

Letter 05-03M

May 15, 2005

(new)

(Bankruptcy Exit Agreement)

LETTER OF AGREEMENT

by and between

UAL CORP.,

UNITED AIR LINES, INC.

and

Mechanics and Related Employees

in the service of

UNITED AIR LINES, INC.

as represented by

THE AIRCRAFT MECHANICS FRATERNAL ASSOCIATION

THIS LETTER OF AGREEMENT, dated as of May 15, 2005, is made and entered into in accordance with the Railway Labor Act by and between UAL Corp. (hereinafter referred to as "UAL"), UNITED AIR LINES, INC. (hereinafter referred to as the "Company") and the AIRCRAFT MECHANICS FRATERNAL ASSOCIATION (hereinafter referred to as "AMFA" or the "Union").

WHEREAS UAL, the Company and the Union have reached agreement concerning the revisions to their current collective bargaining agreement (the "2003 Mechanics' Agreement" and, as revised by this Letter of Agreement, the "2005 Mechanics' Agreement") necessary for the Company to emerge from Chapter 11; and

WHEREAS certain of the revisions shall become effective as of May 15, 2005 (the "Effective Date"), assuming the complete satisfaction of the conditions described in paragraph 9 below prior to June 30, 2005 and other revisions shall become effective on the effective date (the "Exit Date") of a plan of reorganization proposed by UAL Corp. (the "Plan of Reorganization");

THEREFORE the parties to this Letter of Agreement hereby agree as follows:

- 1. Amendable Date.** The amendable date of the 2005 Mechanics' Agreement shall be January 1, 2010. Section XXVII of the 2005 Mechanics' Agreement shall read in its entirety as follows:

This Agreement shall become effective January 1, 2005 except as otherwise provided, and shall continue in full force and effect through December 31, 2009 and shall thereafter renew itself yearly without change each January 1st unless written notice of intended change is served in accordance with Title I, Section 6 of the Railway Labor Act by either party at least thirty (30) but not more than two hundred and seventy (270) days prior to December 31, 2009 or December 31 of any year thereafter. If such notice is served, negotiations will commence no more than 30 days after service. If a new tentative agreement is not reached by August 1, 2009 (or any August 1 thereafter, if applicable), the parties will jointly invoke the mediation services of the National Mediation Board under Section 5 of the Act.

- 2. Wage Rates.** The base pay rates and other pay components (shift premiums, Hawaii differential, skill premium, and license premium) in effect as of May 1, 2004 under Schedule A of the 2003 Mechanics' Agreement shall be reduced by 3.9% effective with the payroll period commencing closest to June 1, 2005 (for most employees, this will be the payroll period commencing either May 29, 2005 or June 5, 2005). These reduced base pay rates and other pay components shall thereafter be increased by 1.5% on January 1, 2006, 1.5% on January 1, 2007, 1.5% on January 1, 2008, and 1.5% on January 1, 2009. These shall become the pay rates for the 2005 Mechanics' Agreement. The base pay rates under Schedule A of the 2005 Mechanics' Agreement are set forth in Exhibit A to this Letter of Agreement. The other pay components as revised are set forth in Exhibit B to this Letter of Agreement.
- 3. Other Contract Changes.** Certain other provisions of the 2003 Mechanics' Agreement shall be revised on the Effective Date as described on Exhibit B to this Letter of Agreement.
- 4. Defined Benefit Pension Plan.** AMFA (i) waives any claim it may have (including but not limited to any claim or grievance under Letter of Agreement 02-1M of the 2003 Mechanics' Agreement) that the termination of the United Air Lines, Inc. Union Ground Employees' Retirement Plan (the "Plan") does or would violate the terms and conditions of the 2003 Mechanics' Agreement or any other agreements or status quo between the parties, and (ii) shall not otherwise oppose any efforts to terminate the Plan; *provided*, however, that nothing in this Letter of Agreement shall be construed, deemed or characterized by UAL or the Company as any agreement of any form by AMFA that the Plan should be terminated, or as limiting AMFA's right to proceed against the PBGC regarding the issue of the termination date of the Plan. AMFA further agrees that, under the 2005-2009 Mechanics' Agreement, the Company shall not be required to maintain the Plan, or provide any defined benefit pension benefits whether from a plan, including the Plan or otherwise, and may terminate the Plan without violating the 2005-2009 Mechanics' Agreement or any other agreements or status quo between the parties.
- 5. Pension Contributions.** When the Plan is terminated following final judicial approval of such termination ("Plan Termination Date"):

