(Zip Code)

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Registrant's telephone number, including area code (847) 700-4000

Securities registered pursuant to Section 12(b) of the Act:

<u>TITLE OF EACH CLASS</u>	<u>NAME OF EACH EXCHANGE ON WHICH REGISTERED</u>
Common Stock, \$.01 par value	New York, Chicago and Pacific Stock Exchanges
Depository Shares each representing 1/1,000 of a share of Series B	
Preferred Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ X ]

The aggregate market value of voting stock held by non-affiliates of the Registrant was \$1,896,759,129 as of April 30, 2001. The number of shares of common stock outstanding as of April 30, 2001 was 53,118,369.

**Item 8 of this Form 10-K has been amended to retroactively restate basic earnings per share. Item 14 has been amended to replace Exhibit 10.6.**

**Item 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Stockholders and

Board of Directors, UAL Corporation:

We have audited the accompanying statements of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 2000 and 1999, and the related statements of consolidated operations, consolidated cash flows and consolidated stockholders' equity for each of the three years in the period ended December 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UAL Corporation and subsidiary companies as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1(i) of the Notes to Consolidated Financial Statements, effective January 1, 2000, the Company changed certain of its accounting principles for revenue recognition as a result of the adoption of Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements." Additionally, as explained in Note 1(b) of the Notes to Consolidated Financial Statements, the Company has given retroactive effect to the change in the computation of basic earnings per share as a result of the adoption of Emerging Issues Task Force Topic D-95.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule referenced in Item 14(a) 2 herein is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP Chicago, Illinois  
February 22, 2001 (except with respect to  
the matter discussed in Note 1(b), as to  
which the date is May 9, 2001)

UAL Corporation and Subsidiary Companies

Statements of Consolidated Operations

(In millions, except per share)

	<u>Year Ended December 31</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Operating revenues:			
Passenger	\$ 16,932	\$ 15,784	\$ 15,520
Cargo	931	906	913
Other operating revenues	<u>1,489</u>	<u>1,337</u>	<u>1,128</u>
	<u>19,352</u>	<u>18,027</u>	<u>17,561</u>
Operating expenses:			
Salaries and related costs	6,730	5,670	5,341
ESOP compensation expense	147	756	829
Aircraft fuel	2,511	1,776	1,788
Commissions	1,025	1,139	1,325
Purchased services	1,711	1,575	1,505
Aircraft rent	919	876	893
Landing fees and other rent	959	949	881
Depreciation and amortization	1,058	867	793
Cost of sales	1,038	602	474
Aircraft maintenance	698	689	624
Other operating expenses	<u>1,902</u>	<u>1,737</u>	<u>1,630</u>
	<u>18,698</u>	<u>16,636</u>	<u>16,083</u>
Earnings from operations	<u>654</u>	<u>1,391</u>	<u>1,478</u>
Other income (expense):			
Interest expense	(402)	(362)	(355)

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Interest capitalized	77	75	105
Interest income	101	68	59
Equity in earnings (losses) of affiliates	(12)	37	72
Gain on sale of investments	109	731	-
Investment impairment	(61)	-	-
Miscellaneous, net	<u>(35)</u>	<u>2</u>	<u>(103)</u>
	<u>(223)</u>	<u>551</u>	<u>(222)</u>
Earnings before income taxes, distributions on preferred securities, extraordinary item and cumulative effect	431	1,942	1,256
Provision for income taxes	<u>160</u>	<u>699</u>	<u>429</u>
Earnings before distributions on preferred securities, extraordinary item and cumulative effect	271	1,243	827
Distributions on preferred securities, net of tax	<u>(6)</u>	<u>(5)</u>	<u>(6)</u>
Earnings before extraordinary item and cumulative effect	265	1,238	821
Extraordinary loss on early extinguishment of debt, net of tax	(6)	(3)	-
Cumulative effect of accounting change, net of tax	<u>(209)</u>	=	=
Net earnings	\$ 50	\$ 1,235	\$ 821
	=====	=====	=====
Per share, basic (as restated, see Note 1(b)):			
Earnings before extraordinary item and cumulative effect	\$ 2.02	\$ 10.99	\$ 7.34
Extraordinary loss on early extinguishment of debt, net of tax	(0.05)	(0.03)	-
Cumulative effect of accounting change, net of tax	<u>(1.93)</u>	=	=
Net earnings	\$ 0.04	\$ 10.96	\$ 7.34
	=====	=====	=====
Per share, diluted:			
Earnings before extraordinary item and cumulative effect	\$ 1.89	\$ 9.97	\$ 6.83
Extraordinary loss on early extinguishment of debt, net of tax	(0.06)	(0.03)	-
Cumulative effect of accounting change, net of tax	<u>(1.79)</u>	=	=

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Net earnings	\$ 0.04	\$ 9.94	\$ 6.83
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

UAL Corporation and Subsidiary Companies

Statements of Consolidated Financial Position

(In Millions)

<u>Assets</u>	<u>December 31</u>	
	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents	\$ 1,679	\$ 310
Short-term investments	665	379
Receivables, less allowance for doubtful accounts (2000 - \$14; 1999 - \$13)	1,216	1,284
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2000 - \$55; 1999 - \$45)	424	340
Income tax receivables	110	32
Deferred income taxes	225	222
Prepaid expenses and other	<u>460</u>	<u>368</u>
	<u>4,779</u>	<u>2,935</u>
Operating property and equipment:		
Owned -		

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Flight equipment	14,888	13,518
Advances on flight equipment	810	809
Other property and equipment	<u>3,714</u>	<u>3,368</u>
	19,412	17,695
Less - Accumulated depreciation and amortization	<u>5,583</u>	<u>5,207</u>
	<u>13,829</u>	<u>12,488</u>
Capital leases -		
Flight equipment	3,055	2,929
Other property and equipment	<u>99</u>	<u>93</u>
	3,154	3,022
Less - Accumulated amortization	<u>640</u>	<u>645</u>
	<u>2,514</u>	<u>2,377</u>
	<u>16,343</u>	<u>14,865</u>
Other assets:		
Investments	435	750
Intangibles, less accumulated amortization		
(2000 - \$306; 1999 - \$279)	671	568
Aircraft lease deposits	710	594
Prepaid rent	567	585
Other	<u>850</u>	<u>666</u>
	<u>3,233</u>	<u>3,163</u>
	\$ 24,355	\$ 20,963
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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UAL Corporation and Subsidiary Companies

Statements of Consolidated Financial Position

(In millions, except share data)

	<u>December 31</u>	
<u>Liabilities and Stockholders' Equity</u>	<u>2000</u>	<u>1999</u>
Current liabilities:		
Notes payable	\$ -	\$ 61
Long-term debt maturing within one year	170	92
Current obligations under capital leases	269	190
Advance ticket sales	1,454	1,412
Accounts payable	1,188	967
Accrued salaries, wages and benefits	1,508	1,002
Accrued aircraft rent	840	783
Other accrued liabilities	<u>1,352</u>	<u>904</u>
	<u>6,781</u>	<u>5,411</u>
Long-term debt	<u>4,688</u>	<u>2,650</u>
Long-term obligations under capital leases	<u>2,261</u>	<u>2,337</u>
Other liabilities and deferred credits:		
Deferred pension liability	136	70
Postretirement benefit liability	1,557	1,489
Deferred gains	912	986
Accrued aircraft rent	408	390
Deferred income taxes	1,241	1,147
Other	<u>511</u>	<u>339</u>



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	<u>4,765</u>	<u>4,421</u>
Commitments and contingent liabilities (Note 18)		
Company-obligated mandatorily redeemable		
preferred securities of a subsidiary trust	<u>99</u>	<u>100</u>
Preferred stock committed to Supplemental ESOP	<u>571</u>	<u>893</u>
Stockholders' equity:		
Serial preferred stock (Note 12)	-	-
ESOP preferred stock (Note 13)	-	-
Common stock at par, \$0.01 par value; authorized 200,000,000		
shares; issued 68,834,167 shares at December 31, 2000 and		
65,771,802 shares at December 31, 1999	1	1
Additional capital invested	4,530	4,099
Retained earnings	1,998	2,138
Unearned ESOP preferred stock	-	(28)
Stock held in treasury, at cost -		
Preferred, 10,213,519 depositary shares at December 31,		
2000 and 1999 (Note 12)	(305)	(305)
Common, 16,295,475 shares at December 31, 2000 and		
14,995,219 shares at December 31, 1999	(1,179)	(1,097)
Accumulated other comprehensive income	152	352
Other	<u>(7)</u>	<u>(9)</u>
	<u>5,190</u>	<u>5,151</u>
	\$ 24,355	\$ 20,963
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

## UAL Corporation and Subsidiary Companies

Statements of Consolidated Cash Flows

(In Millions)

	<u>Year Ended December 31</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash and cash equivalents at beginning of year	<u>\$ 310</u>	<u>\$ 390</u>	<u>\$ 295</u>
Cash flows from operating activities:			
Net earnings	50	1,235	821
Adjustments to reconcile to net cash provided by operating activities -			
ESOP compensation expense	147	756	829
Cumulative effect of accounting change, net of tax	209	-	-
Extraordinary loss on debt extinguishment, net of tax	6	3	-
Gain on sale of investments	(109)	(731)	-
Investment impairment	61	-	-
Pension funding less than (greater than) expense	(21)	94	101
Deferred postretirement benefit expense	153	65	149
Depreciation and amortization	1,058	867	793
Provision for deferred income taxes	317	590	307
Undistributed (earnings) losses of affiliates	13	(20)	(62)
Decrease (increase) in receivables	68	(146)	(97)
Decrease (increase) in other current assets	(208)	2	105
Increase (decrease) in advance ticket sales	42	(17)	162
Increase (decrease) in accrued income taxes	(77)	(76)	38

