

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997

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 Number 0-9781

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	74-2099724
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2929 Allen Parkway, Suite 2010  
Houston, Texas 77019  
(Address of principal executive offices)  
(Zip Code)

713-834-2950  
(Registrant's telephone number, including area code)

Indicate by check mark whether 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 whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of October 21, 1997, 8,406,064 shares of Class A common stock and 50,289,587 shares of Class B common stock were outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1997	1996	1997	1996
	(Unaudited)		(Unaudited)	
Operating Revenue:				
Passenger . . . . .	\$1,750	\$1,546	\$4,960	\$4,440
Cargo, mail and other . . . . .	140	125	414	359
	1,890	1,671	5,374	4,799
Operating Expenses:				
Wages, salaries and related costs . . . . .	462	397	1,305	1,139

Aircraft fuel . . . . .	221	201	660	558
Commissions . . . . .	152	135	437	398
Aircraft rentals . . . . .	141	128	400	379
Maintenance, materials and repairs . . . . .	147	118	400	349
Other rentals and landing fees . . . . .	104	89	299	258
Depreciation and amortization . . . . .	64	63	186	195
Fleet disposition charge . . . . .	-	128	-	128
Other . . . . .	392	335	1,103	969
	1,683	1,594	4,790	4,373
Operating Income . . . . .	207	77	584	426
Nonoperating Income (Expense):				
Interest expense . . . . .	(42)	(40)	(126)	(129)
Interest capitalized . . . . .	9	1	23	2
Interest income . . . . .	14	11	41	30
Other, net . . . . .	(2)	(2)	(4)	19
	(21)	(30)	(66)	(78)
Income before Income Taxes, Minority Interest and Extraordinary Loss . . . . .	186	47	518	348
Income Tax Provision . . . . .	(69)	(19)	(192)	(57)

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CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In millions of dollars, except per share data)

	Three Months Ended September 30, 1997      1996		Nine Months Ended September 30, 1997      1996	
	(Unaudited)		(Unaudited)	
Income before Minority Interest and Extraordinary Loss . . . . .	\$ 117	\$ 28	\$ 326	\$ 291
Minority Interest . . . . .	-	(1)	-	(3)
Distributions on Preferred Securities of Trust, net of applicable income taxes of \$2, \$2, \$6 and \$6, respectively . . . . .	(3)	(3)	(10)	(10)
Income before Extraordinary Loss . . . . .	114	24	316	278
Extraordinary Loss, net of applicable income taxes of \$2, \$4, \$2 and \$4, respectively . . . . .	(4)	(6)	(4)	(6)
Net Income . . . . .	110	18	312	272
Preferred Dividend Requirements . . . . .	-	(1)	(2)	(3)
Income Applicable to Common Shares . . . . .	\$ 110	\$ 17	\$ 310	\$ 269

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CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In millions of dollars, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1997	1996	1997	1996
	(Unaudited)		(Unaudited)	
Earnings per Common and Common Equivalent Share:				
Income Before				
Extraordinary Loss. . .	\$1.83	\$0.35	\$4.95	\$4.26
Extraordinary Loss, net of tax. . . . .	(0.06)	(0.10)	(0.05)	(0.10)
Net Income . . . . .	\$1.77	\$0.25	\$4.90	\$4.16
Earnings per Common Share Assuming Full Dilution:				
Income Before				
Extraordinary Loss. . .	\$1.50	\$0.34	\$4.07	\$3.58
Extraordinary Loss, net of tax. . . . .	(0.05)	(0.09)	(0.05)	(0.08)
Net Income . . . . .	\$1.45	\$0.25	\$4.02	\$3.50
Shares used for Computation:				
Primary. . . . .	62.3	64.6	63.4	64.7
Fully diluted excluding extra- ordinary loss . . . . .	80.5	82.5	81.6	81.7
Fully diluted including extra- ordinary loss . . . . .	80.5	64.6	81.6	81.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions, except for share data)

ASSETS	September 30,	December 31,
	1997	1996
	(Unaudited)	

Current Assets:  
Cash and cash equivalents, including

restricted cash and cash equivalents of \$27 and \$76, respectively . . . . .	\$ 988	\$1,061
Accounts receivable, net . . . . .	469	377
Spare parts and supplies, net . . . . .	122	111
Prepayments and other . . . . .	131	85
Total current assets . . . . .	1,710	1,634
Property and Equipment:		
Owned property and equipment:		
Flight equipment . . . . .	1,537	1,199
Other . . . . .	443	338
	1,980	1,537
Less: Accumulated depreciation . . . . .	438	370
	1,542	1,167
Purchase deposits for flight equipment	393	154
Capital leases:		
Flight equipment . . . . .	271	396
Other . . . . .	35	31
	306	427
Less: Accumulated amortization . . . . .	137	152
	169	275
Total property and equipment . . . . .	2,104	1,596
Other Assets:		
Routes, gates and slots, net . . . . .	1,439	1,473
Reorganization value in excess of amounts allocable to identifiable assets, net . . . . .	226	237
Investments . . . . .	131	134
Other assets, net . . . . .	194	132
Total other assets . . . . .	1,990	1,976
Total Assets . . . . .	\$5,804	\$5,206

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CONTINENTAL AIRLINES, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions, except for share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 1997	December 31, 1996
	(Unaudited)	
Current Liabilities:		
Current maturities of long-term debt . . .	\$ 260	\$ 201
Current maturities of capital leases . . .	38	60
Accounts payable . . . . .	761	705
Air traffic liability . . . . .	835	661
Accrued payroll and pensions . . . . .	146	149
Accrued other liabilities . . . . .	416	328
Total current liabilities . . . . .	2,456	2,104
Long-Term Debt . . . . .	1,445	1,368
Capital Leases . . . . .	147	256
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes . . . . .	253	75
Accruals for aircraft retirements and excess facilities . . . . .	147	188
Other . . . . .	299	331
Total deferred credits and other long-term liabilities . . . . .	699	594
Commitments and Contingencies		
Minority Interest . . . . .	-	15
Continental-Obligated Mandatorily		

Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures (A) . . . . .	242	242
Redeemable Preferred Stock . . . . .	-	46

(A) The sole assets of the Trust are convertible subordinated debentures with an aggregate principal amount of \$250 million, which bear interest at the rate of 8-1/2% per annum and mature on December 1, 2020. Upon repayment, the Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust will be mandatorily redeemed.

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CONTINENTAL AIRLINES, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions, except for share data)

	September 30, 1997	December 31, 1996
	(Unaudited)	
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 8,419,064 and 9,280,000 shares issued and outstanding, respectively . . . . .	\$ -	\$ -
Class B common stock - \$.01 par, 200,000,000 shares authorized; 50,192,171 and 47,943,343 shares issued and outstanding, respectively . .	-	-
Additional paid-in capital . . . . .	613	693
Retained earnings (accumulated deficit) .	203	(109)
Other . . . . .	(1)	(3)
Total common stockholders' equity . . .	815	581
Total Liabilities and Stockholders' Equity . . . . .	\$5,804	\$5,206

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONTINENTAL AIRLINES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In millions)

Nine Months  
 Ended September 30,  
 1997                      1996  
 (Unaudited)

Net Cash Provided by Operating Activities. . . . .	\$740	\$685
Cash Flows from Investing Activities:		
Capital expenditures. . . . .	(275)	(116)
Purchase deposits paid in connection with future aircraft deliveries. . . . .	(242)	(79)
Purchase deposits refunded in connection with aircraft delivered . . . . .	29	12
Proceeds from sale of America West stock and warrants . . . . .	-	32
Other . . . . .	4	18
Net cash used by investing activities. . . . .	(484)	(133)
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations. . . . .	(627)	(890)
Proceeds from issuance of long-term debt, net. . . . .	505	553
Purchase of warrants to purchase Class B common stock . . . . .	(94)	-
Purchase of 9% minority interest in AMI . . . . .	(18)	-
Redemption of preferred stock . . . . .	(48)	-
Proceeds from issuance of common stock. . . . .	18	7
Dividends paid on preferred securities of trust . . . . .	(16)	(17)
Dividends paid to minority interest holder in connection with secured term loan financing. . . . .	-	(13)
Net cash used by financing activities. . . . .	(280)	(360)

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CONTINENTAL AIRLINES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In millions)

Nine Months Ended September 30, 1997                      1996 (Unaudited)		
Net Increase (Decrease) in Cash and Cash Equivalents. . . . .	\$(24)	\$192
Cash and Cash Equivalents - Beginning of Period (A) . . . . .	985	603
Cash and Cash Equivalents - End of Period (A). . . . .	\$961	\$795
Supplemental Cash Flow Information:		
Interest paid . . . . .	\$104	\$120
Income taxes paid . . . . .	\$ 7	\$ 1
Investing and Financing Activities Not Affecting Cash:		

Property and equipment acquired through the issuance of debt . . . . .	\$207	\$ 54
Reduction of capital lease obligations in connection with refinanced aircraft. . . . .	\$ 97	\$ -
Financed purchase deposits for flight equipment, net. . . . .	\$ 52	\$ 17
Capital lease obligations incurred. . . . .	\$ 15	\$ 27
Purchase deposits refunded and used to reduce debt . . . . .	\$ 31	\$ -

(A) Excludes restricted cash of \$76 million and \$144 million at January 1, 1997 and 1996, respectively, and \$27 million and \$70 million at September 30, 1997 and 1996, respectively.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONTINENTAL AIRLINES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Such adjustments are of a normal, recurring nature. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Annual Report of Continental Airlines, Inc. (the "Company" or "Continental") on Form 10-K for the year ended December 31, 1996.

