

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

1600 Smith Street, Dept. HQSEO
Houston, Texas 77002
(Address of principal executive offices)
(Zip Code)

713-324-2950
(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

As of October 16, 1998, 11,418,632 shares of Class A common stock and 48,122,769 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, | |
| | 1998 | 1997 | 1998 | 1997 |
| | (Unaudited) | | (Unaudited) | |
| Operating Revenue: | | | | |
| Passenger | \$1,969 | \$1,750 | \$5,571 | \$4,960 |
| Cargo and mail. | 66 | 64 | 202 | 187 |
| Other | 81 | 76 | 233 | 227 |
| | 2,116 | 1,890 | 6,006 | 5,374 |

| | | | | |
|--|-------|-------|-------|-------|
| Operating Expenses: | | | | |
| Wages, salaries and related costs | 581 | 462 | 1,599 | 1,305 |
| Aircraft fuel | 181 | 221 | 554 | 660 |
| Aircraft rentals | 164 | 141 | 482 | 400 |
| Commissions | 155 | 152 | 448 | 437 |
| Maintenance, materials and repairs | 150 | 147 | 455 | 400 |
| Other rentals and landing fees | 110 | 104 | 310 | 299 |
| Depreciation and amortization | 75 | 64 | 215 | 186 |
| Fleet dispositions/impairment losses: | | | | |
| Jet | 65 | - | 65 | - |
| Turboprop | 57 | - | 57 | - |
| Other | 435 | 392 | 1,248 | 1,103 |
| | 1,973 | 1,683 | 5,433 | 4,790 |
| Operating Income | 143 | 207 | 573 | 584 |
| Nonoperating Income (Expense): | | | | |
| Interest expense | (47) | (42) | (131) | (126) |
| Interest capitalized | 14 | 9 | 42 | 23 |
| Interest income | 16 | 14 | 42 | 41 |
| Other, net | (1) | (2) | 11 | (4) |
| | (18) | (21) | (36) | (66) |

(continued on next page)

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, | |
| | 1998 | 1997 | 1998 | 1997 |
| | (Unaudited) | | (Unaudited) | |
| Income before Income Taxes and Extraordinary Charge | \$ 125 | \$ 186 | \$ 537 | \$ 518 |
| Income Tax Provision | (49) | (69) | (206) | (192) |
| 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 Charge | 73 | 114 | 321 | 316 |
| Extraordinary Charge, net of applicable income taxes of \$0, \$2, \$2 and \$2, respectively | - | (4) | (4) | (4) |
| Net Income | 73 | 110 | 317 | 312 |
| Preferred Dividend Requirements | - | - | - | (2) |

Income Applicable to
Common Shares \$ 73 \$ 110 \$ 317 \$ 310

(continued on next page)

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, | |
| | 1998 | 1997 | 1998 | 1997 |
| | (Unaudited) | | (Unaudited) | |
| Earnings per | | | | |
| Common Share: | | | | |
| Income Before | | | | |
| Extraordinary Charge. | \$1.21 | \$1.97 | \$5.33 | \$5.47 |
| Extraordinary Charge, | | | | |
| net of tax | - | (0.07) | (0.06) | (0.07) |
| Net Income | \$1.21 | \$1.90 | \$5.27 | \$5.40 |
| Earnings per Common | | | | |
| Share Assuming | | | | |
| Dilution: | | | | |
| Income Before | | | | |
| Extraordinary Charge. | \$0.97 | \$1.48 | \$4.15 | \$4.06 |
| Extraordinary Charge, | | | | |
| net of tax | - | (0.04) | (0.05) | (0.04) |
| Net Income | \$0.97 | \$1.44 | \$4.10 | \$4.02 |

