

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 MARCH 31, 1998

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

(State or other jurisdiction  
of incorporation or organization)

74-2099724

(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 April 24, 1998, 11,418,932 shares of Class A common stock and 50,325,443 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 March 31,	
	1998	1997
	(Unaudited)	
Operating Revenue:		
Passenger . . . . .	\$1,714	\$1,564
Cargo . . . . .	48	40
Mail and other. . . . .	92	94
	1,854	1,698
Operating Expenses:		
Wages, salaries and related costs . . . . .	497	414

Aircraft fuel . . . . .	190	229
Aircraft rentals . . . . .	156	131
Maintenance, materials and repairs. . .	153	125
Commissions . . . . .	141	138
Other rentals and landing fees. . . . .	101	97
Depreciation and amortization . . . . .	68	60
Other . . . . .	398	358
	1,704	1,552
 Operating Income . . . . .	 150	 146
 Nonoperating Income (Expense):		
Interest expense. . . . .	(40)	(42)
Interest capitalized. . . . .	13	6
Interest income . . . . .	12	13
Other, net. . . . .	2	1
	(13)	(22)
 Income before Income Taxes . . . . .	 137	 124
 Income Tax Provision . . . . .	 (52)	 (46)
 Distributions on Preferred Securities of Trust, net of applicable income taxes of \$2 and \$2, respectively. . . .	   (4)	   (4)

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

	Three Months Ended March 31, 1998                      1997 (Unaudited)	
Net Income . . . . .	\$ 81	\$ 74
Preferred Dividend Requirements. . . . .	-	(1)
Income Applicable to Common Shares . . . . .	\$ 81	\$ 73
Earnings per Common Share. . . . .	\$ 1.38	\$ 1.28
Earnings per Common Share Assuming Dilution . . . . .	\$ 1.06	\$ 0.96

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	March 31, 1998 (Unaudited)	December 31, 1997
Current Assets:		
Cash and cash equivalents, including restricted cash and cash equivalents of \$16 and \$15, respectively . . . . .	\$ 669	\$1,025
Short-term investments . . . . .	184	-
Accounts receivable, net . . . . .	454	361
Spare parts and supplies, net . . . . .	135	128
Deferred income taxes . . . . .	111	111
Prepayments and other . . . . .	123	103
Total current assets . . . . .	1,676	1,728
Property and Equipment:		
Owned property and equipment:		
Flight equipment . . . . .	1,917	1,636
Other . . . . .	482	456
	2,399	2,092
Less: Accumulated depreciation . . . . .	508	473
	1,891	1,619
Purchase deposits for flight equipment	480	437
Capital leases:		
Flight equipment . . . . .	317	274
Other . . . . .	40	40
	357	314
Less: Accumulated amortization . . . . .	154	145
	203	169
Total property and equipment . . . . .	2,574	2,225
Other Assets:		
Routes, gates and slots, net . . . . .	1,410	1,425
Reorganization value in excess of amounts allocable to identifiable assets, net . . . . .	-	164
Investments . . . . .	107	104
Other assets, net . . . . .	198	184
Total other assets . . . . .	1,715	1,877
Total Assets . . . . .	\$5,965	\$5,830

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 1998 (Unaudited)	December 31, 1997
Current Liabilities:		
Current maturities of long-term debt. . .	\$ 228	\$ 243
Current maturities of capital leases. . .	45	40
Accounts payable. . . . .	666	781
Air traffic liability . . . . .	893	746
Accrued payroll and pensions. . . . .	173	158
Accrued other liabilities . . . . .	341	317
Total current liabilities. . . . .	2,346	2,285
Long-Term Debt . . . . .	1,541	1,426
Capital Leases . . . . .	180	142
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes . . . . .	318	435
Accruals for aircraft retirements and excess facilities. . . . .	97	123
Other . . . . .	259	261
Total deferred credits and other long-term liabilities . . . . .	674	819
Commitments and Contingencies		
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures (A). . . . .		
	242	242

(A) The sole assets of the Trust are convertible subordinated debentures with an aggregate principal amount of \$249 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)