NOTE 1 - EARNINGS PER SHARE

The earnings per common share ("EPS") computations are based upon earnings applicable to common shares and the average number of shares of common stock, common stock equivalents (stock options, warrants and restricted stock) and potentially dilutive securities (e.g., convertible securities) outstanding. For fully diluted purposes, net income has been adjusted for the distributions on the preferred securities of trust and interest expense (net of tax) on the convertible debt. Preferred stock dividend requirements decreased net income in the EPS computations by approximately \$2 million for the nine months ended September 30, 1997, and \$1 million and \$3 million for the three and nine months ended September 30, 1996, respectively. In April 1997, Continental redeemed for cash all of the 460,247 outstanding shares of its Series A 12% Cumulative Preferred Stock ("Series A 12% Preferred") held by an affiliate of Air Canada, a Canadian corporation ("Air Canada"). See Note 5.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 - "Earnings per Share" ("SFAS 128") which specifies the computation, presentation and disclosure requirements for EPS. SFAS 128 replaces the presentation of primary and fully diluted EPS pursuant to Accounting Principles Board Opinion No. 15 - "Earnings per Share" ("APB 15") with the presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company is required to adopt SFAS 128 with its December 31, 1997 financial statements and restate all prior-period EPS data. The Company will continue to

account for EPS under APB 15 until that time.

Under SFAS 128, the Company's basic and diluted EPS were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Basic EPS (1)	\$1.97	\$0.42	\$5.47	\$5.06
Basic EPS (2)	\$1.90	\$0.30	\$5.40	\$4.94
Diluted EPS (1)	\$1.48	\$0.34	\$4.06	\$3.63
Diluted EPS (2)	\$1.44	\$0.26	\$4.02	\$3.55

(1) Excluding extraordinary loss.

(2) Including extraordinary loss.

#### NOTE 2 - INCOME TAXES

Income taxes for the three and nine months ended September 30, 1997 were provided at the estimated annual effective tax rate. Such rate differs from the federal statutory rate of 35%, primarily due to state and foreign income taxes and the effect of certain expenses that are not deductible for income tax purposes. Income taxes for the three and nine months ended September 30, 1996 were provided at the estimated effective tax rate, which differs from the federal statutory rate of 35%, primarily due to net operating loss carryforwards ("NOLs") for which a tax benefit had not previously been recorded, state and foreign income taxes and the effect of certain expenses that are not deductible for income tax purposes.

At December 31, 1996, the Company had estimated NOLs of \$2.3 billion for federal income tax purposes that will expire through 2009 and federal investment tax credit carryforwards of \$45 million that will expire through 2001. As a result of the change in ownership of the Company on April 27, 1993, the ultimate utilization of the Company's NOLs and investment tax credits could be limited. Reflecting this possible limitation, the Company has recorded a valuation allowance of \$694 million at December 31, 1996.

The Company has consummated several built-in-gain transactions, which resulted in the realization of tax benefits related to NOLs attributable to the Company's predecessor. To the extent the Company consummates additional built-in-gain transactions, such benefits will reduce the valuation allowance and reorganization value in excess of amounts allocable to identifiable assets. If such reorganization value were exhausted, reductions in the valuation allowance would decrease other intangibles.

#### NOTE 3 - FLEET DISPOSITION CHARGE

During the third quarter of 1996, the Company made the decision to accelerate the replacement of 30 DC-9-30 aircraft, six DC-10-10 aircraft, 31 727-200 aircraft, 13 737-100 aircraft and 17 737-200 aircraft between August 1997 and December 1999. As a result of its decision to accelerate the replacement of these aircraft, the Company recorded a fleet disposition charge of \$128 million. The fleet disposition charge relates primarily to (i) the writedown of Stage 2 aircraft inventory, which is not expected to be consumed through operations, to its estimated fair value; and (ii) a provision for costs associated with the return of leased aircraft at the end of their respective lease terms. The majority of the aircraft are being accounted for as operating leases and therefore the Company will continue to recognize rent and amortization expense on these aircraft through the respective dates they are removed from service.

#### NOTE 4 - OTHER

##### Aircraft Financing Transactions

In March 1997, Continental completed an offering of \$707 million of pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, Continental and are therefore not included in the accompanying consolidated financial statements. The cash proceeds from the transaction were deposited with an escrow agent and are being used to finance (through either leveraged leases or secured debt financings) the debt portion of

the acquisition cost of up to 30 new aircraft from The Boeing Company ("Boeing") scheduled to be delivered to Continental through February 1998. In connection therewith, owner participants have committed equity financing to be used in leveraged leases of all such aircraft. As of September 30, 1997, 13 of such aircraft have been delivered. If any funds remain as deposits with the escrow agent for such pass-through certificates at the end of the delivery period (which may be extended to June 1998), such funds will be distributed back to the certificate holders. Such distribution will include a make whole premium payable by Continental. Management believes that the likelihood that the Company will be required to pay a material make whole premium is remote.

In April 1997, Continental entered into a \$160 million floating rate (e.g., LIBOR plus 1.125% or prime) secured revolving credit facility (the "Facility"). The revolving loans made under the Facility will be used for the purpose of making certain predelivery payments to Boeing for new Boeing aircraft to be delivered through December 1999. The Facility contains certain financial covenants, including maintenance of a minimum fixed charge ratio, a minimum net worth and a minimum unrestricted cash balance. Continental is also restricted in its ability to pay cash dividends and make certain other payments.

In June 1997, the Company acquired 10 aircraft previously leased by it. The debt financing for the acquisition of the six Boeing 737-300 aircraft and the four McDonnell Douglas DC-9-82 aircraft was funded by the private placement of \$155 million of pass-through certificates. The pass-through certificates were issued by separate pass-through trusts that acquired equipment trust notes issued on a recourse basis by Continental. Aircraft maintenance expense in the second quarter of 1997 was reduced by approximately \$16 million due to the reversal of reserves that are no longer required as a result of the transaction.

In September 1997, the Company, in cooperation with the airframe and engine manufacturers, completed an offering of \$89 million of pass-through certificates to enable certain owner trustees to finance the acquisition cost of nine Embraer ("EMB")-145ER regional jets previously delivered to and leased by Continental. The pass-through certificates are not direct obligations of, or guaranteed by, Continental and therefore are not included in the accompanying consolidated financial statements.

#### Facility and Other Financing Transactions

In July 1997, Continental entered into a \$575 million credit facility (the "Credit Facility"), including a \$275 million term loan. The proceeds of the term loan were loaned by Continental to its wholly owned subsidiary Air Micronesia, Inc. ("AMI"), reloaned by AMI to its wholly owned subsidiary Continental Micronesia, Inc. ("CMI"), and used by CMI to repay its existing secured term loan. In connection with this prepayment, Continental recorded a \$4 million after tax extraordinary charge to consolidated earnings in the third quarter of 1997. The facility also includes a \$225 million revolving credit facility and a \$75 million term loan commitment for general corporate purposes.

The Credit Facility is secured by substantially all of CMI's assets (other than aircraft subject to other financing arrangements) but does not contain any financial covenants relating to CMI other than covenants restricting CMI's incurrence of certain indebtedness and pledge or sale of assets. AMI's rights with respect to its loan to CMI and Continental's rights with respect to its loan to AMI (as well as Continental's stock in AMI and AMI's stock in CMI) are pledged as collateral for loans to Continental under the Credit Facility. In addition, the Credit Facility contains certain financial covenants applicable to Continental and prohibits Continental from granting a security interest on certain of its international route authorities and domestic slots.

In April 1997, the City of Houston (the "City") completed the offering of \$190 million aggregate principal amount of tax-exempt special facilities revenue bonds (the "IAH Bonds") payable solely from rentals paid by Continental under long-term lease agreements with the City. The IAH Bonds are unconditionally guaranteed by the Company. The proceeds from the IAH Bonds are being used to finance the acquisition, construction and installation of certain terminal and other airport facilities located at Continental's hub at George Bush Intercontinental Airport in Houston, including a new automated people mover system linking Terminals B and C and 20 aircraft gates

in Terminal B into which Continental intends to expand its operations. The expansion project is expected to be completed by the summer of 1999.