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, 1998 | December 31, 1997 |
|--|-----------------------|----------------------|
| | (Unaudited) | |
| Current Assets: | | |
| Cash and cash equivalents, including restricted cash and cash equivalents of \$13 and \$15, respectively | \$1,226 | \$1,025 |
| Short-term investments | 44 | - |
| Accounts receivable, net | 549 | 361 |
| Spare parts and supplies, net | 152 | 128 |
| Deferred income taxes | 111 | 111 |
| Prepayments and other | 130 | 103 |
| Total current assets | 2,212 | 1,728 |
| Property and Equipment: | | |
| Owned property and equipment: | | |
| Flight equipment | 2,284 | 1,636 |
| Other | 547 | 456 |
| | 2,831 | 2,092 |
| Less: Accumulated depreciation | 583 | 473 |
| | 2,248 | 1,619 |
| Purchase deposits for flight equipment | 425 | 437 |
| Capital leases: | | |
| Flight equipment | 359 | 274 |
| Other | 43 | 40 |
| | 402 | 314 |
| Less: Accumulated amortization | 169 | 145 |
| | 233 | 169 |
| Total property and equipment | 2,906 | 2,225 |
| Other Assets: | | |
| Routes, gates and slots, net | 1,231 | 1,425 |
| Reorganization value in excess of amounts allocable to identifiable assets, net | - | 164 |
| Investments | 151 | 104 |
| Other assets, net | 208 | 184 |
| Total other assets | 1,590 | 1,877 |
| Total Assets | \$6,708 | \$5,830 |

(continued on next page)

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

| LIABILITIES AND STOCKHOLDERS' EQUITY | September 30, 1998 | December 31, 1997 |
|--|-----------------------|----------------------|
| | (Unaudited) | |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 197 | \$ 243 |
| Current maturities of capital leases | 48 | 40 |
| Accounts payable | 906 | 781 |
| Air traffic liability | 963 | 746 |
| Accrued payroll and pensions | 168 | 158 |

| | | |
|---|-------|-------|
| Accrued other liabilities | 284 | 317 |
| Total current liabilities. | 2,566 | 2,285 |
| Long-Term Debt | 1,937 | 1,426 |
| Capital Leases | 211 | 142 |
| Deferred Credits and Other Long-Term Liabilities: | | |
| Deferred income taxes | 308 | 435 |
| Accruals for aircraft retirements and excess facilities. | 115 | 123 |
| Other | 238 | 261 |
| Total deferred credits and other long-term liabilities | 661 | 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.

(continued on next page)

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

September 30, December 31,
1998 1997
(Unaudited)

| | | |
|---|---------|---------|
| Common Stockholders' Equity: | | |
| Class A common stock - \$.01 par, 50,000,000 shares authorized; 11,418,632 and 8,379,464 shares issued and outstanding, respectively. | \$ - | \$ - |
| Class B common stock - \$.01 par, 200,000,000 shares authorized; 51,066,488 shares issued in 1998 and 50,512,010 shares issued and outstanding in 1997. | 1 | 1 |
| Additional paid-in capital | 653 | 639 |
| Retained earnings | 593 | 276 |
| Other | (2) | - |
| Treasury stock - 2,894,654 Class B shares in 1998. | (154) | - |
| Total common stockholders' equity. | 1,091 | 916 |
| Total Liabilities and Stockholders' Equity | \$6,708 | \$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)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-------|
| | 1998 | 1997 |
| | (Unaudited) | |
| Net Cash Provided by Operating Activities | \$799 | \$740 |
| Cash Flows from Investing Activities: | | |
| Purchase deposits paid in connection with future aircraft deliveries | (583) | (242) |
| Purchase deposits refunded in connection with aircraft delivered . . | 540 | 29 |
| Capital expenditures | (492) | (275) |
| Proceeds from disposition of property and equipment | 67 | 14 |
| Investment in partner airlines | (53) | - |
| Purchase of short-term investments | (44) | - |
| Other | (18) | (10) |
| Net cash used by investing activities | (583) | (484) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuance of long-term debt, net | 477 | 505 |
| Payments on long-term debt and capital lease obligations | (375) | (627) |
| Purchase of Class B treasury stock | (191) | - |
| Proceeds from issuance of common stock | 51 | 18 |
| Dividends paid on preferred securities of trust | (16) | (16) |
| Purchase of warrants to purchase Class B common stock | - | (94) |
| Redemption of preferred stock | - | (48) |
| Purchase of 9% minority interest in AMI | - | (18) |
| Proceeds from sale-leaseback transactions | 41 | - |
| Net cash used by financing activities | (13) | (280) |

(continued on next page)