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Increase (decrease) in accounts payable			
and accrued liabilities	761	(86)	69
Amortization of deferred gains	(66)	(66)	(64)
Other, net	<u>68</u>	<u>(49)</u>	<u>43</u>
	<u>2,472</u>	<u>2,421</u>	<u>3,194</u>
Cash flows from investing activities:			
Additions to property and equipment	(2,538)	(2,389)	(2,832)
Proceeds on disposition of property and equipment	324	154	452
Proceeds on sale of investments	147	828	-
Decrease (increase) in short-term investments	(286)	46	125
Other, net	<u>(168)</u>	<u>(263)</u>	<u>(63)</u>
	<u>(2,521)</u>	<u>(1,624)</u>	<u>(2,318)</u>
Cash flows from financing activities:			
Reacquisition of preferred stock	-	-	(3)
Repurchase of common stock	(81)	(261)	(459)
Proceeds from issuance of long-term debt	2,515	286	928
Repayment of long-term debt	(441)	(513)	(271)
Principal payments under capital leases	(283)	(248)	(322)
Purchase of equipment certificates under Company leases	(208)	(47)	(693)
Decrease in equipment certificates under Company leases	228	33	22
Increase (decrease) in short-term borrowings	(61)	(123)	184
Aircraft lease deposits	(138)	(20)	(154)
Cash dividends	(118)	(10)	(10)
Other, net	<u>5</u>	<u>26</u>	<u>(3)</u>
	<u>1,418</u>	<u>(877)</u>	<u>(781)</u>
Increase (decrease) in cash and cash equivalents during the year	<u>1,369</u>	<u>(80)</u>	<u>95</u>

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Cash and cash equivalents at end of year	\$ 1,679	\$ 310	\$ 390
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

UAL Corporation and Subsidiary Companies  
Statements of Consolidated Stockholders' Equity

(In millions, except per share)

	Preferred	Common	Additional Capital	Retained Earnings	Unearned	Accumulated		Total	
					Preferred	Treasury	Other		Other
	<u>Stock</u>	<u>Stock</u>	<u>Invested</u>	<u>Earnings</u>	<u>Stock</u>	<u>Stock</u>	<u>Income</u>	<u>Other</u>	<u>Total</u>
Balance at December 31, 1997	\$ -	\$ 1	\$ 2,876	\$ 309	\$ (177)	\$ (663)	\$ (2)	\$ (7)	\$ 2,337
Year ended December 31, 1998:									
Net earnings	-	-	-	821	-	-	-	-	821
Other comprehensive income, net:									
Unrealized gains on securities, net	-	-	-	-	-	-	1	-	1
Minimum pension liability adj.	-	-	-	=	-	-	(1)	-	(1)
Total comprehensive income	-	-	-	821	-	-	=	-	821
Cash dividends on preferred									
stock (\$1.44 per Series B share)	-	-	-	(10)	-	-	-	-	(10)
Common stock repurchases	-	-	-	-	-	(459)	-	-	(459)
Issuance and amortization of									
ESOP preferred stock	-	-	823	-	6	-	-	-	829
	-	-	42	(92)	50	-	-	-	-

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ESOP dividend (\$8.89 per share)

Preferred stock committed to

Supplemental ESOP	-	-	(177)	-	-	-	-	-	(177)
Other	=	=	<u>(47)</u>	=	=	<u>(18)</u>	=	<u>5</u>	<u>(60)</u>
Balance at December 31, 1998	=	<u>1</u>	<u>3,517</u>	<u>1,028</u>	<u>(121)</u>	<u>(1,140)</u>	<u>(2)</u>	<u>(2)</u>	<u>3,281</u>

Year ended December 31, 1999:

Net earnings	-	-	-	1,235	-	-	-	-	1,235
Other comprehensive income, net:									
Unrealized gains on securities, net	-	-	-	=	-	-	<u>354</u>	-	<u>354</u>
Total comprehensive income	-	-	-	<u>1,235</u>	-	-	<u>354</u>	-	<u>1,589</u>

Cash dividends on preferred

stock (\$1.44 per Series B share)	-	-	-	(10)	-	-	-	-	(10)
Common stock repurchases	-	-	-	-	-	(261)	-	-	(261)

Issuance and amortization of

ESOP preferred stock	-	-	740	-	16	-	-	-	756
ESOP dividend (\$8.89 per share)	-	-	38	(115)	77	-	-	-	-

Preferred stock committed to

Supplemental ESOP	-	-	(201)	-	-	-	-	-	(201)
Other	=	=	<u>5</u>	=	=	<u>(1)</u>	=	<u>(7)</u>	<u>(3)</u>
Balance at December 31, 1999	=	<u>1</u>	<u>4,099</u>	<u>2,138</u>	<u>(28)</u>	<u>(1,402)</u>	<u>352</u>	<u>(9)</u>	<u>5,151</u>

Year ended December 31, 2000:

Net earnings	-	-	-	50	-	-	-	-	50
Other comprehensive income, net:									
Unrealized losses on securities, net	-	-	-	-	-	-	(196)	-	(196)

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Minimum pension liability adj.	-	-	-	=	-	-	(4)	-	(4)
Total comprehensive income	-	-	-	50	-	-	(200)	-	(150)
Cash dividends on preferred									
stock (\$1.44 per Series B share)	-	-	-	(10)	-	-	-	-	(10)
Cash dividends on common									
stock (\$1.25 per share)	-	-	-	(144)	-	-	-	-	(144)
Common stock repurchases	-	-	-	-	-	(81)	-	-	(81)
Issuance and amortization of									
ESOP preferred stock	-	-	147	-	-	-	-	-	147
ESOP dividend (\$8.89 per share)	-	-	8	(36)	28	-	-	-	-
Preferred stock committed to									
Supplemental ESOP	-	-	322	-	-	-	-	-	322
Other	=	=	(46)	=	=	(1)	=	2	(45)
Balance at December 31, 2000	\$ -	\$ 1	\$ 4,530	\$ 1,998	\$ -	\$(1,484)	\$ 152	\$ (7)	\$ 5,190
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies**

**(a) Basis of Presentation** - UAL Corporation ("UAL") is a holding company whose principal subsidiary is United Air Lines, Inc. ("United"). The consolidated financial statements include the accounts of UAL and all of its majority-owned affiliates (collectively "the Company"). All significant intercompany transactions are eliminated. Certain prior-year financial statement items have been reclassified to conform to the current year's presentation.

**(b) Restatement of Basic Earnings Per Share** - On May 3, 2001, the Emerging Issues Task Force issued Topic D-95 regarding the impact of participating convertible securities on the computation of earnings per share pursuant to Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Topic D-95 states that participating securities that are convertible into common stock must be included in the computation of basic earnings per share if

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the effect is dilutive and also requires retroactive restatement of previously reported earnings per share. UAL's ESOP preferred stocks are convertible securities that participate in dividends on its common stock. The Company's policy is to use the "if-converted" method for calculating earnings per share unless the "two class" method is more dilutive. Accordingly, the computation of basic earnings per share has been restated for prior periods as follows (in millions, except per share):

		<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Weighted average shares (Basic)	As reported	51.3	52.3	56.5	58.8	56.1	49.6
	As restated	108.3	101.3	97.9	92.7	80.9	62.5
Earnings per share before							
cumulative effect and							
extraordinary item (Basic)	As reported	\$ 4.29	\$21.26	\$12.71	\$14.98	\$ 8.76	\$ 6.98
	As restated	\$ 2.02	\$10.99	\$ 7.34	\$ 9.50	\$ 6.08	\$ 5.52
Net earnings per share (Basic)	As reported	\$ 0.08	\$21.20	\$12.71	\$14.83	\$ 7.57	\$ 6.39
	As restated	\$ 0.04	\$10.96	\$ 7.34	\$ 9.41	\$ 5.26	\$ 5.05
			1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	
			<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	
2000:							
Weighted average shares (Basic)	As reported		50.5	50.5	51.6	52.3	
	As restated		106.6	108.2	51.6	52.3	
Earnings per share before							
cumulative effect and							
extraordinary item (Basic)	As reported		\$ 1.42	\$ 6.61	\$ (2.17)	\$ (1.40)	
	As restated		\$ 0.68	\$ 3.08	\$ (2.17)	\$ (1.40)	
Net earnings per share (Basic)	As reported		\$ (2.72)	\$ 6.61	\$ (2.30)	\$ (1.40)	

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	As restated	\$ (1.29)	\$ 3.08	\$ (2.30)	\$ (1.40)
1999:					
Weighted average shares (Basic)	As reported	51.3	52.2	53.1	52.7
	As restated	97.2	98.2	104.0	105.9
Earnings per share before					
extraordinary item (Basic)	As reported	\$ 0.91	\$12.26	\$ 6.18	\$ 1.85
	As restated	\$ 0.48	\$ 6.52	\$ 3.15	\$ 0.92
Net earnings per share (Basic)	As reported	\$ 0.91	\$12.21	\$ 6.18	\$ 1.85
	As restated	\$ 0.48	\$ 6.49	\$ 3.15	\$ 0.92

This change had no impact on the calculation of diluted earnings per share.

All basic earnings per share amounts are presented as restated in Note 1(i) "Summary of Significant Accounting Policies - Mileage Plus Awards," Note 5 "Per Share Amounts," Note 13 "ESOP Preferred Stock," Note 15 "Stock Options and Awards," and Note 21 "Selected Quarterly Financial Data (Unaudited)."