The Company also announced plans to expand its hub facilities at Hopkins International Airport in Cleveland which is expected to be completed in the first quarter of 1999. The expansion, which will include a new jet concourse for the regional jet service offered by Continental's wholly owned subsidiary, Continental Express, Inc. ("Express"), as well as other facility improvements, is expected to cost approximately \$120 million, which the Company expects will be funded principally by the issuance of a combination of tax-exempt special facilities revenue bonds and general airport revenue bonds by the City of Cleveland. In connection therewith, the Company expects to enter into long-term leases with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

In February 1997, the Company began construction of a new hangar and improvements to a cargo facility at the Company's hub at Newark International Airport which the Company expects to occupy in the fourth quarter of 1997. The Company expects to finance these projects, which will cost approximately \$21 million, through tax-exempt bonds to be issued by the New Jersey Economic Development Authority. In addition, the Company is planning a facility expansion at Newark which would require, among other things, agreements to be reached with the applicable airport authority.

The Company has announced plans to build a wide-body aircraft maintenance hangar in Honolulu, Hawaii at an estimated cost of \$24 million. Construction of the hangar, anticipated to be completed by the second quarter of 1998, is expected to be financed by tax-exempt special facilities revenue bonds issued by the State of Hawaii. In connection therewith, the Company expects to enter into long-term leases under which rental payments will be sufficient to service the related bonds.

#### Commitments

In June 1997, Continental signed a letter of intent with Boeing to purchase 35 new widebody jet aircraft. The parties entered into a definitive agreement in October 1997 relating to this order. The order consists of five firm Boeing 777-200 aircraft and 30 firm Boeing 767-400ER aircraft, with options for six additional 777 aircraft. This order is in addition to the five firm 777 aircraft which the airline already had on order with Boeing, the deliveries of which will be accelerated as part of this order. The new widebody aircraft will replace six DC-10-10 and 31 DC-10-30 aircraft, which will be retired as the new Boeing aircraft are delivered, and will also be used to expand the airline's international and transcontinental service. The ten firm delivery 777 aircraft are scheduled to be delivered from September 1998 through May 1999, and the 30 firm 767 aircraft are scheduled to be delivered starting in mid-2000 through the end of 2005. In connection with this new order, Continental has obtained the flexibility to substitute certain aircraft on order with Boeing and has obtained other benefits. The Company currently plans to substitute 777 aircraft for certain of the 767 aircraft.

In June 1997, Express exercised its option to order an additional 25 EMB-145ER regional jets. Express is scheduled to take delivery of these 50-seat aircraft from June 1998 through September 1999. Neither Express nor Continental will have any obligation to take aircraft that are not financed by a third party and leased to the Company. The Company expects to account for all of these aircraft as operating leases.

#### Other

On May 16, 1997, the stockholders of the Company approved the Continental Airlines, Inc. 1997 Stock Incentive Plan (the "Incentive Plan"). The Incentive Plan provides that the Company may issue shares of restricted Class B common stock or grant options to purchase shares of Class B common stock to non-employee directors of the Company and employees of the Company or its subsidiaries. Subject to adjustment as provided in the Incentive Plan, the aggregate number of shares of Class B common stock that may be issued under the Incentive Plan may not exceed 2,000,000 shares, which may be originally issued or treasury shares or a combination thereof. The maximum number of shares of Class B common stock that may be (i) subject to options granted to any one

individual during any calendar year may not exceed 200,000 shares and (ii) granted as restricted stock may not exceed 100,000 shares (in each case, subject to adjustment as provided in the Incentive Plan).

Also on May 16, 1997, the stockholders of the Company approved the Continental Airlines, Inc. 1997 Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, all employees of the Company, including CMI and Express, may purchase shares of Class B common stock of the Company at 85% of the lower of the fair market value on the first day of the option period or the last day of the option period. Subject to adjustment, a maximum of 1,750,000 shares of Class B common stock are authorized for issuance under the Purchase Plan.

In April the Company began collective bargaining agreement negotiations with its Continental Airlines pilots, whose contract became amendable in July 1997, and Express pilots, whose contract became amendable in October 1997. Negotiations are in progress to amend these contracts. The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

In February 1996, the Company sold approximately 1.4 million of its 1.8 million shares of America West Airlines, Inc. ("America West") common stock for net proceeds of approximately \$25 million in an underwritten public offering. A \$13 million gain was realized on the transaction. In addition, in May 1996, the Company sold all of its 802,860 America West warrants, realizing net proceeds of \$7 million and recognizing a gain of \$5 million. The gains are included in other nonoperating income in the accompanying consolidated statement of operations.

Continental has entered into block space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other carrier. One such arrangement began on June 1, 1997 pursuant to which the other carrier is sharing Continental's costs of operating certain flights by committing to purchase capacity on such flights. Under this arrangement, the Company's statements of operations reflect the reimbursement of \$18 million and \$24 million for the three and nine months ended September 30, 1997, respectively, from the other carrier as an offset to the Company's respective operating expenses.

#### NOTE 5 - RELATED PARTY TRANSACTIONS

In January 1997, Air Canada divested the remainder of its April 1993 investment in Continental common stock by selling on the open market 5,600,000 shares of the Company's Class B common stock.

In April 1997, Continental redeemed for cash all of the 460,247 outstanding shares of its Series A 12% Preferred held by an affiliate of Air Canada for \$100 per share plus accrued dividends thereon. The redemption price, including accrued dividends, totaled \$48 million.

On June 2, 1997, the Company purchased for \$94 million from Air Partners, L.P. ("Air Partners") warrants to purchase 3,842,542 shares of Class B common stock (representing a portion of the total warrants held by Air Partners). The purchase price represents the intrinsic value of the warrants (the difference between the closing market price of the Class B common stock on May 28, 1997 (\$34.25) and the applicable exercise price). The warrants sold by Air Partners consisted of 2,314,687 Class B warrants exercisable for \$7.50 per share and 1,527,855 Class B warrants exercisable for \$15.00 per share.

In July 1997, the Company (i) purchased (a) the rights of United Micronesia Development Association, Inc. ("UMDA") to receive future payments under a services agreement between UMDA and CMI (pursuant to which CMI pays UMDA approximately 1% of the gross revenues of CMI, as defined, through January 1, 2012, which payment by CMI to UMDA totaled \$6 million in 1996) and (b) UMDA's 9% interest in AMI, (ii) terminated the Company's obligations to UMDA under a settlement agreement entered into in 1987, and (iii) terminated substantially all of the other contractual arrangements between the Company, AMI and CMI, on the one hand, and UMDA on the other hand, for an aggregate consideration of \$73 million.

#### NOTE 6 - NEW ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 - "Reporting Comprehensive Income" ("SFAS 130") that establishes standards for the reporting and display of comprehensive income in financial statements. The Company will adopt SFAS 130 in the first quarter of 1998. SFAS 130 is not expected to have an impact on the Company's results of operations or financial position.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 - "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") which specifies the presentation and disclosure requirements for operating segments in annual financial statements and also requires certain segment information in interim reports. The Company will adopt SFAS 131 in the first quarter of 1998. SFAS 131 is not expected to have an impact on the Company's results of operations or financial position.

#### NOTE 7 - SUBSEQUENT EVENTS

In October 1997, the Company completed an offering of \$752 million of pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, Continental and therefore are not included in Continental's consolidated financial statements. The cash proceeds from the transaction were deposited with an escrow agent and will be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of up to 24 new Boeing aircraft scheduled to be delivered to Continental from April 1998 through November 1998. If any funds remain as deposits with the escrow agent for such pass-through certificates at the end of the delivery period (which may be extended to May 1999), such funds will be distributed back to the certificate holders.

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

The following discussion may contain forward-looking statements. In connection therewith, please see the risk factors set forth in the Company's Form 10-K for the year ended December 31, 1996 and the Company's registration statements filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, since December 31, 1996. These risk factors identify important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements.

Due to the greater demand for air travel during the summer months, revenue in the airline industry in the third quarter of the year is generally significantly greater than revenue in the first quarter of the year and moderately greater than revenue in the second and fourth quarters of the year for the majority of air carriers. Continental's results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal, including the extent and nature of competition from other airlines, fare wars, excise and similar taxes, changing levels of operations, fuel prices, foreign currency exchange rates and general economic conditions.

#### RESULTS OF OPERATIONS

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three and nine months ended September 30, 1997 as compared to the corresponding periods ended September 30, 1996.

#### Comparison of Three Months Ended September 30, 1997 to Three Months Ended September 30, 1996

The Company recorded consolidated net income of \$110 million and \$18 million for the three months ended September 30, 1997 and 1996, respectively, including a \$128 million fleet disposition charge (\$77 million after taxes) in 1996 and after tax extraordinary losses of \$4 million and \$6 million in 1997 and 1996, respectively. Excluding the fleet disposition charge in 1996, the Company's income before income taxes, minority interest and extraordinary loss increased in 1997 by \$11 million, or 6.3%. Management believes that the Company benefitted in the third quarter of 1996 from the expiration of the aviation trust fund tax (the "ticket tax"). The ticket tax, which expired on December 31, 1995, was reinstated on August 27, 1996. Management believes that the ticket tax has a negative impact on the Company, although neither the

amount of such negative impact directly resulting from the reimposition of the ticket tax, nor the benefit realized by its expiration, can be precisely determined.