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------|
| | 1998 | 1997 |
| | (Unaudited) | |
| Net Increase (Decrease) in Cash and Cash Equivalents. | \$ 203 | \$(24) |
| Cash and Cash Equivalents - Beginning of Period (A) | 1,010 | 985 |
| Cash and Cash Equivalents - End of Period (A). | \$1,213 | \$961 |
| Supplemental Cash Flow Information: | | |
| Interest paid | \$ 98 | \$104 |
| Income taxes paid | \$ 13 | \$ 7 |
| Investing and Financing Activities Not Affecting Cash: | | |
| Property and equipment acquired through the issuance of debt | \$ 335 | \$207 |
| Capital lease obligations incurred. | \$ 111 | \$ 15 |
| Reduction of capital lease obligations in connection with refinanced aircraft. | \$ - | \$ 97 |
| Financed purchase deposits for flight equipment, net. | \$ - | \$ 52 |
| Purchase deposits refunded and used to reduce debt | \$ - | \$ 31 |

(A) Excludes restricted cash of \$15 million and \$76 million at January 1, 1998 and 1997, respectively, and \$13 million and \$27 million at September 30, 1998 and 1997, 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, 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 - INTANGIBLES

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 in the first quarter of 1998. During the third quarter of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefitted and accordingly reduced both the valuation allowance and routes, gates and slots by \$152 million.

NOTE 3 - FLEET DISPOSITIONS/IMPAIRMENT LOSSES

On August 11, 1998, the Company announced that Continental Micronesia, Inc. ("CMI"), a wholly owned subsidiary of the Company, plans to accelerate the retirement of its four Boeing 747 aircraft by April 1999 and its remaining thirteen Boeing 727 aircraft by December 2000. The Boeing 747s will be replaced by DC-10-30 aircraft and the Boeing 727 aircraft will be replaced with a reduced number of Boeing 737 aircraft. In addition, Continental Express, Inc. ("Express"), a wholly owned subsidiary of the Company, will accelerate the retirement of certain turboprop aircraft by 2000, including its fleet of 32 EMB-120 turboprop aircraft, as regional jets are acquired to replace turboprops.

In connection with its decision to accelerate the replacement of these aircraft, the Company performed an evaluation to determine, in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft will be less than the aggregate carrying amount of these aircraft and the related assets. As a result of the evaluation, management determined that the estimated future cash flows expected to be generated by these aircraft will be less than their carrying amount, and therefore, these aircraft are impaired as defined by SFAS 121. Consequently, the original cost basis of these aircraft and related items was reduced to reflect the fair market value at the date the decision was made, resulting in a \$59 million fleet disposition/impairment loss. In determining the fair market value of these assets, the Company considered recent transactions involving sales of similar aircraft and market trends in aircraft dispositions. The remaining \$63 million of the fleet disposition/impairment loss includes cash and non-cash costs related primarily to future commitments on leased aircraft past the dates they will be removed from service and the write-down of related inventory to its estimated fair market value. The combined charge of \$122 million (\$77 million after tax) was recorded in the third quarter of 1998.

NOTE 4 - EARNINGS PER SHARE

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

| Three Months Ended | Nine Months Ended |
|-----------------------|----------------------|
|-----------------------|----------------------|

| | September 30, | | September 30, | |
|--|---------------|-------|---------------|-------|
| | 1998 | 1997 | 1998 | 1997 |
| Numerator: | | | | |
| Income before extraordinary charge | \$ 73 | \$114 | \$321 | \$316 |
| Extraordinary charge, net of applicable income taxes | - | (4) | (4) | (4) |
| Net income | 73 | 110 | 317 | 312 |
| Preferred stock dividends | - | - | - | (2) |
| Numerator for basic earnings per share - income available to common stockholders | 73 | 110 | 317 | 310 |
| Effect of dilutive securities: | | | | |
| Preferred Securities of Trust | 3 | 3 | 9 | 9 |
| 6-3/4% convertible subordinated notes | 2 | 2 | 6 | 6 |
| | 5 | 5 | 15 | 15 |
| Numerator for diluted earnings per share - income available to common stockholders after assumed conversions | | | | |
| | \$ 78 | \$115 | \$332 | \$325 |
| Denominator: | | | | |
| Denominator for basic earnings per share - weighted-average shares | 60.3 | 58.0 | 60.0 | 57.4 |
| Effect of dilutive securities: | | | | |
| Employee stock options | 1.7 | 1.6 | 1.9 | 1.5 |
| Warrants | - | 2.5 | 1.1 | 3.8 |
| Restricted Class B common stock | - | 0.4 | - | 0.4 |
| Preferred Securities of Trust | 10.3 | 10.3 | 10.3 | 10.3 |
| 6-3/4% convertible subordinated notes | 7.6 | 7.6 | 7.6 | 7.6 |
| Dilutive potential common shares | 19.6 | 22.4 | 20.9 | 23.6 |
| Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions | | | | |
| | 79.9 | 80.4 | 80.9 | 81.0 |

NOTE 5 - INCOME TAXES

Income taxes for the three and nine months ended September 30, 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 NOL carryforwards of \$1.9 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 will be limited. Reflecting this limitation, the Company recorded a valuation allowance of \$617 million at December 31, 1997.