**(c) Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(d) Airline Revenues** - Passenger fares and cargo revenues are recorded as operating revenues when the transportation is furnished. The value of unused passenger tickets is included in current liabilities.

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

From time to time, United lends certain of its securities classified as cash and cash equivalents and short-term investments to third parties. United requires collateral in an amount exceeding the value of the securities and is obligated to reacquire the securities at the end of the contract. United accounts for these transactions as secured borrowings rather than sales and does not remove the securities from the balance sheet. At December 31, 2000, United was obligated to repurchase \$39 million of securities lent to third parties.



At December 31, 2000 and 1999, \$598 million and \$406 million, respectively, of investments in debt securities included in cash and cash equivalents and short-term investments were classified as available-for-sale, and \$1.7 billion and \$177 million, respectively, were classified as held-to-maturity. Investments in debt securities classified as available-for-sale are stated at fair value based on the quoted market prices for the securities, which does not differ significantly from their cost basis. Investments classified as held-to-maturity are stated at cost which approximates market due to their short-term maturities. The gains or losses from sales of available-for-sale securities are included in interest income for each respective year.

***(f) Derivative Financial Instruments -***

***Foreign Currency*** - From time to time, United enters into Japanese yen forward exchange contracts to minimize gains and losses on the revaluation of short-term yen-denominated liabilities. The yen forwards typically have short-term maturities and are marked to fair value at the end of each accounting period. The unrealized mark-to-market gains and losses on the yen forwards generally offset the losses and gains recorded on the yen liabilities.

United has also entered into forwards and swaps to reduce exposure to currency fluctuations on Japanese yen-, euro- and French franc-denominated capital lease obligations. The cash flows of the forwards and swaps mirror those of the capital leases. The premiums on the forwards and swaps, as measured at inception, are being amortized over their respective lives as components of interest expense. Any gains or losses realized upon early termination of these forwards and swaps are deferred and recognized in income over the remaining life of the underlying exposure.

The Company hedges some of the risks of exchange rate volatility on its anticipated future Japanese yen, euro, Australian dollar and British pound revenues by purchasing put options with little or no intrinsic value and on Hong Kong dollar revenues by entering into forward contracts. The amount and duration of these options are synchronized with the expected revenues, and thus, the put options have been designated as a hedge. The premiums on purchased option contracts are amortized over the lives of the contracts. Unrealized gains on purchased put option contracts are deferred until contract expiration and then recognized as a component of passenger revenue. To reduce hedging costs, the Company sells a correlation option in the first four currencies referred to above. The unrealized mark-to-market gains and losses on the correlation options are included in Miscellaneous, net, net of premiums received.

***Interest Rates*** - United may from time to time, enter into swaps to reduce exposure to interest rate fluctuations in connection with certain debt, capital leases and operating leases. The cash flows of the swaps mirror those of the underlying exposures. The premiums on the swaps, as measured at inception, are amortized over their respective lives as components of interest expense. Any gains or losses realized upon the early termination of these swaps are deferred and recognized in income over the remaining life of the underlying exposure.

***Aircraft Fuel*** - Under favorable market conditions, United uses purchased call options to hedge a portion of its price risk related to aircraft fuel purchases. The purchased call options have been designated as a hedge. Gains or losses on hedge positions, net of premiums paid, are recognized upon contract expiration as a component of aircraft fuel inventory. In addition, to a limited extent, United trades short-term heating oil futures contracts. Unrealized losses on these contracts are recorded currently in income while unrealized gains are deferred until contract expiration. Both gains and losses are recorded as a component of aircraft fuel expense.

***(g) Aircraft Fuel, Spare Parts and Supplies*** - Aircraft fuel and maintenance and operating supplies are stated at average cost. Flight equipment spare parts are stated at average cost less an obsolescence allowance.

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

Depreciation and amortization of owned depreciable assets is based on the straight-line method over their estimated service lives. Leasehold improvements are amortized over the remaining period of the lease or the estimated service life of the related asset, whichever is less. Aircraft are depreciated to estimated salvage values, generally over lives of 4 to 30 years; buildings are depreciated over lives of 25 to 45 years; and other property and equipment are depreciated over lives of 3 to 15 years.

Properties under capital leases are amortized on the straight-line method over the life of the lease, or in the case of certain aircraft, over their estimated service lives. Lease terms are 10 to 30 years for aircraft and flight simulators and 25 years for buildings. Amortization of capital leases is included in depreciation and amortization expense.

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

(i) **Mileage Plus Awards** - United accrues the estimated incremental cost of providing free travel awards earned under its Mileage Plus frequent flyer program when such award levels are reached. United, through its wholly owned subsidiary, Mileage Plus Holdings, Inc., sells mileage credits to participating partners in the Mileage Plus program.

Effective January 1, 2000, the Company changed its method of accounting for the sale of mileage to participating partners in its Mileage Plus program, in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." Under the new accounting method, a portion of revenue from the sale of mileage (previously recognized in other revenue) is deferred and recognized as passenger revenue when the transportation is provided. Accordingly, UAL has recorded a charge of \$209 million, net of tax, for the cumulative effect of a change in accounting principle to reflect the application of the accounting method to prior years. This change resulted in a reduction to revenues of approximately \$38 million for 2000 and would have reduced 1999 revenues by \$45 million.

The pro forma effect of the accounting change on net income and earnings per share as previously reported for 1999 and prior years is as follows:

		<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Earnings before extraordinary						
items (in millions)	As reported	\$ 1,238	\$ 821	\$ 958	\$ 600	\$ 378
	Pro forma	\$ 1,209	\$ 774	\$ 931	\$ 553	\$ 348
Earnings per share before						
extraordinary items						
Basic	As reported	\$ 10.99	\$ 7.34	\$ 9.50	\$ 6.08	\$ 5.52
	Pro forma	\$ 10.70	\$ 6.86	\$ 9.21	\$ 5.50	\$ 5.04
Diluted	As reported	\$ 9.97	\$ 6.83	\$ 9.04	\$ 5.85	\$ 5.23
	Pro forma	\$ 9.71	\$ 6.38	\$ 8.76	\$ 5.29	\$ 4.81

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Net earnings (in millions)	As reported	\$ 1,235	\$ 821	\$ 949	\$ 533	\$ 349
	Pro forma	\$ 1,206	\$ 774	\$ 922	\$ 486	\$ 319
Net earnings per share						
Basic	As reported	\$ 10.96	\$ 7.34	\$ 9.41	\$ 5.26	\$ 5.05
	Pro forma	\$ 10.67	\$ 6.86	\$ 9.12	\$ 4.67	\$ 4.58
Diluted	As reported	\$ 9.94	\$ 6.83	\$ 8.95	\$ 5.06	\$ 4.82
	Pro forma	\$ 9.68	\$ 6.38	\$ 8.67	\$ 4.50	\$ 4.40

**(j) Deferred Gains** - Gains on aircraft sale and leaseback transactions are deferred and amortized over the lives of the leases as a reduction of rental expense.

**(k) Advertising** - Advertising costs, which are included in other operating expenses, are expensed as incurred. Advertising expense was \$269 million, \$232 million and \$213 million for the years ended December 31, 2000, 1999 and 1998, respectively.

**(l) Intangibles** - Intangibles consist primarily of route acquisition costs and intangible pension assets (see Note 16 "Retirement and Postretirement Plans"). Route acquisition costs are amortized over 40 years. During 2001, the FASB issued an Exposure Draft "Business Combinations and Intangible Assets - Accounting for Goodwill" which could impact the Company's accounting for intangible assets. See *Other Information*, "New Accounting Pronouncements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **(2) Employee Stock Ownership Plans and Recapitalization**

On July 12, 1994, the stockholders of UAL approved a plan of recapitalization to provide an approximately 55% equity interest in UAL to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest was allocated to individual employees through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization.

The ESOPs cover employees represented by ALPA, the IAM and U.S. management and salaried employees. The ESOPs include a "Leveraged ESOP," a "Non-Leveraged ESOP" and a "Supplemental ESOP." Both the Leveraged ESOP and the Non-Leveraged ESOP are tax-qualified plans while the Supplemental ESOP is not a tax-qualified plan. Shares are delivered to employees primarily through the Leveraged ESOP, then through the Non-Leveraged ESOP, and finally, through the Supplemental ESOP.

The equity interests were delivered to employees through two classes of preferred stock (Class 1 and Class 2 ESOP Preferred Stock, collectively "ESOP Preferred Stock"), and the voting interests were delivered through three separate classes of preferred stocks (Class P, M and S Voting Preferred Stock, collectively, "Voting Preferred Stock"). The Class 1 ESOP Preferred Stock was delivered to an ESOP trust in seven separate sales under the Leveraged ESOP, the last of which occurred on January 5, 2000. Based on Internal Revenue Code Limitations, shares of the Class 2 ESOP Preferred Stock are either contributed to the Non-Leveraged ESOP or allocated as "book entry" shares to the Supplemental ESOP annually through the year 2000. The classes of preferred stock are described more fully in Note 13, "ESOP Preferred Stock."