Passenger revenue increased 13.2%, \$204 million, during the quarter ended September 30, 1997 as compared to the same period in 1996, primarily due to a 15.4% increase in revenue passenger miles, offset by a 2.5% decrease in yield.

Cargo, mail and other revenue increased 12.0%, \$15 million, in the three months ended September 30, 1997 as compared to the same period in the prior year, principally as a result of an increase in freight and mail volumes due to a strike by certain employees of United Parcel Services ("UPS") and an increase in revenue related to frequent flyer mileage credits sold to participating partners in the Company's frequent flyer program.

Wages, salaries and related costs increased 16.4%, \$65 million, during the quarter ended September 30, 1997 as compared to the same period in 1996, primarily due to an 8.7% increase in average full-time equivalent employees in the third quarter of 1997 compared to the third quarter of 1996 and increases in accruals for employee profit sharing and other incentive programs, including the payment of bonuses for on-time arrival performance.

Aircraft fuel expense increased 10.0%, \$20 million, in the three months ended September 30, 1997 as compared to the same period in the prior year. The average price per gallon, net of fuel hedging gains of \$16 million in 1996, increased from 60.1 cents in the third quarter of 1996 to 60.2 cents in the third quarter of 1997. In addition, there was a 9.6% increase in the quantity of jet fuel used from 322 million gallons in the third quarter of 1996 to 353 million gallons in the third quarter of 1997, principally reflecting increased capacity.

Commissions expense increased 12.6%, \$17 million, in the quarter ended September 30, 1997 as compared to the same period in the prior year, primarily due to increased passenger revenue.

Aircraft rentals increased 10.2%, \$13 million in the three months ended September 30, 1997 as compared to the same period in 1996. The increase is a result of new aircraft inducted into operation in Continental's fleet.

Maintenance, materials and repairs increased 24.6%, \$29 million, during the quarter ended September 30, 1997 as compared to the same period in 1996, due principally to the volume and timing of engine overhauls, increase in component costs and routine maintenance as part of the Company's ongoing maintenance program.

Other rentals and landing fees increased 16.9%, \$15 million, for the three months ended September 30, 1997 compared to the same period in 1996, due to higher facilities rentals and higher landing fees resulting from increased operations.

During the third quarter of 1996, the Company recorded a fleet disposition charge of \$128 million (\$77 million after taxes), related primarily to (i) the writedown of Stage 2 aircraft inventory to its estimated fair value; and (ii) a provision for costs associated with the return of leased aircraft at the end of their respective lease terms.

Other operating expense increased 17.0%, \$57 million, in the three months ended September 30, 1997 as compared to the same period in the prior year, as a result of increases in passenger services, advertising and publicity, reservations and sales expense and other miscellaneous expense.

Interest capitalized increased \$8 million in the third quarter of 1997 as compared to the third quarter of 1996 as a result of higher average purchase deposits for flight equipment.

The income tax provision for the three months ended September 30, 1997 and 1996 of \$69 million and \$19 million, respectively, consisted of federal, state and foreign income taxes.

In July 1997 and 1996, extraordinary losses of \$4 million (net of \$2 million income tax benefit) and \$6 million (net of \$4 million income tax benefit), respectively, were recorded related to the early extinguishment of debt.

Comparison of Nine Months Ended September 30, 1997 to Nine Months Ended September 30, 1996

The Company recorded consolidated net income of \$312 million and \$272 million for the nine months ended September 30, 1997 and 1996, respectively, including a \$128 million fleet disposition charge (\$77 million after taxes) and a gain of \$18 million on the sale of certain shares of America West common stock and warrants in 1996 and after tax extraordinary losses of \$4 million and \$6 million in 1997 and 1996, respectively. Excluding the fleet disposition charge in 1996, the Company's income before income taxes, minority interest and extraordinary loss increased during 1997 by \$42 million, or 8.8%. Management believes that the Company benefitted in the first three quarters of 1996 and the first quarter of 1997 from the expiration of the ticket tax on December 31, 1995 and December 31, 1996, respectively. The ticket tax was reinstated on August 27, 1996 and again on March 7, 1997, respectively. Management believes that the ticket tax has a negative impact on the Company, although neither the amount of such negative impact directly resulting from the reimposition of the ticket tax, nor the benefit realized by its expiration, can be precisely determined. Additionally, the Company benefitted in the first six months of 1996 from the recognition of previously unbenefitted post-reorganization NOLs.

Passenger revenue increased 11.7%, \$520 million, during the nine months ended September 30, 1997 as compared to the same period in 1996. The increase was due to a 13.5% increase in revenue passenger miles offset by a 1.9% decrease in yield.

Cargo, mail and other revenue increased 15.3%, \$55 million, in the nine months ended September 30, 1997 as compared to the same period in the prior year, principally as a result of an increase in freight and mail volumes primarily due to a strike by certain employees of UPS, and an increase in revenue related to frequent flyer mileage credits sold to participating partners in the Company's frequent flyer program.

Wages, salaries and related costs increased 14.6%, \$166 million, during the nine months ended September 30, 1997 as compared to the same period in 1996, primarily due to an 8.6% increase in average full-time equivalent employees in the first nine months of 1997 compared to the first nine months of 1996 and increases in employee incentives. In addition there was an increase in wage rates resulting from a longevity pay increase for substantially all employee groups effective July 1, 1996.

Aircraft fuel expense increased 18.3%, \$102 million, in the nine months ended September 30, 1997 as compared to the same period in the prior year. The average price per gallon, net of fuel hedging gains of \$37 million in 1996 increased 7.4% from 59.1 cents in the first nine months of 1996 to 63.5 cents in the first nine months of 1997. In addition, there was a 10.0% increase in the quantity of jet fuel used from 913 million gallons in the first nine months of 1996 to 1,004 million gallons in the first nine months of 1997, principally reflecting increased capacity.

Commissions expense increased 9.8%, \$39 million, in the nine months ended September 30, 1997 as compared to the same period in the prior year, primarily due to increased passenger revenue.

Aircraft rentals increased 5.5%, \$21 million during the nine months ended September 30, 1997 as compared to the same period in 1996. The increase is a result of new aircraft inducted into operation in Continental's fleet.

Maintenance, materials and repairs increased 14.6%, \$51 million, during the nine months ended September 30, 1997 as compared to the same period in 1996, principally due to the volume and timing of engine overhauls, increase in component costs and routine maintenance as part of the Company's ongoing maintenance program. Aircraft maintenance expense was reduced by \$16 million in 1997 due to the reversal of reserves that are no longer required as a result of the acquisition of 10 aircraft previously leased by the Company.

Other rentals and landing fees increased 15.9%, \$41 million, for the nine months ended September 30, 1997 compared to the same period in 1996, due to higher facilities rentals and higher landing fees resulting from increased operations.

During the third quarter of 1996, the Company recorded a fleet

disposition charge of \$128 million (\$77 million after taxes), related primarily to (i) the writedown of Stage 2 aircraft inventory to its estimated fair value; and (ii) a provision for costs associated with the return of leased aircraft at the end of their respective lease terms.

Other operating expense increased 13.8%, \$134 million, in the nine months ended September 30, 1997 as compared to the same period in the prior year, primarily as a result of increases in passenger services, advertising and publicity, reservations and sales expense and other miscellaneous expense.

Interest capitalized increased \$21 million in the first nine months of 1997 compared to the first nine months of 1996 as a result of higher average purchase deposits for flight equipment resulting from the acquisition of new aircraft.

Interest income increased 36.7%, \$11 million, in the first nine months of 1997 compared to the same period in the prior year, principally due to an increase in the average invested balance of cash and cash equivalents.

The Company's other nonoperating income (expense) in the nine months ended September 30, 1997 included foreign currency losses. Other nonoperating income (expense) in the first nine months of 1996 consisted of an \$18 million gain related to the sale of America West common stock and warrants, a \$5 million payment to settle certain litigation arising out of the Company's decision in 1995 to cap domestic travel agency commissions and foreign currency gains (primarily related to the Japanese yen).

The income tax provision for the nine months ended September 30, 1997 and 1996 of \$192 million and \$57 million, respectively, consists of federal, state and foreign income taxes. During the second quarter of 1996, the Company utilized previously unbenefitted post-reorganization NOLs, and began accruing income tax expense.

In July 1997 and 1996, extraordinary losses of \$4 million (net of \$2 million income tax benefit) and \$6 million (net of \$4 million income tax benefit), respectively, were recorded related to the early extinguishment of debt.