	March 31, 1998 (Unaudited)	December 31, 1997
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 8,379,464 and 8,379,464 shares issued and outstanding, respectively. . . . .	\$ -	\$ -
Class B common stock - \$.01 par, 200,000,000 shares authorized; 51,066,488 and 50,512,010 shares issued, respectively . . . . .	1	1
Additional paid-in capital . . . . .	647	639
Retained earnings . . . . .	357	276
Treasury stock - 439,000 Class B shares in 1998. . . . .	(26)	-
Other . . . . .	3	-
Total common stockholders' equity. . . . .	982	916
Total Liabilities and Stockholders' Equity . . . . .	\$5,965	\$5,830

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)

	Three Months Ended March 31, 1998      1997 (Unaudited)	
Net Cash Provided by Operating Activities. . . . .	\$ 100	\$154
Cash Flows from Investing Activities:		
Purchase of short-term investments. . . . .	(184)	-
Capital expenditures. . . . .	(139)	(106)
Purchase deposits paid in connection with future aircraft deliveries, net . . . . .	(55)	(54)
Other . . . . .	(8)	(8)
Net cash used by investing activities. . . . .	(386)	(168)
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations. . . . .	(63)	(128)
Proceeds from issuance of long-term debt, net. . . . .	-	6
Purchase of Class B treasury stock. . . . .	(26)	-
Distributions on preferred securities of trust . . . . .	(6)	(6)
Other . . . . .	24	5
Net cash used by financing activities. . . . .	(71)	(123)
Net Decrease in Cash and Cash Equivalents . . . . .	(357)	(137)
Cash and Cash Equivalents - Beginning of Period (A) . . . . .	1,010	985
Cash and Cash Equivalents - End of Period (A). . . . .	\$ 653	\$848

(A) Excludes restricted cash of \$15 million and \$76 million at January 1, 1998 and 1997, respectively, and \$16 million and \$79 million at March 31, 1998 and 1997, respectively.

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

Three Months  
 Ended March 31,  
 1998            1997  
 (Unaudited)

Supplemental Cash Flow Information:

Interest paid . . . . .	\$ 25	\$ 26
Income taxes paid . . . . .	\$ 2	\$ -

Investing and Financing Activities

Not Affecting Cash:

Property and equipment acquired through the issuance of debt . . . . .	\$ 154	\$ 28
Capital lease obligations incurred. . . . .	\$ 53	\$ 9

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, 1997.

NOTE 1 - SHORT-TERM INVESTMENTS

During 1998, the Company began investing in commercial paper with original maturities in excess of 90 days but less than 270 days. These investments are classified as short-term investments in the consolidated balance sheet. Short-term investments are stated at cost, which approximates market value.

NOTE 2 - REORGANIZATION VALUE IN EXCESS OF AMOUNTS ALLOCABLE TO IDENTIFIABLE ASSETS

During 1998, the Company determined that it would be able to recognize additional net operating losses ("NOLs") attributable to the Company's predecessor as a result of the completion of several transactions resulting in recognition of built-in gains for federal income tax purposes. This benefit was used to reduce to zero reorganization value in excess of amounts allocable to identifiable assets.

NOTE 3 - EARNINGS PER SHARE

The following table sets forth the computations of basic and diluted earnings per share (in millions, except per share data):

	Three Months Ended March 31,	
	1998	1997
Net income . . . . .	\$ 81	\$ 74
Preferred stock dividends . . . . .	-	(1)
Numerator for basic earnings per share - income available to common stockholders . . . . .	81	73
Effect of dilutive securities:		
Preferred Securities of Trust . . . . .	3	3
6-3/4% convertible subordinated notes . . . . .	2	2
	5	5
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions . . . . .	\$ 86	\$ 78
Denominator:		
Denominator for basic earnings per share - weighted-average shares . . . . .	58.9	56.9
Effect of dilutive securities:		
Employee stock options . . . . .	2.0	1.4
Warrants . . . . .	2.7	4.8
Restricted Class B common stock . . . . .	-	0.4
Preferred Securities of Trust . . . . .	10.3	10.3
6-3/4% convertible subordinated notes . . . . .	7.6	7.6
Dilutive potential common shares . . . . .	22.6	24.5
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions . . . . .	81.5	81.4

NOTE 4 - INCOME TAXES

Income taxes for the three months ended March 31, 1998 and 1997 were provided at the estimated annual effective tax rate. Such rate differs from the federal statutory rate of 35%, primarily due to state income taxes and the effect of certain expenses that are not deductible for income tax purposes.