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

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

During 2000, 2,390,931 shares of Class 1 ESOP Preferred Stock, 434,465 shares of Class 2 ESOP Preferred Stock and 2,819,479 shares of Voting Preferred Stock were allocated to employee accounts, and another 248,572 shares of Class 2 ESOP Preferred Stock were allocated in the form of "book entry" shares, effective December 31, 1999. Another 198,629 shares of Class 2 ESOP Preferred Stock previously allocated in book entry form were issued and either contributed to the qualified plan or converted and sold on behalf of terminating employees. At December 31, 2000, the year-end allocation of Class 1 ESOP Preferred Stock to employee accounts had not yet been completed; however, there were 669,820 shares of Class 1 ESOP Preferred Stock committed to be released. For the Class 2 ESOP Preferred Stock, 187,276 shares were committed to be contributed to employees at December 31, 2000. The fair value of the unearned ESOP shares recorded on the balance sheet at December 31, 1999 was \$41 million.

For the Class 2 ESOP Preferred Stock committed to be contributed to employees under the Supplemental ESOP, employees can elect to receive their "book entry" shares in cash upon termination of employment. The estimated fair value of such shares at December 31, 2000 and 1999 was \$304 million and \$954 million, respectively.

### **(3) Other Income (Expense) - Miscellaneous**

Included in Other income (expense) - "Miscellaneous, net" was \$(22) million, \$4 million and \$(84) million in foreign exchange gains (losses) in 2000, 1999 and 1998, respectively.

### **(4) Other Comprehensive Income**

The following table presents the tax effect of those items included in other comprehensive income:

(In Millions)	Year Ended December 31								
	2000			1999			1998		
	Tax	Net of		Tax	Net of		Tax	Net of	
	<u>Pre-Tax</u>	<u>Effect</u>	<u>Tax</u>	<u>Pre-Tax</u>	<u>Effect</u>	<u>Tax</u>	<u>Pre-Tax</u>	<u>Effect</u>	<u>Tax</u>

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Unrealized holding gains  
(losses)

arising during period	\$(297)	\$101	\$(196)	\$ 547	\$ (193)	\$ 354	\$ 1	\$ -	\$ 1
Minimum pension liability	<u>(6)</u>	<u>2</u>	<u>(4)</u>	=	=	=	<u>(1)</u>	=	<u>(1)</u>
Total other comprehensive income	\$(303)	\$103	\$(200)	\$ 547	\$ (193)	\$ 354	\$ -	\$ -	\$ -
	===	===	===	===	===	===	===	===	===

Unrealized gains (losses) on securities primarily represent gains (losses) on the Company's investments in Galileo and Equant as discussed in Note 6 "Investments."

**(5) Per Share Amounts**

Basic earnings per share were computed by dividing net income before extraordinary item and cumulative effect by the weighted-average number of shares of common stock outstanding during the year and potential participating ESOP preferred shares in periods where such shares are dilutive. In addition, diluted earnings per share amounts include potential common shares, including common shares issuable upon conversion of ESOP shares which do not participate in common dividends.

<u>Earnings Attributable to Common Stockholders (in millions)</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income before extraordinary item and cumulative effect	\$ 265	\$1,238	\$ 821
Preferred stock dividends	<u>(46)</u>	<u>(125)</u>	<u>(102)</u>
Earnings attributable to common stockholders (Basic and Diluted)	\$ 219	\$1,113	\$ 719
	=====	=====	=====
<u>Shares (in millions)</u>			
Weighted average shares outstanding	51.3	52.3	56.5
Participating convertible ESOP preferred stock	<u>57.0</u>	<u>49.0</u>	<u>41.4</u>
Weighted average number of shares (Basic)	108.3	101.3	97.9
Non-participating convertible ESOP preferred stock	7.5	9.0	5.7
Other	<u>0.7</u>	<u>1.3</u>	<u>1.6</u>
Weighted average number of shares (Diluted)	116.5	111.6	105.2
	=====	=====	=====
<u>Earnings Per Share (before cumulative effect and extraordinary item)</u>			
Basic	\$ 2.02	\$10.99	\$ 7.34

Diluted	\$ 1.89	\$ 9.97	\$ 6.83
---------	---------	---------	---------

At December 31, 2000, stock options to purchase 5,646,557 shares of common stock were outstanding, but were not included in the computation of diluted earnings per share, because the exercise price of these options was greater than the average market price of the common shares.

## **(6) Investments**

During 2000, UAL invested approximately \$24 million in Orbitz, an entity which is developing an Internet travel web site. UAL owns approximately 25% of Orbitz and accounts for this investment using the equity method of accounting.

During 1998 and 1999, United invested approximately \$51 million in GetThere.com (a leading provider of Internet-based travel planning products tailored to individual, corporate, travel supplier and travel agency customers) resulting in a 28% minority interest consisting of common stock, warrants and options. United accounted for its investment in GetThere.com using the equity method of accounting.

On October 6, 2000, Sabre Holdings Corporation acquired all of the outstanding common stock of GetThere.com for \$17.75 per share. Accordingly, after converting its options and warrants, United tendered all of its shares for net proceeds of \$147 million, resulting in a gain of approximately \$69 million, net of tax.

During 2000, United recorded an impairment loss of \$38 million, net of tax, related to its warrants held in Priceline.com.

In June 1999, United sold 17,500,000 common shares of Galileo in a secondary offering for \$766 million, resulting in a gain of approximately \$428 million, net of tax. This sale reduced United's holdings in Galileo from 32 percent to approximately 15 percent, requiring United to discontinue the equity method of accounting for its investment in Galileo. United has classified its remaining 15,940,000 shares of Galileo common stock as available-for-sale. The market value of these shares at December 31, 2000 (\$319 million) is reflected in investments on the balance sheet and the market value in excess of United's investment is classified net-of-tax (\$144 million) in accumulated other comprehensive income. The market value of United's investment in Galileo at December 31, 1999 was \$477 million. Included in the Company's retained earnings is approximately \$248 million of undistributed earnings of Galileo and its predecessor companies.

United owns 1,391,791 depository certificates in Equant, a provider of international data network services to multinational businesses and a single source for global desktop communications. Each depository certificate represents a beneficial interest in an Equant common share and the investment is classified as available-for-sale. The market value in excess of United's investment is classified net-of-tax (\$24 million) in accumulated other comprehensive income. In December 1999, United sold 709,000 shares of common stock in Equant in a secondary offering by Equant for \$62 million. At December 31, 2000 and 1999, the estimated fair value of United's remaining investment in Equant was approximately \$36 million and \$156 million, respectively.

## **(7) Income Taxes**

In 2000, UAL incurred both a regular and an alternative minimum tax ("AMT") loss. The carryback of the regular tax loss to 1999 and 1998 and the carryback loss of the AMT loss to 1998 will produce both federal and state refunds and generate additional AMT credits. The primary differences between UAL's regular tax loss and AMT loss are the depreciation adjustments and preferences.

The provision for income taxes is summarized as follows:

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<u>(In Millions)</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current -			
Federal	\$ (133)	\$ 93	\$ 113
State	<u>(24)</u>	<u>16</u>	<u>9</u>
	<u>(157)</u>	<u>109</u>	<u>122</u>
Deferred -			
Federal	278	536	270
State	<u>39</u>	<u>54</u>	<u>37</u>
	<u>317</u>	<u>590</u>	<u>307</u>
	\$ 160	\$ 699	\$ 429
	=====	=====	=====

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

<u>(In Millions)</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Income tax provision at statutory rate	\$ 151	\$ 680	\$ 440
State income taxes, net of federal income tax benefit	10	46	30
ESOP dividends	(32)	(40)	(33)
Nondeductible employee meals	24	24	24
Tax credits	-	-	(7)
Other, net	<u>7</u>	<u>(11)</u>	<u>(25)</u>
	\$ 160	\$ 699	\$ 429
	=====	=====	=====

Temporary differences and carryforwards that give rise to a significant portion of deferred tax assets and liabilities for 2000 and 1999 are as follows:

<u>(In Millions)</u>	<u>2000</u>	<u>1999</u>
	Deferred Tax	Deferred Tax
	Deferred Tax	Deferred Tax

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	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Employee benefits, including				
postretirement medical and ESOP	\$ 1,076	\$ 214	\$ 990	\$ 135
Depreciation, capitalized interest				
and transfers of tax benefits	-	3,009	-	2,489
Gains on sale and leasebacks	307	-	335	-
Rent expense	461	-	435	-
AMT credit carryforwards	371	-	210	-
Other	<u>1,012</u>	<u>1,020</u>	<u>758</u>	<u>1,029</u>
	\$3,227	\$ 4,243	\$ 2,728	\$ 3,653
	=====	=====	=====	=====

At December 31, 2000, UAL and its subsidiaries had \$371 million of federal AMT credits and \$43 million of federal and state net operating losses which may be carried forward to reduce the tax liabilities of future years.

**(8) Short-Term Borrowings**

United has an agreement with a syndicate of banks for a \$750 million revolving credit facility expiring in 2002. Interest on drawn amounts under the facility is calculated at floating rates based on the London interbank offered rate ("LIBOR") plus a margin which is subject to adjustment based on certain changes in the credit ratings of United's long-term senior unsecured debt. Among other restrictions, the credit facility contains a covenant that restricts United's ability to grant liens on or otherwise encumber certain identified assets with a market value of approximately \$1.1 billion.

Additionally, United has available \$900 million in short-term secured aircraft financing facilities. Interest on drawn amounts under the facilities is calculated at floating rates based on LIBOR plus a margin.

At December 31, 1999, United had outstanding \$61 million under a separate short-term borrowing facility, bearing an average interest rate of 5.72%. Receivables amounting to \$233 million were pledged by United to secure repayment of such outstanding borrowings. The maximum available borrowing amount under this arrangement is \$227 million. There were no borrowings outstanding under this arrangement at December 31, 2000.