#### Certain Statistical Information

An analysis of statistical information for Continental's jet operations, excluding regional jet operations, for the periods indicated is as follows:

	Three Months Ended September 30, 1997	1996	Net Increase/ (Decrease)
Revenue passenger miles (millions) (1)	13,038	11,302	15.4 %
Available seat miles (millions) (2)	17,686	16,117	9.7 %
Passenger load factor (3)	73.7%	70.1%	3.6 pts.
Breakeven passenger load factor (4)	65.6%	61.0%	4.6 pts.
Passenger revenue per available seat mile (cents)	9.18	8.95	2.6 %
Total revenue per available seat mile (cents)	10.05	9.81	2.4 %
Operating cost per available seat mile (cents) (5)	8.98	8.60	4.4 %
Average yield per revenue passenger mile (cents) (6)	12.45	12.77	(2.5)%
Average fare per revenue passenger	\$149.96	\$144.70	3.6 %
Revenue passengers (thousands)	10,822	9,972	8.5 %
Average length of aircraft flight (miles)	991	914	8.4 %
Average daily utilization of each aircraft (hours) (7)	10:19	10:17	0.3 %
Actual aircraft in fleet at end of period (8)	334	314	6.4 %

	Nine Months Ended September 30, 1997	1996	Net Increase/ (Decrease)
Revenue passenger miles (millions) (1) . . . . .	35,851	31,581	13.5 %
Available seat miles (millions) (2) . . . . .	50,004	45,820	9.1 %
Passenger load factor (3) . . . . .	71.7%	68.9%	2.8 pts.
Breakeven passenger load factor (4) . . . . .	63.5%	60.5%	3.0 pts.
Passenger revenue per available seat mile (cents) . . . . .	9.26	9.07	2.1 %
Total revenue per available seat mile (cents) . . . . .	10.16	9.94	2.2 %
Operating cost per available seat mile (cents) (5) . . . . .	9.05	8.77	3.2 %
Average yield per revenue passenger mile (cents) (6) . . . .	12.91	13.16	(1.9)%
Average fare per revenue passenger . . . . .	\$149.19	\$143.97	3.6 %
Revenue passengers (thousands) . .	31,022	28,858	7.5 %
Average length of aircraft flight (miles) . . . . .	954	893	6.8 %
Average daily utilization of each aircraft (hours) (7) . . . .	10:14	9:58	2.7 %
Actual aircraft in fleet at end of period (8) . . . . .	334	314	6.4 %

Continental has entered into block space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other carrier. One such arrangement began on June 1, 1997 pursuant to which the other carrier is sharing Continental's costs of operating certain flights by committing to purchase capacity on such flights. The tables above exclude the statistics (which were not material) for the capacity that was purchased and marketed by the other carrier.

- (1) The number of scheduled miles flown by revenue passengers.
- (2) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
- (3) Revenue passenger miles divided by available seat miles.
- (4) The percentage of seats that must be occupied by revenue passengers in order for the airline to break even on an income before income taxes basis, excluding nonoperating items.
- (5) Excludes 1996 fleet disposition charge totaling \$128 million.
- (6) The average revenue received for each mile a revenue passenger is carried.
- (7) The average block hours flown per day in revenue service per aircraft.
- (8) 1997 excludes four all-cargo 727 aircraft at CMI.

#### LIQUIDITY AND CAPITAL COMMITMENTS

During 1997, the Company completed several transactions intended to strengthen its long-term financial position and enhance earnings.

- - In March 1997, Continental completed an offering of \$707 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of up to 30 new Boeing aircraft scheduled to be delivered to Continental through February 1998.
- - In April 1997, Continental completed an offering of \$190 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance Continental's expansion of its hub at George Bush Intercontinental Airport in Houston. These bonds are solely payable from rentals paid by Continental under long-term lease agreements with the City of Houston.
- - In April 1997, Continental entered into a \$160 million secured revolving credit facility to be used for the purpose of making certain predelivery payments to Boeing for new Boeing aircraft to be delivered through December 1999.
- - In April 1997, Continental redeemed for cash all of the 460,247 outstanding shares of its Series A 12% Preferred held by an affiliate of Air Canada for \$100 per share plus accrued dividends thereon. The redemption price, including accrued dividends, totaled \$48 million.

- - In June 1997, Continental purchased from Air Partners warrants to purchase 3,842,542 shares of Class B common stock of the Company for \$94 million in cash.
- - In June 1997, Continental completed an offering of \$155 million of pass-through certificates which were used to finance the acquisition of 10 aircraft previously leased by the Company.
- - In July 1997, Continental entered into a \$575 million credit facility, including a \$275 million term loan. The proceeds of the \$275 million term loan were used by CMI to repay its existing secured term loan. The facility also includes a \$225 million revolving credit facility and a \$75 million term loan commitment for general corporate purposes.
- - In July 1997, the Company (i) purchased (a) UMDA's right to receive future payments under a services agreement between UMDA and CMI and (b) UMDA's 9% interest in AMI, (ii) terminated the Company's obligations to UMDA under a settlement agreement entered into in 1987, and (iii) terminated substantially all of the other contractual arrangements between the Company, AMI and CMI, on the one hand, and UMDA on the other hand, for an aggregate consideration of \$73 million.
- - In September 1997, Continental completed an offering of \$89 million of pass-through certificates which were used to finance the debt portion of the acquisition cost of nine EMB-145ER regional jets.
- - In October 1997, the Company completed an offering of \$752 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of up to 24 new Boeing aircraft scheduled to be delivered to Continental from April 1998 through November 1998.

As of October 10, 1997, Continental had firm commitments with Boeing to take delivery of a total of 115 narrowbody and 40 widebody jet aircraft during the years 1997 through 2005 with options for an additional 91 aircraft (exercisable subject to certain conditions). The narrowbody aircraft will replace older, less efficient Stage 2 aircraft and allow for growth of operations. The new widebody aircraft will replace six DC-10-10 and 31 DC-10-30 aircraft, which will be retired as the new Boeing aircraft are delivered, and will also be used to expand Continental's international and transcontinental service. In connection with this new order, the Company has obtained the flexibility to substitute certain aircraft on order with Boeing and has obtained other benefits. The Company currently plans to substitute 777 aircraft for certain of the 767 aircraft. The Company's agreement with Boeing provides that the Company will purchase from Boeing the carrier's requirements for new jet aircraft (other than regional jets) over the next 20 years, subject to certain conditions. However, Boeing has agreed with the European Commission not to enforce such provision.

The estimated aggregate cost of the Company's firm commitments for the 155 Boeing aircraft is approximately \$7 billion. As of October 10, 1997, the Company has completed or has third party commitments for a total of approximately \$482 million in financing for its future Boeing deliveries, and has commitments or letters of intent from various sources for backstop financing for approximately one-third of the anticipated acquisition cost of its future narrowbody and widebody Boeing deliveries. The Company currently plans on financing the new Boeing aircraft with enhanced equipment trust certificates or similar financing and lease equity, subject to availability and market conditions. However, further financing will be needed to satisfy Continental's capital commitments for other aircraft and aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

In September 1996, Express placed an order for 25 firm EMB-145ER regional jets, with options for an additional 175 aircraft. In June 1997, Express exercised its option to order 25 of such option aircraft. Express now has options for an additional 150 regional jets exercisable at the election of Express over the next 12 years. Neither Express nor Continental will have any obligation to take aircraft that are not financed by a third party and leased to the Company. Express has taken delivery of 13 of the firm aircraft through October 1, 1997 and will

take delivery of the remaining 37 firm aircraft through the third quarter of 1999. The Company expects to account for all of these aircraft as operating leases.

Continental expects its cash outlays for 1997 capital expenditures, exclusive of fleet plan requirements, to aggregate \$155 million, primarily relating to mainframe, software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment. Continental's capital expenditures during the nine months ended September 30, 1997, aggregated \$95 million, exclusive of fleet plan requirements.

The Company expects to fund its future capital commitments through internally generated funds together with general Company financings and aircraft financing transactions. However, there can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by current financings or firm financing commitments. Continental has significant encumbered assets.

As of September 30, 1997, the Company had \$961 million in cash and cash equivalents (excluding restricted cash of \$27 million), compared to \$985 million (excluding restricted cash of \$76 million) as of December 31, 1996. Net cash provided by operating activities increased \$55 million during the nine months ended September 30, 1997 compared to the same period in the prior year primarily due to an improvement in operating income. Net cash used by investing activities increased \$351 million for the nine months ended September 30, 1997 compared to the same period in the prior year, principally due to an increase in fleet-related capital expenditures. Net cash used by financing activities for the nine months ended September 30, 1997 compared to the same period in the prior year decreased \$80 million primarily due to a decrease in payments on long-term debt and capital lease obligations.

See Note 4 in the Notes to the Financial Statements for a discussion of the Company's plans to expand its airport facilities and the related financing thereof.