Realization of a substantial portion of the Company's remaining NOLs required the completion of transactions resulting in recognition of built-in gains for federal income tax purposes. During 1998, the Company has consummated several such transactions, the benefit of which resulted in the elimination of reorganization value in excess of amounts allocable to identifiable assets in the first quarter of 1998. During the third quarter of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefitted and accordingly reduced both the valuation allowance and routes, gates and slots by \$152 million. 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 further reduce routes, gates and slots.

NOTE 6 - COMPREHENSIVE INCOME

Effective 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 stockholders' 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 stockholders' equity, to be included in other comprehensive income.

During the third quarters of 1998 and 1997, total comprehensive income amounted to \$70 million and \$110 million, respectively. For the nine months ended September 30, 1998 and 1997, total comprehensive income amounted to \$313 million and \$311 million, respectively.

NOTE 7 - 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 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. On October 23, 1998, the Department of Justice ("DOJ") filed a lawsuit against Northwest and Continental challenging Northwest's acquisition of an interest in Continental. The DOJ is not seeking to preliminarily enjoin the transaction, nor is it challenging the alliance with Northwest at this time, although it is continuing to investigate certain specific aspects of the alliance. Continental expects to implement its alliance with Northwest promptly after the closing of Northwest's acquisition of an equity interest in Continental. While it is not possible to predict the ultimate outcome of this litigation, the Company does not believe that this litigation will have a material adverse effect on the Company.

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. In connection with this refinancing, Continental recorded a \$4 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. The Company no longer has any warrants outstanding.

In May 1998, Express signed a memorandum of understanding to purchase 25 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, deliverable through the third quarter of 1999, with options for an additional 50 aircraft exercisable through 2005. The Company currently plans to finance the new aircraft using lease financing and to account for all of these aircraft as operating leases.

On May 21, 1998, the stockholders of the Company approved the Continental Airlines, Inc. 1998 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 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 5,500,000 shares, which may be originally issued or treasury shares or a combination thereof.

In June 1998, a new five-year collective bargaining agreement, retroactive to October 1997, was ratified by Continental's pilots, who are represented by the Independent Association of Continental Pilots ("IACP"). The agreement becomes amendable in October 2002. The Company began accruing for the increased costs of the new agreement in the fourth quarter of 1997. The Company estimates that the increased costs will be approximately \$113 million for 1998. Also in June 1998, the pilots at Express, who are also represented by the IACP, rejected a new five-year tentative agreement which had been submitted to them for ratification. The parties resumed bargaining with respect to a revised Express contract with the assistance of the National Mediation Board ("NMB") in the third quarter of 1998. While it is not possible to predict the outcome of those negotiations, the Company does not believe it will have a material financial impact on the Company. The Company's dispatchers, represented by the Transport Workers' Union ("TWU"), ratified a new five-year collective bargaining agreement in July 1998. The agreement becomes amendable in October 2003. On October 9, 1998, the Company and the International Brotherhood of Teamsters (the "Teamsters") reached a tentative agreement for an initial four-year collective bargaining agreement covering the Company's mechanics and related employees. The agreement will be submitted for a ratification vote, the results of which will be known in mid-November 1998. While it is not possible to predict the outcome of the ratification vote, the Company does not believe it will have a material financial impact on the Company.

Also in June 1998, the Company sold its remaining 317,140 shares of America West Holding Corporation ("America West") Class B common stock realizing net proceeds of approximately \$8.9 million and a gain of \$6 million.

In 1998, the Company's Board of Directors authorized the expenditure of up to \$300 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 October 16, 1998, 3,695,800 shares had been repurchased for a total of \$197 million.

In October 1998, the Company entered into an agreement to offer \$524 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 14 aircraft scheduled to be delivered from December 1998 to April 1999. The transaction is expected to be completed in early November of 1998.

NOTE 8 - 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 became effective 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 9 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 - Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), which is required to be adopted for years beginning after June 15, 1999. The Company will adopt SFAS 133 in the fourth quarter of 1998. Management does not anticipate that the adoption of SFAS 133 will have a significant effect on earnings or the financial position of the Company.