 - a.** The Company shall, each payroll period, make a contribution (the "Replacement Plan Base Contribution") to a defined contribution plan equal to four percent (4.0%) of each eligible participant's "Considered Earnings" (as defined in Exhibit C). In addition, the Company shall make an Additional Contribution for all eligible participants employed on May 15, 2005, based on a points schedule attached as Exhibit I. The Additional Contribution has been determined such that the total of the Base Contribution plus the Additional Contribution for all eligible participants will be of the total Considered Earnings for all eligible participants. In the future, the Additional Contribution for any eligible participant will not change. At the end of each calendar year, the Company will calculate total Company contributions as a percentage of the total Considered Earnings for all eligible participants. If the total is less

than 5.0%, the Company will make an additional one-time base contribution so that the total Company contribution for the calendar year equals 5.0% of total Considered Earnings. The Company will calculate the total projected Company contribution divided by the total projected Considered Earnings at the beginning of each year. If this percentage is less than 5.0%, the Company will increase the base contribution rate so that the total Company contribution rate equals 5.0%. The Base and Additional Contributions will begin with the earlier of (i) July 1, 2005, or (ii) the first day of the calendar month following the Exit Date; provided, however, that in the event the Exit Date follows July 1, 2005, contributions will accrue without interest from July 1, 2005 through the Exit Date and be contributed in a single lump sum no later than sixty (60) days after the Exit Date.

- b.** All employees employed on May 15, 2005 will be 100% vested in the Replacement Plan Contributions. Any Replacement Plan Contributions made on behalf of an employee hired after May 15, 2005 will be subject to the following vesting schedule:

Fewer than one year of service	0%
1 year of service but fewer than 2	20%
2 years of service but fewer than 3	40%
3 years of service but fewer than 4	60%
4 years of service but fewer than 5	80%
5 or more years of service	100%

All service with the Company will be counted for purposes of vesting. Forfeitures under the defined contribution plan will be used to reduce future Company contributions to the defined contribution plan.

- c.** The Company will meet and confer annually with AMFA to consider plan investment options.
- d.** Following the Plan Termination Date, the Company shall not maintain or establish any single-employer defined benefit plan for any UAL or Company employee group unless AMFA-represented employees are provided the option of electing to receive a comparable defined benefit plan in lieu of the Replacement Plan Contribution.
- e.** The 2005-2009 Mechanics' Agreement and the Plan of Reorganization shall provide for the issuance of \$40,000,000 of UAL convertible notes, as described in Exhibit J, to a trust or other entity designated by AMFA. The terms of the UAL convertible notes described in Exhibit I shall be subject to mutually-acceptable modifications to optimize implementation for all parties from an accounting, securities law and tax law perspective. This paragraph shall be effective, and the convertible notes described in Exhibit J shall issue only in connection with, and following, the review, design, negotiation, approval, effective ratification, and execution of this Letter of Agreement.

- 6. Company Profit Sharing Contribution.** The 2005-2009 Mechanics' Agreement shall provide for AMFA-represented employees to participate in the revised profit sharing program described in Exhibit C to this Letter of Agreement.
- 7. Distribution Agreement.** The Plan of Reorganization shall provide the AMFA-represented group with a distribution of UAL equity securities as provided in the amended distribution agreement described in Exhibit D to this Letter of Agreement.
- 8. Bankruptcy Actions.** The Company and the Union shall take the following actions to seek the approval of this Letter of Agreement by the bankruptcy court in *In Re UAL Corporation et al.*, Case No. 02-B-48191 (Bankr. N.D. Ill.) (the "Bankruptcy Cases"):
- a. the Company shall file a motion for approval of the Letter of Agreement under 11 U.S.C. § 363, in form and substance reasonably acceptable to the Union, by no later than May 31, 2005;
 - b. the Company shall provide, to the extent reasonably practicable, the Union's counsel with copies of, and a reasonable opportunity to comment on, all motions, applications, proposed orders, pleadings and supporting papers prepared by the Company for filing with the bankruptcy court relating to court approval of this Letter of Agreement; and
 - c. both the Company and the Union shall support and seek the approval of this Letter of Agreement in the Bankruptcy Cases without condition, qualification or exception; shall use their best efforts to obtain the support of the Official Committee of Unsecured Creditors and other parties and stakeholders for the Letter of Agreement; and shall take every reasonable action necessary to obtain judicial approval of this Letter of Agreement in the Bankruptcy Cases without condition, qualification or exception, including the filing of motions, objections and appeals.
- 9. Conditions of Effectiveness.** Except as otherwise provided, this Letter of Agreement shall become effective as of May 15, 2005, subject to bankruptcy court approval and, on or before June 30, 2005, the occurrence of all of the following: (a) ratification by AMFA-represented United employees under the Union's Constitution and By-Laws, (b) if required, approval by the Company's Board of Directors, (c) execution by a duly authorized official of AMFA, and (d) the withdrawal of the Company's motion to reject the 2003 Mechanics' Agreement under 11 U.S.C. §1113.
- 10. Termination Rights.** This Letter of Agreement may be terminated by the Company or the Union, on two business days written notice to the other (the "Termination Notice"), given before or after the Effective Date but no later than the Exit Date, upon the occurrence of any of the following events:
- a. failure of the court to issue final judicial approval of this Letter of Agreement, without condition, qualification or exception, by June 30, 2005;