The Company had, as of December 31, 1996, deferred tax assets aggregating \$1.3 billion, including \$804 million of NOLs. The Company recorded a valuation allowance of \$694 million against such assets as of December 31, 1996. The Company has consummated several built-in-gain transactions, which resulted in the realization of tax benefits related to NOLs attributable to the Company's predecessor. To the extent the Company consummates additional built-in-gain transactions, such benefits will reduce the valuation allowance and reorganization value in excess of amounts allocable to identifiable assets. If such reorganization value were exhausted, reductions in the valuation allowance would decrease other intangibles.

As a result of NOLs, the Company will not pay United States federal income taxes (other than alternative minimum tax) until it has recorded approximately an additional \$1.1 billion of taxable income following December 31, 1996. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event that an ownership change should occur, utilization of Continental's NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate (which is 5.33% for October 1997). Unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by the Company at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, Continental's annual NOL utilization would be limited to approximately \$130 million.

Continental has entered into block space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other carrier. One such arrangement began on June 1, 1997 pursuant to which the other carrier is sharing Continental's costs of operating certain flights by committing to purchase capacity on such flights. Under this arrangement, the Company's statements of operations reflect the reimbursement from the other carrier as an offset to the Company's respective operating expenses.

As a result of the continuing weakness of the yen against the dollar, CMI's operating earnings have declined during each of 1996 and 1997, and are not expected to improve materially absent a stronger yen.

The Taxpayer Relief Act was enacted on August 5, 1997 and contains an extension and modification of the ticket tax, plus new airline industry taxes. The new law increases the tax on international departures from \$6 to \$12, imposes a new tax on international arrivals of \$12, imposes a domestic flight segment fee of \$1 (increasing over a five-year phase-in period to \$3) per passenger per segment, reduces the ticket tax from 10% to 9% (decreasing over a three-year phase-in period to 7.5%) and imposes a 7.5% tax on the sale of frequent flyer miles. The departure and arrival taxes apply to amounts paid for tickets on or after August 13, 1997, for travel beginning on or after October 1, 1997. The new domestic segment tax and the reduction in the ticket tax apply to amounts paid and travel beginning on or after October 1, 1997. Management believes that this new law will have a negative impact on the Company, although the amount of such negative impact cannot be precisely determined.

In April 1997, the Company began collective bargaining agreement negotiations with its Continental Airlines pilots, whose contract became amendable in July 1997, and Express pilots, whose contract became amendable in October 1997. Negotiations are in progress to amend these contracts. The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time. The Company's mechanics and related employees recently voted to be represented by the International Brotherhood of Teamsters (the "Teamsters"). The Company does not believe that the Teamsters' union representation will be material to the Company. In September 1997, the Company announced that it intends to bring all employees to industry standard wages (the average of the top ten air carriers as ranked by the Department of Transportation, excluding Continental) within the next 36 months. The Company stated that it would phase in wage increases over the 36-month period as its revenue, interest rates and rental rates reach industry standards. The Company estimates that the increased wages will aggregate approximately \$500 million over the 36-month period.

Management believes that the Company's costs are likely to be affected in the future by, among other matters, (i) higher aircraft rental expense as new aircraft are delivered, (ii) higher wages, salaries and related costs as the Company increases its employee compensation to industry average, (iii) changes in the costs of materials and services (in particular, the cost of fuel, which can fluctuate significantly in response to global market conditions), (iv) changes in governmental regulations and taxes affecting air transportation and the costs charged for airport access, including new security requirements, (v) changes in the Company's fleet and related capacity and (vi) the Company's continuing efforts to reduce costs throughout its operations, including reduced maintenance costs for new aircraft, reduced distribution expense from using Continental's electronic ticket product ("E-Ticket") and the Internet for bookings, and reduced interest expense.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

None.

### ITEM 2. CHANGES IN SECURITIES.

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

### ITEM 5. OTHER INFORMATION.

None.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

10.1 Supplemental Agreement No. 9 to Purchase Agreement No.

1783 between the Company and Boeing, dated August 13, 1997, relating to the purchase of Boeing 757 aircraft.

11.1 Statement Regarding Computation of Per Share Earnings

27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

None.

#### SIGNATURES

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

CONTINENTAL AIRLINES, INC.  
(Registrant)

Date: October 29, 1997 by: /s/ Lawrence W. Kellner  
Lawrence W. Kellner  
Executive Vice President and  
Chief Financial Officer  
(On behalf of Registrant)

Date: October 29, 1997 by: /s/ Michael P. Bonds  
Michael P. Bonds  
Vice President and Controller  
(Chief Accounting Officer)

#### INDEX TO EXHIBITS OF CONTINENTAL AIRLINES, INC.

10.1 Supplemental Agreement No. 9 to Purchase Agreement No. 1783 between the Company and Boeing, dated August 13, 1997, relating to the purchase of Boeing 757 aircraft. (1)

11.1 Statement Regarding Computation of Per Share Earnings

27.1 Financial Data Schedule.

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(1) The Company has applied to the Commission for confidential treatment of a portion of this exhibit.

Supplemental Agreement No. 9

to

Purchase Agreement No. 1783

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 757-224 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of August 13, 1997 by and between THE BOEING COMPANY, a Delaware corporation with its principal office in Seattle, Washington, (Boeing) and CONTINENTAL AIRLINES, INC., a Delaware corporation with its principal office in Houston, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1783 dated March 18, 1993, as amended and supplemented, relating to Boeing Model 757-224 aircraft (the Agreement); and

WHEREAS, Buyer wishes to exercise [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

WHEREAS, Boeing and Buyer have agreed to amend the Agreement to incorporate certain other changes as set forth herein;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. Table of Contents and Articles:

1.1 Remove and replace, in its entirety, the Table of Contents with a new Table of Contents (attached hereto) to reflect amendment of the Agreement as of the date of this Supplemental Agreement.

1.2 Remove and replace, in its entirety, Article 1, Subject Matter of Sale, with new Article 1 (attached hereto) to incorporate the increase of Block A-1 Aircraft from Twenty-Five (25) to Twenty-Seven (27) and the increase of Block B Aircraft from Six (6) to Nine (9).

1.3 Remove and replace, in its entirety, Article 2, Delivery, Title and Risk of Loss, with new Article 2 (attached hereto) to incorporate a revised delivery schedule for the Block A-1 and Block B Aircraft.

1.4 Remove and replace, in its entirety, Article 3, Price of Aircraft, with new Article 3 (attached hereto) to incorporate revised Advance Payment Base Prices for the Block A-1 and Block B Aircraft.

1.5 Remove and replace, in its entirety, the Delivery Schedule for Model 757-224 Aircraft, following Article 15, with a revised delivery schedule (attached hereto) to incorporate current Aircraft delivery data.

2. Letter Agreements:

2.1 Add revised Letter Agreement 1783-10R2, Option Aircraft, to incorporate [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.2 Add revised Letter Agreement 6-1162-WLJ-375R5, Special Matters, to add certain contractual matters.

2.3 Add revised Letter Agreement 6-1162-WLJ-367R5, Disclosure of Confidential Information, to incorporate the reference to the addition of the Block B Aircraft.

3. Payment of Additional Advance Payments.

Within three (3) business days after execution of this Supplemental Agreement, Buyer shall transfer to Boeing's account at Chase Manhattan Bank, New York, N.Y., the sum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] which sum represents advance payments then due with respect to the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Option Aircraft being exercised and option deposits then due with respect to the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Option Aircraft as of the effective date of the Supplemental Agreement.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY CONTINENTAL AIRLINES, INC.

By: /s/ Gunar O. Clem By: /s/ Brian Davis

Its: Attorney-In-Fact Its: Vice President

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LETTER AGREEMENTS

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[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] SA#2

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[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] SA#2

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[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] SA #2

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[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] SA#2

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[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] SA#2  
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SA#5  
SA#6  
SA#7

SUPPLEMENTAL AGREEMENTS

Dated as of:

Supplemental Agreement No. 1	April 29, 1993
Supplemental Agreement No. 2	November 4, 1993
Supplemental Agreement No. 3	November 19, 1993
Supplemental Agreement No. 4	March 31, 1995
Supplemental Agreement No. 5	November 30, 1995
Supplemental Agreement No. 6	June 13, 1996

Supplemental Agreement No. 7

July 23, 1996

Supplemental Agreement No. 8

October 27, 1996

Supplemental Agreement No. 9

August 13, 1997

ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft. Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of the following Boeing Model 757-224 aircraft (the Aircraft).

1.1.1 Block A, A-1 and B Aircraft. Twenty-seven (27) Block A and A-1 Aircraft (the Block A and A-1 Aircraft) and Nine (9) Block B Aircraft (the Block B Aircraft) manufactured in accordance with Boeing detail specification D924N104-3, dated as of even date herewith, as described in Exhibit A, and as modified from time to time in accordance with this Agreement (Detail Specification).

1.2 Additional Goods and Services. In connection with the sale of the Aircraft, Boeing will also provide to Buyer certain other things under this Agreement, including data, documents, training and services, all as described in this Agreement.