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.

Continental's results of operations are impacted by seasonality (the second and third quarters are generally stronger than the first and fourth quarters) as well as 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. To date, the recent turmoil in the world's financial markets has not had a material impact on the Company's results of operations. Although CMI's results in Asia have declined in recent years, the Company successfully redeployed CMI capacity into the stronger domestic markets and CMI's recent results have improved. In addition, the Company believes it is well positioned to respond to market conditions in the event of a sustained economic downturn for the following reasons: underdeveloped hubs with strong local traffic; a flexible fleet plan; a strong cash balance, a \$225 million unused revolving credit facility and a well developed alliance network.

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, 1998 as compared to the corresponding periods ended September 30, 1997.

Comparison of Three Months Ended September 30, 1998 to Three Months Ended September 30, 1997

The Company recorded consolidated net income of \$73 million for the three months ended September 30, 1998 as compared to consolidated net income of \$110 million for the three months ended September 30, 1997. Net income was significantly impacted by a \$122 million (\$77 million after-tax) fleet disposition/impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft.

Passenger revenue increased 12.5%, \$219 million, during the quarter ended September 30, 1998 as compared to the same period in 1997, which was principally due to a 14.6% increase in revenue passenger miles, partially offset by a 2.7% decrease in yield.

Wages, salaries and related costs increased 25.8%, \$119 million, during the quarter ended September 30, 1998 as compared to the same period in 1997, primarily due to an 11.1% increase in average full-time equivalent employees and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft fuel expense decreased 18.1%, \$40 million, in the three months ended September 30, 1998 as compared to the same period in the prior year. The average price per gallon decreased 26.0% from 60.23 cents in the third quarter of 1997 to 44.59 cents in the third quarter of 1998. This reduction was partially offset by a 10.2% increase in the quantity of jet fuel used, principally reflecting increased capacity.

Aircraft rentals increased \$23 million or 16.3% due to the delivery of new aircraft.

Maintenance, materials and repairs increased 2.0%, \$3 million, during the quarter ended September 30, 1998 as compared to the same period in 1997 due to the volume and timing of engine overhauls and routine maintenance as part of the Company's ongoing maintenance program.

Depreciation and amortization expense increased 17.2%, \$11 million, in the third quarter of 1998 compared to the third quarter of 1997 primarily due to the addition of new aircraft and related spare parts. These increases were partially offset by a reduction in the amortization of reorganization value in excess of amounts allocable to identifiable assets and routes, gates and slots. See Note 2.

As a result of its decision to accelerate the retirement of certain jet and turboprop aircraft (see Note 3), the Company recorded a fleet disposition/ impairment loss of \$122 million.

Other operating expense increased 11.0%, \$43 million, in the three months ended September 30, 1998 as compared to the same period in the prior year, as a result of increases in passenger and aircraft servicing expense, reservations and sales expense and other miscellaneous expense, primarily due to the 11.1% increase in available seat miles.

Comparison of Nine Months Ended September 30, 1998 to Nine Months Ended September 30, 1997

The Company recorded consolidated net income of \$317 million and \$312 million for the nine months ended September 30, 1998 and 1997, respectively. Net income was significantly impacted by a \$122 million (\$77 million after-tax) fleet disposition/impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft. 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.

Passenger revenue increased 12.3%, \$611 million, during the nine months ended September 30, 1998 as compared to the same period in 1997. The increase was due to a 13.5% increase in revenue passenger miles, partially offset by a 1.9% decrease in yield.

Wages, salaries and related costs increased 22.5%, \$294 million, during the nine months ended September 30, 1998 as compared to the same period in 1997, primarily due to an 11.6% increase in average full-time equivalent employees and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft fuel expense decreased 16.1%, \$106 million, in the nine months ended September 30, 1998 as compared to the same period in the prior year. The average price per gallon decreased 24.9% from 63.45 cents in the first nine months of 1997 to 47.66 cents in the first nine months of 1998. This reduction was partially offset by an 11.1% increase in the quantity of jet fuel used principally reflecting increased capacity.

Aircraft rentals increased 20.5%, \$82 million, during the nine months ended September 30, 1998 as compared to the same period in

1997, due primarily to the delivery of new aircraft.