**(9) Long-Term Debt**

A summary of long-term debt, including current maturities, as of December 31 is as follows (interest rates are as of December 31, 2000):

<u>(In Millions)</u>	<u>2000</u>	<u>1999</u>
Secured notes, 5.97% to 8.99%, averaging		



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7.33%, due through 2014	\$ 3,417	\$ 1,229
Debtures, 9.00% to 11.21%, averaging		
9.89%, due through 2021	646	762
Promissory notes, 11.00%, due 2000	-	1
Commercial paper, 6.71%, due through 2003	549	571
Special facility bonds, 5.63% to 6.25%, averaging 5.71%, due through 2034	<u>255</u>	<u>190</u>
	<u>4,867</u>	<u>2,753</u>
Less: Unamortized discount on debt	(9)	(11)
Current maturities	<u>(170)</u>	<u>(92)</u>
	\$ 4,688	\$ 2,650
	=====	=====

See Item 7a "Quantitative and Qualitative Disclosures About Market Risk" for disclosures regarding the fair values of debt.

In addition to scheduled principal payments, in 2000 and 1999 the Company repaid \$116 million and \$23 million, respectively, in principal amount of debentures prior to maturity. The debentures were scheduled to mature at various times through 2021. Extraordinary losses of \$6 million and \$3 million, respectively, net of tax benefits of \$4 million and \$2 million, respectively, was recorded reflecting amounts paid in excess of the debt carrying value.

The Company, through a special-purpose financing entity that is consolidated, has issued commercial paper to refinance certain lease commitments. Although the issued commercial paper has short maturities, the Company expects to continually rollover this obligation throughout the 5-year life of its supporting liquidity facility or bank standby facility. As such, the commercial paper is classified as a long-term obligation in the Company's statement of financial position.

In July 2000, the Company issued \$921 billion in enhanced equipment trust certificates to refinance certain owned aircraft and aircraft under operating leases. Net proceeds after refinancing the operating leases was \$622 million. In December 2000, the Company issued an additional \$1.5 billion in enhanced equipment trust certificates to refinance certain owned aircraft.

At December 31, 2000, United had recorded \$255 million in special facilities revenue bonds to finance the acquisition and construction of certain facilities at Los Angeles, San Francisco and Miami. United guarantees the payment of these bonds under various payment and loan agreements. The bond proceeds are restricted to expenditures on the facilities and unspent amounts are classified as other assets in the balance sheet.

In February 2001, United recorded an additional \$200 million in special facility bonds to finance the acquisition and construction of certain facilities at Chicago.

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At December 31, 2000, United had outstanding a total of \$1.4 billion of long-term debt bearing interest rates at 22.5 to 60.0 basis points over LIBOR.

Maturities of long-term debt for each of the four years after 2001 are: 2002 - \$655 million; 2003 - \$741 million; 2004 - \$350 million; and 2005 - \$264 million. Various assets, principally aircraft, having an aggregate book value of \$4.1 billion at December 31, 2000, were pledged as security under various loan agreements.

**(10) Lease Obligations**

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

Future minimum lease payments as of December 31, 2000, under capital leases (substantially all of which are for aircraft) and operating leases having initial or remaining noncancelable lease terms of more than one year are as follows:

<u>(In Millions)</u>	Operating Leases		Capital
	<u>Aircraft</u>	<u>Non-aircraft</u>	<u>Leases</u>
Payable during -			
2001	\$ 941	\$ 612	\$ 472
2002	922	574	415
2003	972	541	316
2004	1,008	514	325
2005	1,022	504	293
After 2005	<u>9,445</u>	<u>7,279</u>	<u>1,867</u>
Total minimum lease payments	\$14,310	\$10,024	3,688
Imputed interest (at rates of 5.3% to 12.2%)	=====	=====	<u>(1,158)</u>
Present value of minimum lease payments			2,530
Current portion			<u>(269)</u>
Long-term obligations under capital leases			\$ 2,261
			=====

As of December 31, 2000, United leased 315 aircraft, 82 of which were under capital leases. These leases have terms of 10 to 26 years, and expiration dates range from 2001 through 2020.

In connection with the financing of certain aircraft accounted for as capital leases, United had on deposit at December 31, 2000 an aggregate 40 billion yen (\$348 million), 661 million German marks (\$314 million), 67 million French francs (\$10 million), 28 million Euro (\$26 million) and \$12 million in certain banks and had pledged an

irrevocable security interest in such deposits to certain of the aircraft lessors. These deposits will be used to pay off an equivalent amount of recorded capital lease obligations.

Amounts charged to rent expense, net of minor amounts of sublease rentals, were \$1.5 billion in 2000, \$1.4 billion in 1999 and \$1.4 billion in 1998. Included in 2000 rental expense was \$21 million in contingent rentals, resulting from changes in interest rates for operating leases under which the rent payments are based on variable interest rates.

#### **(11) Company-Obligated Mandatorily Redeemable Preferred Securities of a Subsidiary Trust**

In December 1996, UAL Corporation Capital Trust I (the "Trust") issued \$75 million of its 13 1/4% Trust Originated Preferred Securities (the "Preferred Securities") in exchange for 2,999,304 depository shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock (see Note 12 "Serial Preferred Stock"). Concurrent with the issuance of the Preferred Securities and the related purchase by UAL of the Trust's common securities, the Company issued to the Trust \$77 million aggregate principal amount of its 13 1/4% Junior Subordinated Debentures (the "Debentures") due 2026. The Debentures are and will be the sole assets of the Trust. The interest and other payment dates on the Debentures correspond to the distribution and other payment dates on the Preferred Securities. Upon maturity or redemption of the Debentures, the Preferred Securities will be mandatorily redeemed. The Debentures are redeemable at UAL's option, in whole or in part, on or after July 12, 2004, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to the redemption date. Upon the repayment of the Debentures, the proceeds thereof will be applied to redeem the Preferred Securities.

There is a full and unconditional guarantee by UAL of the Trust's obligations under the securities issued by the Trust. However, the Company's obligations are subordinate and junior in right of payment to certain other of its indebtedness. UAL has the right to defer payments of interest on the Debentures by extending the interest payment period, at any time, for up to 20 consecutive quarters. If interest payments on the Debentures are so deferred, distributions on the Preferred Securities will also be deferred. During any deferral, distributions will continue to accrue with interest thereon. In addition, during any such deferral, UAL may not declare or pay any dividend or other distribution on, or redeem or purchase, any of its capital stock.

The fair value of the Preferred Securities at December 31, 2000 and 1999 was \$85 million and \$83 million, respectively.

#### **(12) Serial Preferred Stock**

At December 31, 2000, UAL had outstanding 3,203,177 depository shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock, with a liquidation preference of \$25 per depository share (\$25,000 per Series B preferred share) and a stated capital of \$0.01 per Series B preferred share. Under its terms, any portion of the Series B preferred stock or the depository shares is redeemable for cash after July 11, 2004, at UAL's option, at the equivalent of \$25 per depository share, plus accrued dividends. The Series B preferred stock is not convertible into any other securities, has no stated maturity and is not subject to mandatory redemption.

The Series B preferred stock ranks senior to all other preferred and common stock, except the Preferred Securities, as to receipt of dividends and amounts distributed upon liquidation. The Series B preferred stock has voting rights only to the extent required by law and with respect to charter amendments that adversely affect the preferred stock or the creation or issuance of any security ranking senior to the preferred stock. Additionally, if dividends are not paid for six cumulative quarters, the Series B preferred stockholders are entitled to elect two additional members to the UAL Board of Directors until all dividends are paid in full. Pursuant to UAL's restated certificate of incorporation, UAL is authorized to issue a total of 50,000 shares of Series B preferred stock.

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During 1998, UAL repurchased 64,300 depository shares, at an aggregate cost of \$3 million, to be held in treasury.

UAL is authorized to issue up to 15,986,584 additional shares of serial preferred stock.

**(13) ESOP Preferred Stock**

The following activity related to UAL's outstanding ESOP preferred stocks (see Note 2 for a description of the ESOPs):

	<u>Class 1 ESOP</u>	<u>Class 2 ESOP</u>	<u>ESOP Voting</u>
Balance December 31, 1997	<u>8,652,618</u>	<u>806,260</u>	<u>7,266,406</u>
Shares issued	2,011,812	177,166	3,073,969
Converted to common	<u>(213,061)</u>	<u>(116,104)</u>	<u>(331,620)</u>
Balance December 31, 1998	<u>10,451,369</u>	<u>867,322</u>	<u>10,008,755</u>
Shares issued	1,955,756	227,689	3,073,969
Converted to common	<u>(306,662)</u>	<u>(146,975)</u>	<u>(457,401)</u>
Balance December 31, 1999	<u>12,100,463</u>	<u>948,036</u>	<u>12,625,323</u>
Shares issued	539,177	855,998	3,073,968
Converted to common	<u>(420,958)</u>	<u>(283,428)</u>	<u>(710,056)</u>
Balance December 31, 2000	12,218,682	1,520,606	14,989,235
	=====	=====	=====

An aggregate of 17,675,345 shares of Class 1 and Class 2 ESOP Preferred Stock was issued to employees under the ESOPs. Each share of ESOP Preferred Stock is convertible into four shares of UAL common stock. Shares typically are converted to common as employees retire or otherwise leave the Company. The stock has a par value of \$0.01 per share and is nonvoting. The Class 1 ESOP Preferred Stock has a liquidation value of \$126.96 per share plus all accrued and unpaid dividends; the Class 2 does not have a liquidation value. The Class 1 ESOP Preferred Stock provided a fixed annual dividend of \$8.8872 per share, which ceased on March 31, 2000; the Class 2 does not pay a fixed dividend. In addition, the Class 1 and Class 2 ESOP Preferred Stocks that have been sold or contributed to the ESOP may participate in cash dividends paid on the common stock which are in excess of the fixed annual dividend (in the case of the Class 1 ESOP Preferred Stock).