1.3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.4 Defined Terms. For ease of use, certain terms are treated as defined terms in this Agreement. Such terms are identified with a capital letter and set forth and/or defined in Exhibit F.

ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

Month and Year of Delivery	Quantity of Aircraft
-------------------------------	----------------------

Block A Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Block A-1 Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Total:	Twenty-Seven (27)
--------	-------------------

Block B Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Total:	Nine (9)
--------	----------

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. Boeing will give Buyer at least 7 days' notice of the delivery date of the Aircraft. If an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at a facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Documents of Title. Upon delivery of and payment for each Aircraft, Boeing shall deliver to Buyer a bill of sale duly conveying to Buyer good title to such Aircraft free and clear of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features listed in Exhibit A which have been selected by Buyer.

3.1.2 Base Airframe Price is the Aircraft Basic Price excluding the price of Special Features and Engines.

3.1.3 Engine Price is the price established by the Engine manufacturer for the Engines installed on the Aircraft including all accessories, equipment and parts set forth in Exhibit D.

3.1.4 Aircraft Basic Price is comprised of the Base Airframe Price, the Engine Price and the price of the Special Features.

3.1.5 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Airframe, Engine and Special Features) as calculated pursuant to Exhibit D.

3.1.6 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.1.7 Price First Published is the first price published by Boeing for the same model of aircraft to be delivered in the same general time period as the affected Aircraft and is used to establish the Base Airframe Price when the Base Airframe Price was not established at the time of execution of this Agreement.

3.2 Aircraft Basic Price.

3.2.1 Block A Aircraft. The Aircraft Basic Price of the Block A Aircraft, expressed in July 1992 dollars, is set forth below:

Base Airframe Price:	[CONFIDENTIAL MATTER
Special Features	OMITTED AND FILED
Engine Price	SEPARATELY WITH THE
	SECURITIES AND EXCHANGE
Block A Aircraft	COMMISSION PURSUANT TO
Basic Price	A REQUEST FOR
	CONFIDENTIAL TREATMENT]

3.2.2 Block A-1 and Block B Aircraft. The Aircraft Basic Price of the Block A-1 and Block B Aircraft with delivery, expressed in July 1992 dollars, is set forth below:

Base Airframe Price:	[CONFIDENTIAL MATTER
Special Features	OMITTED AND FILED
Engine Price	SEPARATELY WITH THE
	SECURITIES AND EXCHANGE
Block A-1/B Aircraft	COMMISSION PURSUANT TO
Basic Price	A REQUEST FOR
	CONFIDENTIAL TREATMENT]

The special features value above for the Block A-1 and Block B Aircraft incorporates the special features reprice activity noted in Exhibit A-1 which includes Exhibit A, Change Orders 1,2, and 3 plus accepted Master Changes as of June 1, 1996.

3.3 Aircraft Price.

3.3.1 Block A Aircraft, Block A-1 Aircraft and Block B Aircraft. The Aircraft Price of the Block A Aircraft, Block A-1 Aircraft and Block B Aircraft will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1.1 the Block A Aircraft Basic Price, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and the Block A-1 Aircraft and Block B Aircraft which is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; plus

3.3.1.2 the Economic Price Adjustments for the respective Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Airframe and Engine - Block A, Block A-1 and Block B Aircraft) plus

3.3.1.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

#### 3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
--------------------------------------	---

Block A Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Block A-1 Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Block B Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

#### 3.4.2 Adjustment of Advance Payment Base Prices

- - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of the first Aircraft scheduled for delivery in a calendar year (First Aircraft), Boeing will increase or decrease the Advance Payment Base Price of the First Aircraft and all Aircraft scheduled for delivery after the First Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

Continental Airlines, Inc.  
Delivery Schedule for Model 757-224 Aircraft

A/C#	Cont Dlvy	Cont Blk	MSN	Tab Blk	Reg No.	Eng1 S/N	Eng2 S/N	Delivery Date
------	--------------	-------------	-----	------------	------------	-------------	-------------	------------------

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[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE  
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR  
CONFIDENTIAL TREATMENT]

August 13, 1997  
1783-10R2

Continental Airlines, Inc.  
2929 Allen Parkway  
Houston, Texas 77019

Subject: Letter Agreement No. 1783-10R2 to  
Purchase Agreement No. 1783 - Option Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1783 dated March 18, 1993 (the Purchase Agreement) between THE BOEING COMPANY (Boeing) and CONTINENTAL AIRLINES, INC. (Buyer) relating to Model 757-224 aircraft (Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1783-10R1.

All terms used and not defined herein shall have the same meaning as in the Purchase Agreement.

In consideration of Buyer's purchase of the Aircraft, Boeing hereby agrees to manufacture and sell up to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] to Buyer, on the same terms and conditions set forth in the Purchase Agreement, except as otherwise described in Attachment A hereto, and subject to the terms and conditions set forth below.

1. Delivery.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

Month and Year of Delivery	Number of Option Aircraft
-------------------------------	------------------------------

Block R Option Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. Price. The basic price of the Option Aircraft shall be the same price as the Firm Aircraft pursuant to Article 3 to the Purchase Agreement, adjusted to reflect changes as set forth in paragraph 2 of Attachment A hereto and any other applicable written agreements executed by Boeing and Buyer.

3. Option Aircraft Deposit.

In consideration of Boeing's grant to Buyer of options to purchase the Option Aircraft as set forth herein, and concurrent with Buyer's payment to Boeing of initial advance payments required under Supplemental Agreement No. 6 to the Purchase Agreement for the Aircraft, Buyer will pay a deposit to Boeing of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for each Option Aircraft (the Option Deposit). In the event Buyer exercises an option herein for an Option Aircraft, the amount of the Option Deposit for such Option Aircraft will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in Article 5 of the Purchase Agreement.

In the event that Buyer does not exercise its option to purchase a particular Option Aircraft pursuant to the terms and conditions set forth herein, Boeing shall be entitled to retain the Option Deposit for such Option Aircraft.

4. Option Exercise.

To exercise its option to purchase the Option Aircraft, Buyer shall give written notice thereof to Boeing on or before the



By /s/ Gunar O. Clem

Its Attorney in Fact

ACCEPTED AND AGREED TO this

Date: August 13, 1997

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President  
Attachment

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D924N104-3, dated March 18, 1993, as amended and revised pursuant to the Purchase Agreement.

1.2 Changes. The Option Aircraft Detail Specification shall be revised to include:

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(3) Changes required to obtain a Standard Certificate of Airworthiness.

1.3 Effect of Changes. Changes to the Detail Specification pursuant to the provisions of the clauses above shall include the effects of such changes upon [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. Price Description.

2.1 Price Adjustments.

2.1.1 Base Price Adjustments. The base airframe and base engine price (pursuant to Article 3 of the Purchase Agreement) of the Option Aircraft will be adjusted to Boeing's and the engine manufacturer's then-current prices as of the date of execution of the Option Aircraft Supplemental Agreement.

2.1.2 Special Features. The price for special features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the Option Aircraft Supplemental Agreement only to the extent that such increase is attributable to an increase in Boeing's cost for purchased equipment.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.1.4 Price Adjustments for Changes. Boeing may adjust the basic price and the advance payment base prices for any changes mutually agreed upon by Buyer and Boeing subsequent to the date that Buyer and Boeing enter into the Option Aircraft Supplemental Agreement.

2.1.5 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Detail Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of such price.

2.1.6 Certification of Rolls-Royce Engines. It is understood by the parties that the price offered hereunder of the Rolls-Royce Engines may be adjusted by Rolls-Royce to reflect changes required to be incorporated to satisfy any new or amended United States Federal Aviation Administration (FAA) regulations. Therefore, in the event that after May 31, 1990, the FAA or other applicable U.S. Federal Agency issues new rules or regulations or changes or amends then-existing rules or regulations, and such new, changed or amended rules or regulations require changes to or modification of the Engines (Engine Modifications), then: (i) Boeing shall adjust the purchase price of the Option Aircraft in the amount by which Rolls-Royce revises its price of the Engines to Boeing as a result of such Engine Modifications; (ii) if the Engine Modifications require any change, modification or alteration to the Option Aircraft (Option Aircraft Modifications), the charge for making the Option Aircraft

Modifications shall be added to the purchase price of the Option Aircraft; (iii) notwithstanding the provisions of paragraph 1 of this Letter Agreement, the time of delivery of the Option Aircraft shall be extended to the extent of any delay attributable to the Engine or Option Aircraft Modifications and said delay shall be deemed excusable; and (iv) Boeing shall, if necessary, revise the Option Aircraft Detail Specification as required to reflect the effects of the Engine Modifications or Option Aircraft Modifications.

### 3. Advance Payments.

3.1 Buyer shall pay to Boeing advance payments for the Option Aircraft pursuant to the schedule for payment of advance payments provided in the Purchase Agreement.