Maintenance, materials and repairs increased 13.8%, \$55 million, during the nine months ended September 30, 1998 as compared to the same period in 1997. Aircraft maintenance expense in the second quarter of 1997 was reduced by \$16 million due to the reversal of reserves that were no longer required as a result of the acquisition of 10 aircraft previously leased by the Company. In addition, maintenance expense increased due to the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Depreciation and amortization expense increased 15.6%, \$29 million, in the first nine months of 1998 compared to the same period in 1997 primarily due to the addition of new aircraft and related spare parts. These increases were partially offset by a reduction in the amortization of reorganization value in excess of amounts allocable to identifiable assets and routes, gates and slots. See Note 2.

As a result of its decision to accelerate the retirement of certain jet and turboprop aircraft (see Note 3), the Company recorded a fleet disposition/impairment loss of \$122 million.

Other operating expense increased 13.1%, \$145 million, in the nine months ended September 30, 1998 as compared to the same period in the prior year, primarily as a result of increases in passenger and aircraft servicing expense, reservations and sales expense and other miscellaneous expense, primarily due to the 11.5% increase in available seat miles.

The Company's other nonoperating income (expense) in the nine months ended September 30, 1998 included a \$6 million gain on the sale of America West stock. Other nonoperating expense in the first nine months of 1997 consisted primarily of foreign currency losses.

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, 1998 | September 30, 1997 | Net Increase/ (Decrease) |
|---|---|-----------------------|--------------------------------|
| Revenue passenger miles (millions) (1) | 14,944 | 13,038 | 14.6 % |
| Available seat miles (millions) (2) | 19,642 | 17,686 | 11.1 % |
| Passenger load factor (3) | 76.1% | 73.7% | 2.4 pts. |
| Breakeven passenger load factor (4) | 62.8% | 61.8% | 1.0 pts. |
| Passenger revenue per available seat mile (cents) | 9.22 | 9.18 | 0.4 % |
| Total revenue per available seat mile (cents) | 10.06 | 10.05 | 0.1 % |
| Operating cost per available seat mile (cents) (5) | 8.82 | 8.98 | (1.8)% |
| Average yield per revenue passenger mile (cents) (6) | 12.12 | 12.45 | (2.7)% |
| Average fare per revenue passenger | \$.155.39 | \$149.96 | 3.6 % |
| Revenue passengers (thousands) | 11,655 | 10,822 | 7.7 % |
| Average length of aircraft flight (miles) | 1,067 | 991 | 7.7 % |
| Average daily utilization of each aircraft (hours) (7) | 10:20 | 10:19 | 0.2 % |
| Actual aircraft in fleet at end of period (8) | 359 | 334 | 7.5 % |

| | Nine Months Ended | | Net |
|---|-------------------|----------|-------------------------|
| | September 30, | 1997 | Increase/ (Decrease) |
| | 1998 | | |
| Revenue passenger miles (millions) (1) | 40,691 | 35,851 | 13.5 % |
| Available seat miles (millions) (2) | 55,739 | 50,004 | 11.5 % |
| Passenger load factor (3) | 73.0% | 71.7% | 1.3 pts. |
| Breakeven passenger load factor (4) | 60.9% | 59.6% | 1.3 pts. |
| Passenger revenue per available seat mile (cents) | 9.24 | 9.26 | (0.2)% |
| Total revenue per available seat mile (cents) | 10.12 | 10.16 | (0.4)% |
| Operating cost per available seat mile (cents) (5) | 8.93 | 9.05 | (1.3)% |
| Average yield per revenue passenger mile (cents) (6) | 12.66 | 12.91 | (1.9)% |
| Average fare per revenue passenger | \$.156.17 | \$149.19 | 4.7 % |
| Revenue passengers (thousands) | 32,988 | 31,022 | 6.3 % |
| Average length of aircraft flight (miles) | 1,040 | 954 | 9.0 % |
| Average daily utilization of each aircraft (hours) (7) | 10:17 | 10:14 | 0.5 % |
| Actual aircraft in fleet at end of period (8) | 359 | 334 | 7.5 % |

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. For the three months ended September 30, 1998, the table above excludes 554 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 99 million available seat miles, and related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental. For the nine months ended September 30, 1998, the table above excludes 1,230 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 164 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) 1998 excludes a fleet disposition/ impairment loss totaling \$122 million.
 - (6) The average revenue received for each mile a revenue passenger is carried.
 - (7) The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).
 - (8) Excludes all-cargo 727 aircraft (six in 1998 and four in 1997) at CMI. During the first nine months of 1998, the Company took delivery of 47 aircraft and removed 25 aircraft from service.