At December 31, 1997, the Company had estimated NOL carryforwards of \$1.7 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 net operating losses and investment tax credits will be limited. Reflecting this limitation, the Company has recorded a valuation allowance of \$617 million at December 31, 1997.

Continental had, as of December 31, 1997, deferred tax assets aggregating \$1.1 billion, including \$631 million of NOLs. Realization of a substantial portion of the Company's remaining NOLs required the completion by April 27, 1998 of transactions resulting in recognition of built-in gains for federal income tax purposes. The Company consummated several such transactions resulting in the elimination of reorganization value in excess of amounts allocable to identifiable assets. In addition, the deferred tax asset related to these net operating losses and the related valuation allowance (each totaling \$164 million) were eliminated in the first quarter of 1998. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would reduce other intangibles.

NOTE 5 - COMPREHENSIVE INCOME

As of January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 - "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of SFAS 130 had no impact on the Company's net income or shareholders' equity. SFAS 130 requires unrealized gains or losses on the Company's available-for-sale securities and changes in minimum pension liabilities, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income.

During the first quarter of 1998 and 1997, total comprehensive income amounted to \$84 million and \$74 million, respectively.

#### NOTE 6 - OTHER

On January 26, 1998, the Company announced that, in connection with an agreement by Air Partners, L.P. ("Air Partners") to dispose of its interest in the Company to an affiliate of Northwest Airlines, Inc. ("Northwest"), the Company had entered into a long-term global alliance with Northwest (the "Northwest Alliance") involving schedule coordination, frequent flyer reciprocity, executive lounge access, airport facility coordination, code-sharing, the formation of a joint venture among the two carriers and KLM Royal Dutch Airlines with respect to their trans-Atlantic services, cooperation regarding other alliance partners of the two carriers and regional alliance development, certain coordinated sales programs, preferred reservations displays and other activities.

In February 1998, the Company completed an offering of \$773 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 aircraft scheduled to be delivered through December 1998.

In addition, during the first quarter of 1998, Continental completed several offerings totaling approximately \$98 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance certain airport facility projects. These bonds are guaranteed by Continental and are payable solely from rentals paid by Continental under long-term lease agreements with the respective governing bodies.

In February 1998, a five-year collective bargaining agreement with the Continental Airlines pilots was announced by the Company and the Independent Association of Continental Pilots ("IACP"). In March 1998, the Company's wholly owned subsidiary, Continental Express, Inc. ("Express"), also announced a five-year collective bargaining agreement with its pilots. These agreements are subject to ratification by the Continental and Express pilots.

In March 1998, the Company announced that its Board of Directors had authorized the expenditure of up to \$100 million to repurchase shares of the Company's common stock or convertible securities. No time limit was placed on the duration of the repurchase program. Subject to applicable securities laws, such purchases occur at times and in amounts that the Company deems appropriate. As of April 24, 1998, 910,000 shares had been repurchased.

#### NOTE 7 - SEGMENTS DISCLOSURE

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 131 - "Disclosure About Segments of an Enterprise and Related Information" ("SFAS 131"). Although SFAS 131 is effective beginning the first quarter of 1998, Continental has elected not to report segment information in interim financial statements in the first year of application consistent with the provisions of the statement.

#### NOTE 8 - SUBSEQUENT EVENTS

In April 1998, the Company completed an offering of \$187 million of pass-through certificates to be used to refinance the debt related to 14 aircraft currently owned by Continental. In connection with this refinancing, Continental will record a \$3 million after tax extraordinary charge to consolidated earnings in the second quarter of 1998.

On April 24, 1998 Air Partners exercised warrants to purchase 2,298,134 shares of Class A common stock with an exercise price of \$7.50 per share and warrants to purchase 741,334 shares of Class A common stock with an exercise price of \$15.00 per share.