Class P, M and S Voting Preferred Stocks were established to provide the voting power to the employee groups participating in the ESOPs. Additional Voting Preferred Stock was issued as shares of the Class 1 and Class 2 ESOP Preferred Stock were allocated to employees. In the aggregate, 17,675,345 shares of Voting Preferred Stock were issued through the year 2000. The Voting Preferred Stock outstanding at any time commands voting power for approximately 55% of the vote of all classes of capital stock in all matters requiring a stockholder vote, other than for the election of members of the Board of Directors. The Voting Preferred Stock has a par value and liquidation preference of \$0.01 per share. The stock is not entitled to receive any dividends and is convertible into .0004 shares of UAL common stock.

Class Pilot MEC, IAM, SAM and I junior preferred stock (collectively "Director Preferred Stocks") were established to effectuate the election of one or more members to UAL's Board of Directors. One share each of Class Pilot MEC and Class IAM junior preferred stock is authorized and issued. The Company is authorized to issue ten shares each of Class SAM and Class I junior preferred stock. There are three shares of Class SAM and four shares of Class I issued. Each of the Director Preferred Stocks has a par value and liquidation preference of \$0.01 per share. The stock is not entitled to receive any dividends and Class I will be redeemed automatically upon the transfer of the shares to any person not elected to the Board of Directors or upon the occurrence of the "Sunset." (See "Corporate Governance and the ESOPs" in Item 1. Business.)

**(14) Common Stockholders' Equity**

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Shares outstanding at beginning of year	50,776,583	51,804,653	57,320,486
Stock options exercised	187,400	939,262	382,136
Shares issued from treasury under			
compensation arrangements	32,458	89,745	11,944
Shares acquired for treasury	(1,326,877)	(3,877,912)	(7,237,975)
Forfeiture of restricted stock	(5,800)	(5,800)	(7,600)
Conversion of ESOP preferred stock	2,817,829	1,814,731	1,316,786
Other	<u>57,099</u>	<u>11,904</u>	<u>18,876</u>
Shares outstanding at end of year	52,538,692	50,776,583	51,804,653
	=====	=====	=====

During 2000, 1999 and 1998, the Company repurchased 1,258,263, 3,754,802 and 7,061,109 shares of common stock, respectively, at a total purchase price of \$81 million, \$261 million and \$459 million, respectively.

**(15) Stock Options and Awards**

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

As a result of the 1994 recapitalization, all outstanding options became fully vested at the time of the transaction and those options are exercisable for shares of old common stock, each of which is in turn converted into two shares of new common stock and \$84.81 in cash upon exercise. Subsequent to the recapitalization, the Company granted stock options which are exercisable for shares of new common stock.

The Company has also awarded shares of restricted stock to officers and key employees. These shares generally vest over a five-year period and are subject to certain transfer restrictions and forfeiture under certain circumstances prior to vesting. Unearned compensation, representing the fair market value of the stock at the measurement date for the award, is amortized to salaries and related costs over the vesting period. During 2000 and 1999, respectively, 23,000 and 75,000 shares of restricted stock were issued from treasury. No shares were issued in 1998. As of December 31, 2000, 98,000 shares were restricted and still nonvested. Additionally, 265,952 shares were reserved for future awards under the plan.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") establishes a fair value based method of accounting for stock options. The Company has elected to continue using the intrinsic value method of accounting prescribed in APB 25, as permitted by SFAS No. 123. Had compensation cost for awards been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have instead been reported as the pro forma amounts indicated below:

		<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income (in millions)	As reported	\$ 50	\$ 1,235	\$ 821
	Pro forma	\$ 33	\$ 1,219	\$ 812
Basic net earnings per share	As reported	\$ 0.04	\$ 10.96	\$ 7.34
	Pro forma	\$(0.11)	\$ 10.80	\$ 7.25
Diluted net earnings per share	As reported	\$ 0.04	\$ 9.94	\$ 6.83
	Pro forma	\$(0.10)	\$ 9.79	\$ 6.74

The weighted-average grant date fair value of restricted shares issued was \$51.83 for shares issued in 2000 and \$69.51 for shares issued in 1999. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Risk-free interest rate	6.4%	5.2%	5.6%
Dividend yield	2.4%	0.0%	0.0%
Volatility	35.0%	34.0%	33.0%
Expected life (years)	4.0	4.0	4.0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of

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highly subjective assumptions including expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

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

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	Wtd Avg		Wtd Avg		Wtd Avg	
	<u>Shares</u>	<u>Exer Price</u>	<u>Shares</u>	<u>Exer Price</u>	<u>Shares</u>	<u>Exer Price</u>
Old Share Options:						
Outstanding at beginning of year	76,350	\$ 116.74	118,475	\$ 121.64	168,393	\$ 121.65
Exercised	<u>(26,600)</u>	\$ 102.73	<u>(42,125)</u>	\$ 130.53	<u>(49,918)</u>	\$ 121.67
Outstanding at end of year	49,750	\$ 124.23	76,350	\$ 116.74	118,475	\$ 121.64
Options exercisable at year-end	49,750	\$ 124.23	76,350	\$ 116.74	118,475	\$ 121.64

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	Wtd Avg		Wtd Avg		Wtd Avg	
	<u>Shares</u>	<u>Exer Price</u>	<u>Shares</u>	<u>Exer Price</u>	<u>Shares</u>	<u>Exer Price</u>
New Share Options:						
Outstanding at beginning of year	6,513,709	\$ 53.27	5,411,836	\$ 45.07	4,749,612	\$ 36.27
Granted	1,447,600	\$ 53.24	2,081,600	\$ 64.29	1,064,200	\$ 81.40
Exercised	(134,200)	\$ 29.91	(855,012)	\$ 25.67	(282,300)	\$ 28.79
Terminated	<u>(261,912)</u>	\$ 67.50	<u>(124,715)</u>	\$ 70.74	<u>(119,676)</u>	\$ 57.12
Outstanding at end of year	7,565,197	\$ 53.19	6,513,709	\$ 53.27	5,411,836	\$ 45.07
Options exercisable at year-end	4,101,248	\$ 44.00	3,240,210	\$ 38.26	3,400,607	\$ 29.97
Reserved for future grants at year-end	280,331		1,466,019		3,422,904	





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Benefit obligation at beginning of year	\$ 7,381	\$ 8,038	\$ 1,465	\$ 1,626
Service cost	269	295	47	53
Interest cost	629	583	120	116
Plan participants' contributions	1	1	8	7
Amendments	260	1	3	-
Actuarial (gain) loss	1,162	(1,161)	164	(254)
Foreign currency exchange rate changes	(15)	12	-	-
Benefits paid	<u>(435)</u>	<u>(388)</u>	<u>(101)</u>	<u>(83)</u>
Benefit obligation at end of year	\$ 9,252	\$ 7,381	\$ 1,706	\$ 1,465
	=====	=====	=====	=====

Change in Plan Assets

	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Fair value of plan assets at beginning of year	\$ 8,701	\$ 7,654	\$ 113	\$ 112
Actual return on plan assets	21	1,255	8	6
Employer contributions	230	175	88	71
Plan participants' contributions	1	1	8	7
Foreign currency exchange rate changes	(7)	4	-	-
Benefits paid	<u>(435)</u>	<u>(388)</u>	<u>(101)</u>	<u>(83)</u>
Fair value of plan assets at end of year	\$ 8,511	\$ 8,701	\$ 116	\$ 113
	=====	=====	=====	=====
Funded status	\$ (741)	\$ 1,320	\$ (1,590)	\$ (1,352)
Unrecognized actuarial (gains) losses	14	(1,870)	(54)	(229)
Unrecognized prior service costs	<u>806</u>	<u>604</u>	<u>2</u>	=
Net amount recognized	\$ 79	\$ 54	\$ (1,642)	\$ (1,581)
	=====	=====	=====	=====

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Amounts recognized in the statement of

<u>financial position consist of:</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Prepaid (accrued) benefit cost	\$ 79	\$ 54	\$ (1,642)	\$ (1,581)
Accrued benefit liability	(266)	(151)	-	-
Intangible asset	255	148	-	-
Accumulated other comprehensive income	<u>11</u>	<u>3</u>	=	=
Net amount recognized	\$ 79	\$ 54	\$ (1,642)	\$ (1,581)
	=====	=====	=====	=====

<u>Weighted-average assumptions</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Discount rate	7.75%	8.25%	7.75%	8.25%
Expected return on plan assets	9.75%	9.75%	8.00%	8.00%
Rate of compensation increase	4.36%	4.10%	-	-

The assumed health care cost trend rates for gross claims paid were 4.5% and 4.0% for 2000 and 1999, respectively.