LIQUIDITY AND CAPITAL COMMITMENTS

In the first nine 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 used to refinance the debt related to 14 aircraft currently owned by Continental.

As of September 30, 1998, the Company had \$1.2 billion in cash and cash equivalents (excluding restricted cash of \$13 million) and \$44 million of short-term investments, compared to \$1 billion in cash and cash equivalents (excluding restricted cash of \$15 million) as of December 31, 1997. Net cash provided by operating activities increased \$59 million during the nine months ended September 30, 1998 compared to the same period in the prior year primarily due to an improvement in operating income (excluding a \$122 million fleet disposition/impairment loss). Net cash used by investing activities increased \$99 million for the nine months ending September 30, 1998 compared to the same period in the prior year, primarily as a result of higher capital and fleet-related expenditures. Net cash used by financing activities for the nine months ended September 30, 1998 compared to the same period in the prior year decreased \$267 million primarily due to a decrease in payments on long-term debt and capital lease obligations. This decrease was partially due to the repayment of a \$275 million secured term loan in 1997.

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 of transactions resulting in recognition of built-in gains for federal income tax purposes. During 1998, the Company has consummated several such transactions, the benefit of which resulted in the elimination of reorganization value in excess of amounts allocable to identifiable assets in the first quarter of 1998. During the third quarter of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefitted and accordingly reduced both the valuation allowance and routes, gates and slots by \$152 million. 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 further reduce routes, gates and slots.

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 billion 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 October 16, 1998, Continental had firm commitments with The Boeing Company ("Boeing") to take delivery of a total of 117 jet aircraft during the years 1998 through 2005 with options for an additional 115 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 \$5.5 billion. As of October 16, 1998, Continental had completed or had third-party commitments for a total of approximately \$521 million 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.

During the first nine months of 1998, the Company took delivery of 47 jet aircraft of which 39 were financed through enhanced equipment trust certificates.

As of October 16, 1998, Express had firm commitments for 41 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and a memorandum of understanding to purchase 25 ERJ-135 37-seat regional jets, with options for an additional 125 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Neither Express nor Continental will have any obligation to take any such firm aircraft that are not financed by a third party and leased to the Company. Express took delivery of 15 of the ERJ-145 firm aircraft in the first three quarters of 1998 and will take delivery of the remaining 66 firm aircraft through the third quarter of 2001. 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 \$231 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, 1998 aggregated \$144 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.

Year 2000 and Euro.

As described in its annual report on Form 10-K for the year ended December 31, 1997, the Company implemented a Year 2000 project in early 1997 to ensure that the Company's computer systems will function properly in the year 2000 and thereafter. The total cost for the project (excluding internal payroll costs) is currently expected to approximate \$12-15 million, which is being funded with cash from operations. As of September 30, 1998, the Company had incurred and expensed approximately \$10 million relating to its Year 2000 project.

The Company's Year 2000 project involves the review of a number of internal and third party components. Each component is subjected to the project's five phases, which consist of inventory of systems, evaluation and analysis, modification implementation, user testing and integration compliance. The components are currently in various stages of completion; however, the Company's entire Year 2000 project is anticipated to be completed by early 1999. This should allow for the Company sufficient time for any additional

analysis, modification and testing which may be required. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its systems or those operated by third parties on which the Company's business relies (including those of the Federal Aviation Administration) to operate properly beyond 1999. There can be no assurance that such systems will be modified for Year 2000 operational requirements on a timely basis. Although the Company currently has day to day operational contingency plans, management is in the process of updating these plans for possible Year 2000 specific operational requirements.

Effective January 1, 1999, eleven of the fifteen countries comprising the European Union will begin a transition to a single monetary unit, the "euro", which is scheduled to be completed by July 1, 2002. The Company has developed a plan designed to allow it to effectively operate in euros. Management does not anticipate that the implementation of this single currency plan will have a material effect on the Company's operations or financial condition.

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 in each case by the City of Cleveland. In connection therewith, Continental has guaranteed the special facilities revenue bonds and has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service both series of bonds.