In May 1998, Express announced an order for 25 firm Embraer ERJ-135 regional jets, with options for an additional 50 aircraft exercisable through 2005. The Company currently plans on financing the new aircraft using lease financing and expects to account for all of these aircraft as operating leases.

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, 1997 which identify important factors that could cause actual results to differ materially from those 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 sale activities, 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 months ended March 31, 1998 as compared to the corresponding period ended March 31, 1997.

Comparison of Three Months Ended March 31, 1998 to Three Months  
Ended March 31, 1997

The Company recorded consolidated net income of \$81 million for the three months ended March 31, 1998 as compared to consolidated net income of \$74 million for the three months ended March 31, 1997. Management believes that the Company benefitted in the first quarter of 1997 from the expiration of the aviation trust fund tax (the "ticket tax"). The ticket tax was reinstated on March 7, 1997. 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 previous expiration, can be precisely determined.

CMI's operating results declined during 1996, 1997 and the first quarter of 1998 as a result of the continued weakness of the yen against the dollar, a weak Japanese economy and increased fuel costs in 1996 and 1997. CMI's operating results are not expected to improve materially absent a significant improvement in the Japanese economy or a significant strengthening of the yen.

Passenger revenue increased 9.6%, \$150 million, during the quarter ended March 31, 1998 as compared to the same period in 1997, which was primarily due to a 10.8% increase in revenue passenger miles driven by a 10.7% increase in capacity. Continental Airlines passenger yield declined 1.3% from 13.49 cents per revenue passenger mile to 13.31 cents per revenue passenger mile.

Cargo revenue increased 20.0%, \$8 million, in the three months ended March 31, 1998 as compared to the same period in the prior year, due to an increase in cargo capacity, primarily in international markets.

Wages, salaries and related costs increased 20.0%, \$83 million, during the quarter ended March 31, 1998 as compared to the same period in 1997, due primarily to an 11% increase in average full-time equivalent employees and an accrual for the impact of the Company's new collective bargaining agreement with the IACP.

Aircraft fuel expense decreased 17.0%, \$39 million, in the three months ended March 31, 1998 as compared to the same period in the prior year. The average price per gallon decreased 25.4% from 69.38 cents in the first quarter of 1997 to 51.79 cents in the first quarter of 1998. Partially offsetting such price decline was a 10.0% increase in the quantity of jet fuel used from 320 million gallons in the first quarter of 1997 to 352 million gallons in the first quarter of 1998, principally reflecting increased capacity.

Aircraft rentals increased 19.1%, \$25 million, primarily as a result of the delivery of new aircraft throughout 1997 and the

first quarter of 1998, net of retirements.

Maintenance, materials and repairs increased 22.4%, \$28 million, during the quarter ended March 31, 1998 as compared to the same period in 1997, due principally to the volume and timing of engine overhauls (including an increase in the number of aircraft) and routine maintenance as part of the Company's ongoing maintenance program.

Depreciation and amortization expense increased 13.3%, \$8 million, in the three months ended March 31, 1998 as compared to the same period in 1997, primarily due to increased costs related to new aircraft offset by a reduction in the amortization of reorganization value in excess of amounts allocable to identifiable assets. See Note 2 to consolidated financial statements.

Other operating expense increased 11.2%, \$40 million, in the three months ended March 31, 1998 as compared to the same period in the prior year, as a result of increases in passenger services, reservations and sales expense and other miscellaneous expense.

Interest capitalized increased \$7 million in the first quarter of 1998 compared to 1997 as a result of higher average purchase deposits for flight equipment resulting from the pending acquisition of new aircraft.