August 13, 1997  
6-1162-WLJ-375R5

CONTINENTAL AIRLINES, INC.  
2929 Allen Parkway  
Houston, Texas 77019

Subject: Letter Agreement No. 6-1162-WLJ-375R5 to  
Purchase Agreement No. 1783 -  
Special Matters

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1783 dated March 18, 1993 (the Agreement) between THE BOEING COMPANY (Boeing) and CONTINENTAL AIRLINES, INC. (Buyer) relating to firm Model 757-224 aircraft (Aircraft) and option Model 757-224 aircraft (Option Aircraft). Letter Agreement 6-1162-WLJ-375R4 is hereby cancelled and superseded.

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. Option Deposits. Notwithstanding the amount specified in paragraph 3 of Letter Agreement 1783-10R2 for the Option Deposit, Boeing and Buyer agree that the Option Deposit shall be [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Option Aircraft.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(b) Effective Date for Revised Interest Rate. Boeing and Buyer agree that the effective date for the interest calculation in changing from [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. Any adjustments due Buyer as a result of this revised interest rate will be incorporated into the credits to be paid Buyer pursuant to paragraph 4 of Supplemental Agreement No. 7 to the Purchase Agreement.

(c) Boeing Invoice. Boeing shall submit to Buyer, not less than fifteen (15) days prior to the end of each quarter, an invoice for interest accrued during each such quarter. Buyer's payment is due and payable to Boeing on the first business day of the following month. Boeing's invoice will show interest accrued during the quarter for each Aircraft for which advance payments have been deferred. The invoice will also include interest accrued on deferred advance payments with respect to other aircraft in other purchase agreements between Buyer and Boeing.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

## 7. Simulator Data Package

If Buyer elects to purchase a 757 Full Flight Simulator Data Package prior to February 1996, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The current purchase price of the Simulator Data Package is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR

CONFIDENTIAL TREATMENT]

#### 9. Additional Training Materials

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

- Three (3) additional sets of 35 mm slides as described in Paragraph 6.1.

- Three (3) additional full scale colored instrument panel wall charts as described in Paragraph 6.1.

- Three (3) additional sets of FRM/FIM training data as described in 6.6.

- Three (3) additional sets of Video Programs as described in Paragraph 6.5.

The current price of such additional training materials is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

#### 10. Maintenance Technical Specialist Support

Boeing shall provide, on a mutually agreeable schedule, two (2) technical specialists for a period of two (2) calendar months to advise and instruct Buyer's personnel in the maintenance of Buyer's 757 Aircraft. Boeing's specialist personnel shall be qualified to provide advice and instruction on 757 electrical and avionics systems. The scope of duties of these specialists shall exclude flying on Buyer's Aircraft in any technical capacity, performing maintenance work, and signing-off maintenance log books or aircraft maintenance releases. Boeing personnel shall be assigned to one of Buyer's maintenance bases within the United States and Buyer shall specify the base or bases prior to the assignment by Boeing of the specialist. Boeing personnel shall be assigned to a normal work shift, but not exceed eight (8) hours in any 24 hour period and five (5) days in any seven (7) day period. Buyer shall reimburse Boeing for all airfares incurred in the assignment or reassignment of Boeing's personnel.

Buyer shall pay, or reimburse Boeing for all taxes, fees, duties, licenses, permits and other similar requirements or expenses incurred by Boeing or its assigned employees, resulting from providing such technical support.

The services to be provided hereunder are of the type contemplated in paragraph 4, Part B of the Customer Support Document and such provisions shall be applicable to Boeing's undertaking set forth herein.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

12. Confidential Treatment. Boeing and Buyer understand that certain commercial and financial information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Boeing and Buyer further agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement 6-1162-WLJ-367R5.

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By /s/ Gunar O. Clem

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: August 13, 1997

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

Continental Airlines, Inc.  
Purchase Agreement 1783 - Model 757

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE  
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR  
CONFIDENTIAL TREATMENT]

August 13, 1997  
6-1162-WLJ-367R5

CONTINENTAL AIRLINES, INC.  
2929 Allen Parkway  
Houston, Texas 77019

Subject: Letter Agreement No. 6-1162-WLJ-367R5 to  
Purchase Agreement No. 1783 -  
Disclosure of Confidential Information

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1783 dated March 18, 1993 as amended and supplemented (the Agreement) between THE BOEING COMPANY (Boeing) and CONTINENTAL AIRLINES, INC. (Buyer) relating to Model 757-224 aircraft (the Aircraft). Letter Agreement 6-1162-WLJ-367R4 is hereby cancelled and superseded.

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

1. Boeing and Buyer each understand that certain commercial and financial information contained in the documents listed below and any documents that amend, supplement or supersede such document (Confidential Documents) is considered by the other party to be confidential.
2. Boeing and Buyer agree that each party will treat the Confidential Documents and the information contained therein as confidential and will not, without the other party's prior written consent, disclose such Confidential Documents or any information contained therein to any other person or entity except as may be required by (i) applicable law or governmental regulations; or (ii) for financing the Aircraft in accordance with the provisions of Article 10 of the Agreement.
3. In connection with any such disclosure or filing of the Confidential Documents, or the information contained therein pursuant to any such applicable law or governmental regulation, Buyer or Boeing, as applicable, will request and use its best reasonable efforts to obtain confidential treatment of such Confidential Documents and the information contained therein. Boeing and Buyer agree to cooperate with each other in making and supporting any such request for confidential treatment.

#### Schedule of Confidential Documents

1. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].
2. Letter Agreement No. 6-1162-WLJ-367R5.
3. Letter Agreement No. 6-1162-WLJ-369.
4. Letter Agreement No. 6-1162-WLJ-372.
5. Letter Agreement No. 6-1162-WLJ-375R5.
6. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].
7. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].
8. Letter Agreement No. 6-1162-WLJ-391R1.
9. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

10. Letter Agreement No. 6-1162-WLJ-405.

11. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

12. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

13. Letter Agreement No. 6-1162-RGP-945.

14. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

15. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

16. Letter Agreement No. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By /s/ Gunar O. Clem

Its Attorney-In-Fact

ACCEPTED AND AGREED TO

Dated as of August 13, 1997

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

CONTINENTAL AIRLINES, INC.  
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS  
(In millions, except per share amount)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Primary:				
Weighted average shares outstanding. . . . .	58.0	53.4	57.4	53.2
Dilutive effect of outstanding stock options, warrants and restricted stock grants (as determined by the application of the treasury stock method). . .	4.3	11.2	6.0	11.5
Weighted average number of common shares outstanding, as adjusted. .	62.3	64.6	63.4	64.7
Income applicable to common shares before extraordinary loss. . . . .	\$ 114	\$ 23	\$ 314	\$ 275
Per share amount before extraordinary loss. . . . .	\$1.83	\$0.35	\$4.95	\$4.26
Income applicable to common shares after extraordinary loss . . . . .	\$ 110	\$ 17	\$ 310	\$ 269
Per share amount after extraordinary loss . . . . .	\$1.77	\$0.25	\$4.90	\$4.16

(continued on next page)

CONTINENTAL AIRLINES, INC.  
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS  
(In millions, except per share amount)

	Three Months Ended		Nine Months Ended	
	1997	1996	1997	1996
Fully diluted:				
Weighted average shares outstanding. . . . .	58.0	53.4	57.4	53.2
Dilutive effect of outstanding stock options, warrants and restricted stock grants (as				

determined by the application of the treasury stock method). . .	4.6	11.2	6.3	12.1
Dilutive effect of Series A debentures . . . . .	-	-	-	0.9
Dilutive effect of 8-1/2% convertible trust originated preferred securities . . . . .	10.3	10.3	10.3	10.3
Dilutive effect of 6-3/4% convertible subordinated notes . .	7.6	7.6	7.6	5.2
Weighted average number of common shares outstanding, as adjusted. . . . .	80.5	82.5	81.6	81.7
Income applicable to common shares. . . . .	\$ 114	\$ 23	\$ 314	\$ 275
Add distributions associated with the assumed conversion of 8-1/2% convertible trust originated preferred securities, net of federal income tax effect . . . . .	4	3	10	12
Add interest expense associated with the assumed conversion of 6-3/4% convertible subordinated notes, net of federal income tax effect . . . . .	2	2	8	5
Income, as adjusted, before extraordinary loss . . . . .	\$ 120	\$ 28	\$ 332	\$ 292
Per share amount before extraordinary loss . . . . .	\$1.50	\$0.34	\$4.07	\$3.58
Income, as adjusted, after extraordinary loss . . . . .	\$ 116	\$ 22	\$ 328	\$ 286
Per share amount, after extraordinary loss . . . . .	\$1.45	\$0.25	\$4.02	\$3.50

9-MOS  
DEC-31-1997  
SEP-30-1997  
988  
0  
469  
0  
122  
1710  
2104  
575  
5804  
2456  
0  
0  
0  
815  
5804  
5374  
5374  
0  
4790  
0  
126  
518  
192  
316  
0  
4  
0  
312  
4.9  
4.02