The net periodic benefit cost included the following components:

<u>(In Millions)</u>	<u>Pension Benefits</u>			<u>Other Benefits</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Service cost	\$ 269	\$ 295	\$ 276	\$ 47	\$ 53	\$ 48
Interest cost	629	583	533	120	116	109
Expected return on plan assets	(740)	(665)	(581)	(9)	(9)	(8)
Amortization of prior service cost						
including transition obligation/(asset)	58	57	57	-	-	-
Recognized actuarial (gain)/loss	<u>(7)</u>	<u>1</u>	<u>2</u>	<u>(9)</u>	<u>(5)</u>	<u>(4)</u>
Net period benefit costs	\$ 209	\$ 271	\$ 294	\$ 149	\$ 155	\$ 145

=====

Total pension expense for all retirement plans (including defined contribution plans) was \$302 million in 2000, \$285 million in 1999 and \$304 million in 1998.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the plans with accumulated benefit obligations in excess of plan assets were \$1.0 billion, \$632 million and \$61 million, respectively, as of December 31, 2000 and \$500 million and \$444 million and \$47 million, respectively, as of December 31, 1999.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care trend rate would have the following effects:

<u>(In Millions)</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service and interest cost	\$ 25	\$ (20)
Effect on postretirement benefit obligation	\$ 211	\$ (177)

Changes in interest rates or rates of inflation may impact the assumptions used in the valuation of pension obligations and postretirement obligations including discount rates and rates of increase in compensation, resulting in increases or decreases in United's pension and postretirement liabilities and pension and postretirement costs.

### **(17) Financial Instruments and Risk Management**

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk ("Item 7A") for a discussion of the Company's foreign currency and fuel price risk management activities, and the fair value of all significant financial instruments.

#### ***Credit Exposures of Derivatives***

The Company's theoretical risk in the derivative financial instruments described in Item 7A is the cost of replacing the contracts at current market rates in the event of default by any of the counterparties. However, the Company does not anticipate such default as counterparties are selected based on credit ratings and the relative market positions with each counterparty are monitored.

#### ***Financial Guarantees***

Special facility revenue bonds have been issued by certain municipalities to build or improve airport and maintenance facilities leased by United. Under the lease agreements, United is required to make rental payments in amounts sufficient to pay the maturing principal and interest payments on the bonds. At December 31, 2000, \$1.2 billion principal amount of such bonds was outstanding. As of December 31, 2000, UAL and United had jointly guaranteed \$35 million of such bonds and United had guaranteed \$1.2 billion of such bonds, including accrued interest. The payments required to satisfy these obligations are included in the future minimum lease payments disclosed in Note 10, "Lease Obligations."

#### ***Concentrations of Credit Risk***

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

**(18) Commitments, Contingent Liabilities and Uncertainties**

The Company has certain contingencies resulting from litigation and claims (including environmental issues) incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the views of legal counsel, the nature of contingencies to which the Company is subject and its prior experience, that the ultimate disposition of these contingencies is not expected to materially affect UAL's consolidated financial position or results of operations. UAL records liabilities for legal and environmental claims against it in accordance with generally accepted accounting principles. These amounts are recorded based on the Company's assessments of the likelihood of their eventual settlements. The amounts of these liabilities could increase or decrease in the near term, based on revisions to estimates relating to the various claims.

At December 31, 2000, commitments for the purchase of property and equipment, principally aircraft, approximated \$4.7 billion, after deducting advance payments. An estimated \$2.5 billion will be spent in 2001, \$1.7 billion in 2002 and \$0.5 in 2003. The major commitments are for the purchase of A319, A320, B767, and B777 aircraft, which are scheduled to be delivered through 2003. The above numbers include a recent conversion of 15 option aircraft to firm orders to be delivered in 2003.

In connection with the construction of the Indianapolis Maintenance Center, United agreed to spend an aggregate \$800 million on capital investments by the year 2001 and employ at least 7,500 individuals by the year 2004. In the event such targets are not reached, United may be required to make certain payments to the city of Indianapolis and state of Indiana.

Approximately 80% of United's employees are represented by various labor organizations. The labor contracts with the IAM became amendable in July 2000. The Company is currently in the process of negotiating these contracts. The contracts with ALPA and the AFA become amendable in 2004 and 2006, respectively. See *Other Information*, "Labor Agreements" in Management's Discussion and Analysis of Financial Condition and Results of Operations for details.

**(19) Segment Information**

United has a global route network designed to transport passengers and cargo between destinations in North America, the Pacific, the Atlantic and Latin America. These regions constitute United's four reportable segments. The accounting policies for each of these segments are the same as those described in Note 1, "Summary of Significant Accounting Policies," except that segment financial information has been prepared using a management approach which is consistent with how the Company's management internally disaggregates financial information for the purpose of making internal operating decisions. UAL evaluates performance based on United's earnings before income taxes and gains on sales. Revenues are attributed to each reportable segment based on the allocation guidelines provided by the U.S. Department of Transportation, which classifies flights between the U.S. and foreign designations as part of each respective region. A reconciliation of the total amounts reported by reportable segments to the applicable amounts in the financial statements follows:

<u>(In Millions)</u>		<u>Year Ended December 31, 2000</u>				
					Reportable	
North		Latin			Segment	Consolidated
<u>America</u>	<u>Pacific</u>	<u>Atlantic</u>	<u>America</u>	<u>Total</u>	<u>Other</u>	<u>Total</u>

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Revenue	\$ 13,094	\$ 3,161	\$ 2,260	\$ 816	\$ 19,331	\$ 21	\$ 19,352
Interest income	55	23	16	5	99	2	101
Interest expense	234	95	66	21	416	(14)	402
Equity in losses of affiliates	(5)	(2)	(1)	-	(8)	(4)	(12)
Depreciation and amortization	630	176	141	43	990	68	1,058
Earnings before income taxes, investment impairment and gains on sales	205	60	102	10	377	6	383

(In Millions)

Year Ended December 31, 1999

	Reportable						Consolidated
	North			Latin		Segment	
	<u>America</u>	<u>Pacific</u>	<u>Atlantic</u>	<u>America</u>	<u>Total</u>		
Revenue	\$ 12,516	\$ 2,691	\$ 1,973	\$ 787	\$ 17,967	\$ 60	\$ 18,027
Interest income	40	14	10	4	68	-	68
Interest expense	217	79	55	21	372	(10)	362
Equity in earnings of affiliates	21	9	5	2	37	-	37
Depreciation and amortization	550	145	115	42	852	15	867
Earnings before income taxes and gains on sales	889	81	164	20	1,154	57	1,211

(In Millions)

Year Ended December 31, 1998

	Reportable						Consolidated
	North			Latin		Segment	
	<u>America</u>	<u>Pacific</u>	<u>Atlantic</u>	<u>America</u>	<u>Total</u>		
Revenue	\$ 11,997	\$ 2,843	\$ 1,846	\$ 832	\$ 17,518	\$ 43	\$ 17,561
Interest income	33	14	8	3	58	1	59

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Interest expense	207	84	49	22	362	(7)	355
Equity in earnings of affiliates	41	17	10	4	72	-	72
Depreciation and amortization	520	145	95	45	805	(12)	793
Earnings (loss) before income taxes	1,118	(105)	185	22	1,220	36	1,256

<u>(In Millions)</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Total earnings for reportable segments	\$ 377	\$ 1,154	\$ 1,220
Gains on sales	109	731	-
Investment impairment	(61)	-	-
UAL subsidiary earnings	<u>6</u>	<u>57</u>	<u>36</u>
Total earnings before income taxes, distributions on preferred securities, extraordinary item and cumulative effect	\$ 431	\$ 1,942	\$ 1,256
	=====	=====	=====

UAL's operations involve an insignificant level of dedicated revenue producing assets by reportable segment. The overwhelming majority of UAL's revenue producing assets can be deployed in any of the four reportable segments. UAL has significant intangible assets related to the acquisition of its Atlantic and Latin America route authorities.

**(20) Statement of Consolidated Cash Flows - Supplemental Disclosures**

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

<u>(In Millions)</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 298	\$ 260	\$ 234
Income taxes	23	296	160
Non-cash transactions:			
Capital lease obligations incurred	339	482	701

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Long-term debt incurred in connection

with additions to equipment	32	-	-
Increase (decrease) in pension intangible assets	107	(123)	(15)
Net unrealized gain (loss) on investments	(196)	354	-

**(21) Selected Quarterly Financial Data (Unaudited)**

<u>(In Millions, except per share data)</u>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	
	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Year</u>
2000:					
Operating revenues	\$ 4,546	\$ 5,109	\$ 4,905	\$ 4,792	\$ 19,352
Earnings (loss) from operations	252	605	(41)	(162)	654
Earnings (loss) before extraordinary item					
and cumulative effect	110	336	(110)	(71)	265
Extraordinary loss on early					
extinguishment of debt, net	-	-	(6)	-	(6)
Cumulative effect of accounting change, net	(209)	-	-	-	(209)
Net earnings (loss)	\$ (99)	\$ 336	\$ (116)	\$ (71)	\$ 50
Per share amounts, basic:					
Earnings before extraordinary item					
and cumulative effect	\$ 0.68	\$ 3.08	\$ (2.17)	\$ (1.40)	\$ 2.02
Extraordinary loss on early					
extinguishment of debt, net	-	-	(0.13)	-	(0.05)
Cumulative effect of accounting change, net	(1.97)	-	-	-	(1.93)
Net earnings	\$ (1.29)	\$ 3.08	\$ (2.30)	\$ (1.40)	\$ 0.04
Net earnings per share, diluted	\$ (1.18)	\$ 2.86	\$ (2.30)	\$ (1.40)	\$ 0.04
1999:					
Operating revenues	\$ 4,160	\$ 4,541	\$ 4,845	\$ 4,481	\$ 18,027

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Earnings from operations	146	433	619	193	1,391
Earnings before extraordinary item	78	672	359	129	1,238
Extraordinary loss on early extinguishment of debt, net	-	(3)	-	-	(3)
Net earnings	\$ 78	\$ 669	\$ 359	\$ 129	\$ 1,235
Per share amounts, basic:					
Earnings before extraordinary item	\$ 0.48	\$ 6.52	\$ 3.15	\$ 0.92	\$ 10.99
Extraordinary loss on early extinguishment of debt, net	-	(0.03)	-	-	(0.03)
Net earnings	\$ 0.48	\$ 6.49	\$ 3.15	\$ 0.92	\$ 10.96
Net earnings per share, diluted	\$ 0.44	\$ 5.78	\$ 2.89	\$ 0.84	\$ 9.94

The sum of quarterly earnings per share amounts is not the same as annual earnings per share amounts.