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

	Three Months Ended		Net
	March 31,	1997	Increase/ (Decrease)
	1998		
Revenue passenger miles (millions) (1) . . . . .	12,072	10,891	10.8 %
Available seat miles (millions) (2) . . . . .	17,523	15,832	10.7 %
Passenger load factor (3) . . . . .	68.9%	68.8%	0.1 pts.
Breakeven passenger load factor (4) . . . . .	60.6%	59.0%	1.6 pts.
Passenger revenue per available seat mile (cents) (5) . . . . .	9.12	9.29	(1.8)%
Total revenue per available seat mile (cents) (6) . . . . .	10.01	10.22	(2.1)%
Operating cost per available seat mile (cents) (7) . . . . .	9.14	9.27	(1.4)%
Average yield per revenue passenger mile (cents) (8) . . . . .	13.23	13.51	(2.1)%
Average fare per revenue passenger . . . . .	\$154.88	\$151.04	2.5 %
Revenue passengers (thousands) . . . . .	10,072	9,739	3.4 %
Average length of aircraft flight (miles) . . . . .	1,015	925	9.7 %
Average daily utilization of each aircraft (hours) (9) . . . . .	10:13	10:15	(0.3)%
Actual aircraft in fleet at end of period (10) . . . . .	346	321	7.8 %

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 in June 1997 and another block-space arrangement began in February 1998. For 1998, the table above excludes 330 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 22 million available seat miles, and related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental.

- (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 nonrecurring charges, nonoperating items and other special items.
- (5) Passenger revenue divided by available seat miles.
- (6) Total revenue divided by available seat miles.
- (7) Operating expenses divided by available seat miles.
- (8) The average revenue received for each mile a revenue passenger is carried.
- (9) The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).
- (10) Excludes all-cargo 727 aircraft (six in 1998 and four in 1997) at Continental Micronesia, Inc. ("CMI"), a wholly owned subsidiary of Continental. During the first quarter of 1998, the Company took delivery of 12 aircraft and removed three aircraft from service.

#### LIQUIDITY AND CAPITAL COMMITMENTS

In the first four months of 1998, the Company completed several transactions intended to strengthen its long-term financial position and enhance earnings.

In February 1998, the Company completed an offering of \$773 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 aircraft scheduled to be delivered through December 1998.

In addition, during the first quarter of 1998 Continental completed several offerings totaling approximately \$98 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance certain airport facility projects. These bonds are guaranteed by Continental and are payable solely from rentals paid by Continental under long-term lease agreements with the respective governing bodies.

In April 1998, the Company completed an offering of \$187 million of pass-through certificates to be used to refinance the debt related to 14 aircraft currently owned by Continental.

As of March 31, 1998, the Company had \$653 million in cash and cash equivalents (excluding restricted cash of \$16 million) and \$184 million of short-term investments, compared to \$1,010 million in cash and cash equivalents (excluding restricted cash of \$15 million) as of December 31, 1997. Net cash provided by operating activities decreased \$54 million during the three months ended March 31, 1998 compared to the same period in the prior year primarily due to an increase in credit card receivables. Net cash used by investing activities increased \$218 million for the three months ending March 31, 1998 compared to the same period in the prior year, primarily as a result of higher capital and fleet-related expenditures and the purchase of short-term investments. Net cash used by financing activities for the three months ended March 31, 1998 compared to the same period in the prior year decreased \$52 million primarily due to a decrease in payments on long-term debt and capital lease obligations.

Deferred Tax Assets. The Company had, as of December 31, 1997, deferred tax assets aggregating \$1.1 billion, including \$631 million of NOLs. Realization of a substantial portion of the Company's remaining NOLs required the completion by April 27, 1998 of transactions resulting in recognition of built-in gains for federal income tax purposes. The Company consummated several such transactions resulting in the elimination of reorganization value in excess of amounts allocable to identifiable assets. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would reduce 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 \$515 million of taxable income following December 31, 1997. 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. Based on information currently available, the Company does not believe that the Air Partners agreement to dispose of its interest in the Company to an affiliate of Northwest will result in an ownership change for purposes of Section 382.