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- b. failure of the Company to implement, through binding agreement or final judicial order effective no later than the Exit Date, revisions to (i) the labor contracts of the Company's other unionized employees and (ii) the wages, benefits and working conditions of the Company's salaried and management employees so that the aggregate revisions in (i) and (ii) are reasonably projected to produce at least \$582 million in average annual savings for the Company from January 1, 2005 through and including January 1, 2010, unless such action is cured to the reasonable satisfaction of AMFA within twenty days of the Termination Notice;
- c. the filing by UAL or United of, support by UAL or United for, or judicial confirmation or approval of (as the case may be), a plan of reorganization or a proposed disclosure statement which contains any material term that is materially inconsistent with the 2005 Mechanics' Agreement or this Letter of Agreement unless such action is cured to the reasonable satisfaction of the Union within twenty (20) days of the Termination Notice;
- d. other material breach of the Company's or UAL's obligations under this Letter of Agreement unless such breach is cured to the reasonable satisfaction of the Union within twenty (20) days of the Termination Notice.

In the event of such termination, (A) this Letter of Agreement shall otherwise become null and void in its entirety and (B) the parties shall thereafter be governed by the 2003 Mechanics' Agreement and without regard to this Letter of Agreement.

11. Fees and Expenses. The Company shall reimburse the Union for fees and expenses incurred in connection with this Letter of Agreement as described on Exhibit E to this Letter of Agreement. Such reimbursement shall be made only in connection with, and following, the review, design, negotiation, approval, effective ratification, and execution of this Letter of Agreement.

12. Agreement. This Letter of Agreement is a final, binding and conclusive commitment and agreement between UAL, the Company and the Union. Notwithstanding anything to the contrary in this Letter of Agreement, judicial approval of this Letter of Agreement shall have the same meaning and effect as the judicial approval of the 2003 Mechanics' Agreement in the Bankruptcy Cases signed on April 30, 2003.

13. Amendments; Waiver. This Letter of Agreement may be amended, modified, superseded or canceled and any of its provisions may be waived only by a written instrument executed by all parties or, in the case of a waiver, by the party waiving compliance. The failure of any party at any time to require performance of any provision of this Letter of Agreement shall not affect the right of that party at a later time to enforce the same or a different provision. No waiver by any party of a right under this Letter of Agreement shall be deemed or construed as a further or continuing waiver of any such right with respect to the same or a different provision of this Letter of Agreement.

14. Notices. Any notice or other communication given under the terms of this Letter of Agreement must be in writing and shall be deemed to have been duly given on the day it is delivered by hand, on the day it is sent by facsimile with confirmation of receipt by the transmitting machine, on the business day after it is sent by a national overnight mail service (delivery charge prepaid), or on the third business day after it is mailed first class, postage prepaid, in any case to the following addresses:

If to the Company: United Air Lines, Inc.
1200 East Algonquin Road
Elk Grove Township, Illinois 60007
Attention: Paul Lovejoy
Facsimile: 847-700-4099

with copies to: Kirkland & Ellis
200 East Randolph Drive
Chicago, Illinois 60601
Attention: James H.M. Sprayregen
Facsimile: 312-861-2200

If to the Union: Aircraft Mechanics Fraternal Association
67 Water St., Suite 208A
Laconia, NH 03245
Attention: O.V. Delle Femine
Facsimile: 603-527-9151

with copies to: Scott Petersen
Seham, Seham, Meltz & Petersen
4910 Garden Ford Dr.
Kingwood, TX 77345
Facsimile: 281-361-9706

or to such other address or to such other person as any party shall have last designated by written notice provided to the other parties in the manner set forth in this paragraph.

15. Counterparts. This Letter of Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument, and each of which shall be deemed an original. Each party to this Letter of Agreement has agreed to permit the use of faxed or otherwise electronically transmitted signatures in order to expedite the consummation of the transactions contemplated hereby.

16. Headings; Construction. The paragraph headings in this Letter of Agreement have been inserted for convenience of reference only and do not restrict or otherwise modify any of the terms or provisions of this Letter of Agreement. Unless otherwise expressly provided, the words "including" or "includes" in this Letter of Agreement do not limit the preceding words or terms and shall be deemed to be followed by the words "without limitation."

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17. Exhibits. This Letter of Agreement includes all of Exhibits A through K hereto. Except as otherwise expressly set forth therein, all capitalized terms in Exhibits A through K shall have the meanings defined in this Letter of Agreement.

IN WITNESS WHEREOF, the parties have signed this Letter of Agreement this ____ day of May, 2005

WITNESS:

FOR UNITED AIR LINES, INC.:

Peter B. Kain
Vice President Labor Relations

FOR UAL CORPORATION:

Glenn F. Tilton
Chairman, President and CEO

WITNESS:

FOR AIRCRAFT MECHANICS
FRATERNAL ASSOCIATION:

Jim Seitz
Airline Contract Administration Coordinator
Aircraft Mechanics Fraternal Association

O.V. Delle Femine
National Director