During the third quarter of 2000, UAL recorded an investment impairment of \$61 million related to its warrants in Priceline.com. Additionally, in the fourth quarter 2000, UAL recognized a pre-tax gain of \$109 million on the sale of its investment in GefThere.com. (See Note 6 "Investments".)

During the second quarter of 1999, UAL recognized a pre-tax gain of \$669 million on the sale of a portion of its investment in Galileo. Additionally, in the fourth quarter 1999, UAL recognized a pre-tax gain of \$62 million on the sale of a portion of its investment in Equant. (See Note 6 "Investments".)

## **PART IV**

### **ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

(a) 1. **Financial Statements.** The financial statements required by this item are listed in Item 8, "Financial Statements and Supplementary Data" herein.

2. **Financial Statement Schedules.** The financial statement schedule required by this item is listed below and included in this report after the signature page hereto.

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2000, 1999 and 1998.



All other schedules are omitted because they are not applicable, not required or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits. The exhibits required by this item are listed in the Exhibit Index which immediately precedes the exhibits filed with this Form 10-K, and is incorporated herein by this reference. Each of Exhibits 10.32 through 10.39 listed in the Exhibit Index is a management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K. Exhibit 10.6 has been amended to show the correct version of the Second Amendment to the UAL Corporation Employee Stock Ownership Plan.

(b) Reports on Form 8-K.

Form 8-K dated October 19, 2000 to report a cautionary statement for purposes of the "Safe Harbor for Forward Looking Statements" provision of the Private Securities Litigation Reform Act.

Form 8-K dated November 6, 2000 to report a cautionary statement for purposes of the "Safe Harbor for Forward Looking Statements" provision of the Private Securities Litigation Reform Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

UAL CORPORATION

By: /s/ Douglas A. Hacker

Douglas A. Hacker

Executive Vice President and

Chief Financial Officer  
(principal financial and  
accounting officer)

Dated: May 9, 2001

**EXHIBIT INDEX**

- \*3.1 Restated Certificate of Incorporation of UAL Corporation ("UAL"), as amended (filed as Exhibit 3.1 to UAL's Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).
- \*3.2 By-laws (filed as Exhibit 3.2 to UAL's Form 10-Q for the quarter ended September 30, 1999 and incorporated herein by reference).
- \*4.1 Deposit Agreement dated as of July 12, 1994 between UAL Corporation and holders from time to time of Depository Receipts described herein.
- \*4.2 Indenture dated as of December 20, 1996 between UAL Corporation and The First National Bank of Chicago, as Trustee (filed as Exhibit 4.2 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*4.3 Officer's Certificate relating to UAL's 13-1/4% Junior Subordinated Debentures due 2026 (filed as Exhibit 4.3 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*4.4 Form of UAL's 13-1/4% Junior Subordinated Debenture due 2026 (filed as Exhibit 4.4 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*4.5 Guarantee Agreement dated as of December 30, 1996 with respect to the 13-1/4% Trust Originated Preferred Securities of UAL Corporation Capital Trust I (filed as Exhibit 4.5 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*4.6 Amended and Restated Declaration of Trust of UAL Corporation Capital Trust I dated as of December 30, 1996 (filed as Exhibit 4.6 to UAL's Form 10-K for year ended December 31, 1996 and incorporated herein by reference).

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UAL's indebtedness under any single instrument does not exceed 10% of UAL's total assets on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

\*10.1 Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994 (the "Recapitalization Agreement"), as amended, among UAL Corporation, the Air Line Pilots Association, International ("ALPA") and the International Association of Machinists and Aerospace Workers ("IAM").

\*10.2 Second Amendment to the Agreement and Plan of Recapitalization, dated as of June 2, 1994 among UAL, ALPA and the IAM.

\*10.3 Agreement, dated as of July 16, 1996, pursuant to Section 1.6q of the Recapitalization Agreement among UAL, ALPA and IAM (filed as Exhibit 10.3 to UAL's Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

\*10.4 UAL Corporation Employee Stock Ownership Plan, effective as of July 12, 1994.

\*10.5 First Amendment to UAL Corporation Employee Stock Ownership Plan, dated December 28, 1994.

10.6 Second Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of August 17, 1995.

\*10.7 Third Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of December 28, 1995 (filed as Exhibit 10.7 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

\*10.8 Fourth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of July 16, 1996 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

\*10.9 Fifth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of December 31, 1996 (filed as Exhibit 10.10 of UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

\*10.10 Sixth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of August 11, 1997 (filed as Exhibit 10.3 to UAL's Form 10-Q for the quarter ended September 30, 1997, as amended, and incorporated herein by reference).

\*10.11 Seventh Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of May 19, 1999 (filed as Exhibit 10.10 to UAL's Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

\*10.12 Eighth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of November 10, 1999 (filed as Exhibit 10.11 to UAL's Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

\*10.13 Ninth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of October 29, 1999 (filed as Exhibit 10.12 to UAL's Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

\*10.14 Tenth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of April 28, 2000 (filed as Exhibit 10.3 to UAL's Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).

\*10.15 Eleventh Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of December 29, 2000.

- \*10.16 UAL Corporation Employee Stock Ownership Plan Trust Agreement between UAL Corporation and State Street Bank and Trust Company ("State Street"), effective July 12, 1994.
- \*10.17 UAL Corporation Supplemental ESOP, effective as of July 12, 1994.
- \*10.18 First Amendment to UAL Corporation Supplemental ESOP, dated February 22, 1995.
- \*10.19 Second Amendment to UAL Corporation Supplemental ESOP, dated as of August 17, 1995.
- \*10.20 Third Amendment to UAL Corporation Supplemental ESOP, dated as of December 28, 1995.
- \*10.21 Fourth Amendment to UAL Corporation Supplemental ESOP, dated as of July 16, 1996 (filed as Exhibit 10.2 to UAL's Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).
- \*10.22 Fifth Amendment to UAL Corporation Supplemental ESOP, dated as of December 31, 1996 (filed as Exhibit 10.17 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*10.23 Sixth Amendment to UAL Corporation Supplemental ESOP, dated as of August 11, 1997 (filed as Exhibit 10.4 of UAL's Form 10-Q for the quarter ended September 30, 1997, as amended, and incorporated herein by reference).
- \*10.24 Seventh Amendment to UAL Corporation Supplemental ESOP, dated as of May 19, 1999 (filed as Exhibit 10.21 to UAL's Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- \*10.25 Eighth Amendment to UAL Corporation Supplemental ESOP, dated as of November 10, 1999 (filed as Exhibit 10.22 to UAL's Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- \*10.26 Ninth Amendment to UAL Corporation Supplemental ESOP, dated as of October 29, 1999 (filed as Exhibit 10.23 to UAL's Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- \*10.27 Eleventh Amendment to UAL Corporation Supplemental ESOP
- \*10.28 UAL Corporation Supplemental ESOP Trust Agreement between UAL Corporation and State Street, effective July 12, 1994.
- \*10.29 Class I Junior Preferred Stockholders' Agreement, dated as of June 12, 1994.
- \*10.30 Class SAM Preferred Stockholders' Agreement, dated as of July 12, 1994.
- \*10.31 First Refusal Agreement, dated as of July 12, 1994, as amended (filed as Exhibit 10.25 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- \*10.32 UAL Corporation 2000 Incentive Stock Plan (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).
- \*10.33 United Employees Performance Incentive Plan (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).
- \*10.34 UAL Corporation 1998 Restricted Stock Plan (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).

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- \*10.35 Summary Description of Compensation and Benefits for Directors (filed as Exhibit 10.34 to UAL's Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- \*10.36 UAL Corporation 1995 Directors Plan, as amended June 26, 1997 (filed as Exhibit 10.1 of UAL's Form 10-Q for the quarter ended September 30, 1997, as amended, and incorporated herein by reference).
- \*10.37 United Supplemental Retirement Plan (filed as Exhibit 10.35 of UAL's 10-K for the year ended December 31, 1998 and incorporated herein by reference).
- \*10.38 Description of Officer Benefits (filed as Exhibit 10.36 of UAL's 10-K for the year ended December 31, 1998 and incorporated herein by reference).
- \*10.39 Employment Agreement, dated as of April 12, 1999, between UAL Corporation, United Air Lines, Inc. and James E. Goodwin (filed as Exhibit 10.1 of UAL's Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- \*10.40 Employment Agreement between William P. Hobgood and UAL and United, dated March 1, 2000 (filed as Exhibit 10.1 of UAL's Form 10-Q for the quarter ended March 31, 2000 and incorporated herein by reference).
- \*10.41 2000 Agreement between United Air Lines, Inc. and the Air Line Pilots in the service of United Air Lines, Inc. represented by the Air Line Pilots Association, International.
- \*12 Computation of Ratio of Earnings to Fixed Charges.
- \*12.1 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.
- \*21 List of UAL's subsidiaries
- \*23 Consent of Independent Public Accountants
- \*27 Financial Data Schedule
- \*99 Annual Report on Form 11-K for Employees' Stock Purchase Plan of UAL Corporation

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\* As Previously Filed

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