Purchase Commitments. As of April 24, 1998, Continental had firm commitments with The Boeing Company ("Boeing") to take delivery of a total of 148 jet aircraft during the years 1998 through 2005 with options for an additional 61 aircraft (exercisable subject to certain conditions). These new aircraft will replace older, less efficient Stage 2 aircraft and allow for growth of operations. The estimated aggregate cost of the Company's firm commitments for the Boeing aircraft is approximately \$6.4 billion. As of April 24, 1998, Continental had completed or had third-party commitments for a total of approximately \$1.4 billion in financing for its future Boeing deliveries, and had commitments or letters of intent from various sources for backstop financing for approximately one-third of the anticipated remaining acquisition cost of such Boeing deliveries. The Company currently plans on financing the new Boeing aircraft with a combination of enhanced equipment trust certificates, lease equity and other third-party financing, subject to availability and market conditions. However, further financing will be needed to satisfy the Company'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.

As of March 31, 1998, Express had firm commitments for 29 Embraer ERJ-145 ("ERJ-145") regional jets, with options for an additional 150 aircraft exercisable through 2008. Neither Express nor Continental will have any obligation to take any such aircraft that are not financed by a third party and leased to the Company. Express took delivery of three of the firm aircraft in the first quarter of 1998 and will take delivery of the remaining 29 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 1998 capital expenditures, exclusive of fleet plan requirements, to aggregate \$229 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 three months ended March 31, 1998 aggregated \$48 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 firm financing commitments.

**Bond Financings.** In December 1997, Continental substantially completed construction of a new hangar and improvements to a cargo facility at Continental's hub at Newark International Airport. Continental completed the financing of these projects in April 1998 with \$23 million of tax-exempt bonds. Continental is also planning a major facility expansion at Newark which would require, among other matters, agreements to be reached with the applicable airport authority.

Continental has announced plans to expand its facilities at its Hopkins International Airport hub in Cleveland, which expansion is expected to be completed in the third quarter of 1999. The expansion, which will include a new jet concourse for the regional jet service offered by Express, as well as other facility improvements, is expected to cost approximately \$156 million and will be funded principally by a combination of tax-exempt special facilities revenue bonds (issued in March 1998) and general airport revenue bonds (issued in December 1997) by the City of Cleveland. In connection therewith, Continental has guaranteed the bonds and has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

**Employees.** In February 1998, a five-year collective bargaining agreement with the Continental Airlines pilots was announced by the Company and the IACP. In March 1998, Express also announced a five-year collective bargaining agreement with its pilots. These agreements are subject to ratification by the Continental and Express pilots. The Company began accruing for the increased costs of a tentative agreement reached in November 1997 in the fourth quarter of 1997. The Company estimates that the provision for such increased costs will be approximately \$113 million for 1998. The Company's mechanics and related employees have voted to be represented by the International Brotherhood of Teamsters (the "Teamsters"). The Company does not believe that the Teamsters representation will cause a material financial impact to the Company. In September 1997, Continental announced that it intends to bring all employees to industry standard wages (the average of the top ten U.S. air carriers as ranked by the U.S. Department of Transportation excluding Continental) within 36 months. The announcement further stated that wage increases will be phased in over the 36-month period as revenue, interest rates and rental rates reached industry standards. Continental estimates that the increased wages will aggregate approximately \$500 million over the 36-month period.

**Other.** On January 26, 1998, the Company announced that, in connection with an agreement by Air Partners to dispose of its interest in the Company to an affiliate of Northwest, the Company had entered into a long-term global alliance with Northwest. The Company estimates that the alliance with Northwest, when fully phased in over a three-year period, will generate in excess of \$500

million in additional annual pre-tax operating income for the carriers, and anticipates that approximately 45% of such pre-tax operating income will accrue to the Company. Recently, United Airlines and Delta Air Lines, and American Airlines and US Airways, respectively, announced plans to form alliances, subject in certain cases to approval of such companies' respective pilots' unions. If either or both planned alliances are implemented, the anticipated benefit from the Company's alliance with Northwest would be somewhat diminished. The Company cannot currently estimate the impact of any such alliances on its business or on the anticipated benefits from the Northwest Alliance.

In February 1998, Continental began a block space arrangement whereby it is committed to purchase capacity on another carrier at a cost of approximately \$147 million per year. This arrangement is for 10 years. Pursuant to other block space arrangements, other carriers are committed to purchase capacity on Continental.

In March 1998, the Company announced that its Board of Directors had authorized the expenditure of up to \$100 million to repurchase shares of the Company's common stock or convertible securities. No time limit was placed on the duration of the repurchase program. Subject to applicable securities laws, such purchases occur at times and in amounts that the Company deems appropriate. As of April 24, 1998, 910,000 shares had been repurchased.

Management believes that the Company's costs are likely to be affected in the future by (i) higher aircraft ownership costs as new aircraft are delivered, (ii) higher wages, salaries and related costs as the Company compensates its employees comparable 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 Letter Agreement No. 6-1162-GOC-131R1 to Purchase Agreement No. 1951 between the Company and Boeing, dated March 26, 1998.

27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

(i) Report dated January 25, 1998 reporting an Item 5. "Other Event" and an Item 7. "Financial Statements and Exhibits". No financial statements were filed with the report, which announced that the Company had entered into a Governance Agreement with Northwest Airlines Corporation.

(ii) Report dated February 20, 1998 reporting an Item 7. "Financial Statements and Exhibits". No financial statements were filed with the report, which included an Exhibit Index related to the offering of Continental Airlines, Inc.'s Pass Through Certificates, Series 1998-1.

(iii) Report dated March 3, 1998 reporting an Item 5. "Other Event" and an Item 7. "Financial Statements and Exhibits". No financial statements were filed with the report, which announced that the Company's Board of Directors had authorized a stock repurchase program.

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: May 7, 1998      by: /s/ Lawrence W. Kellner  
Lawrence W. Kellner  
Executive Vice President and  
Chief Financial Officer  
(On behalf of Registrant)

Date: May 7, 1998      /s/ Michael P. Bonds  
Michael P. Bonds  
Vice President and Controller  
(Chief Accounting Officer)

INDEX TO EXHIBITS  
OF  
CONTINENTAL AIRLINES, INC.

- 10.1 Letter Agreement No. 6-1162-GOC-131R1 to Purchase Agreement No. 1951 between the Company and Boeing, dated March 26, 1998. (1)
- 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.

March 26, 1998  
6-1162-GOC-131R1

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

Subject: Letter Agreement No. 6-1162-GOC-131R1 to Purchase  
Agreement No. 1951 - Special Matters

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated as of July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-GOC-131, dated October 10, 1997.

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

1. Credit Memorandum.

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

5. Model Substitution.

5.1 Model 737-724/-824 Aircraft. Buyer may elect to substitute Model 737-824 for Model 737-724 or Model 737-724 for Model 737-824 Aircraft for any Aircraft or Option Aircraft delivering in [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.] or later. Buyer's model substitution notice to Boeing must be in writing to Boeing no later than the first day of the tenth month prior to delivery of each Aircraft.

5.2 Model 737-624 Aircraft. Buyer may elect to substitute either Model 737-724 or 737-824 Aircraft for Model 737-624 Option Aircraft delivering in [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.] or later. Buyer's written model substitution notice must be received by Boeing no later than the first day of the tenth month prior to delivery of each Aircraft.

5.3 Model 737-524 Aircraft. Buyer may elect to substitute Model 737-324 for Model 737-524 Aircraft. Buyer's substitution notice must be in writing and received by Boeing no later than the first day of the tenth month prior to delivery of each Aircraft if Customer and Boeing have previously agreed on a configuration for the Model 737-324. If configuration for the Model 737-324 has not been established, then the notice period shall be the time required to configure the Model 737-324 plus 10 months.

6. Assignment of Credits.

Buyer may not assign the credit memoranda described in this Letter Agreement without Boeing's prior written consent other than in circumstances where Boeing provides or arranges lease equity financing to Customer in respect of an Aircraft.

7. Confidential Treatment.

Boeing and Buyer understand that certain information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Notwithstanding the provisions of Letter Agreement 6-1162-MMF-308R2, Boeing and Buyer 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 may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ Gunar B. Clem

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: March 27, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Jeffrey J. Misner

Its Vice President Treasury Operations

3-MOS  
DEC-31-1998  
MAR-31-1998

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	135	
1676		2574
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2346		0
242		0
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5965		1854
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	52	
81		
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