Employees. In June 1998, a new five-year collective bargaining agreement, retroactive to October 1997, was ratified by Continental's pilots, who are represented by the IACP. The agreement becomes amendable in October 2002. The Company began accruing for the increased costs of the new agreement in the fourth quarter of 1997. The Company estimates that the increased costs will be approximately \$113 million for 1998. Also in June 1998, the pilots at Express, who are also represented by the IACP, rejected a new five-year tentative agreement which had been submitted to them for ratification. The parties resumed bargaining with respect to a revised Express contract with the assistance of the NMB in the third quarter of 1998. While it is not possible to predict the outcome of those negotiations, the Company does not believe it will have a material financial impact on the Company. The Company's dispatchers, represented by the TWU, ratified a new five-year collective bargaining agreement in July 1998. The agreement becomes amendable in October 2003. On October 9, 1998, the Company and the Teamsters reached a tentative agreement for an initial four-year collective bargaining agreement covering the Company's mechanics and related employees. The agreement will be submitted for a ratification vote, the results of which will be known in mid-November 1998. While it is not possible to predict the outcome of the ratification vote, the Company does not believe it will have a material financial impact on 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 estimated at the time of the announcement that the alliance with Northwest, when fully phased in over a three-year period, would generate in excess of \$500 million in additional annual pre-tax operating income for the carriers, and anticipated that approximately 45% of such pre-tax operating income would accrue to the Company. On October 23, 1998, the Department of Justice ("DOJ") filed a lawsuit against Northwest and Continental challenging Northwest's acquisition of an interest in Continental. The DOJ is not seeking to preliminarily enjoin the transaction, nor is it challenging the alliance with Northwest at this time, although it is continuing to investigate certain specific aspects of the alliance. Continental expects to implement its alliance with Northwest promptly after the closing of Northwest's acquisition of an equity interest in Continental. While it is not possible to predict the ultimate outcome of this litigation, the Company does not believe that this litigation will have a material adverse effect on the Company.

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 1998, the Company's Board of Directors authorized the expenditure of up to \$300 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 October 16, 1998, 3,695,800 shares had been repurchased for a total of \$197 million.

Historically, the Company has entered into petroleum call options to provide some short-term protection against a sharp increase in jet fuel prices. In light of declining fuel prices and the high cost of call options with strike prices at spreads above current prices, which have typically been purchased by the Company, the Company's petroleum call option contracts currently provide protection only against significantly higher fuel prices with respect to approximately three months of the Company's fuel needs, in the event of a fuel supply shortage resulting from a disruption of oil imports or otherwise.

To reduce the potential negative impact on CMI's dollar earnings, CMI entered into forward contracts in the fourth quarter of 1998 as a hedge against a portion of its expected net yen cash flow position. The forward contracts represent 95% of the estimated net yen cash flows through the first quarter of 1999. See Note 9.

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 and the Internet for bookings, and reduced interest expense.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

RISK.

For information regarding the Company's exposure to certain market risks, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Continental's Annual Report on Form 10-K for the year ended December 31, 1997.

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. 6, including exhibits and side letters, to Purchase Agreement No. 1951 between the Company and The Boeing Company relating to the purchase of Boeing 737 aircraft, dated July 30, 1998.
- 10.2 Supplemental Agreement No. 11, including exhibits and side letters, to Purchase Agreement No. 1783 between the Company and The Boeing Company relating to the purchase of Boeing 757 aircraft, dated July 30, 1998.
- 27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

- (i) Report dated July 30, 1998 reporting Item 7. "Financial Statements and Exhibits". No financial statements were filed with the report, which included an Exhibit Index related to the Restated Financial Data Schedules for 1995, 1996 and 1997.
- (ii) Report dated September 24, 1998 reporting Item 5. "Other Events". No financial statements were filed with the report, which included a Press Release related to the 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: October 23, 1998 by: /s/ Lawrence W. Kellner
Lawrence W. Kellner
Executive Vice President and
Chief Financial Officer
(On behalf of Registrant)

Date: October 23, 1998 /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. 6, including exhibits and side letters, to Purchase Agreement No. 1951 between the Company and The Boeing Company relating to the purchase of Boeing 737 aircraft, dated July 30, 1998. (1)
- 10.2 Supplemental Agreement No. 11, including exhibits and side letters, to Purchase Agreement No. 1783 between the Company and The Boeing Company relating to the purchase of Boeing 757 aircraft, dated July 30, 1998. (1)
- 27.1 Financial Data Schedule.

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

Supplemental Agreement No. 6

to

Purchase Agreement No. 1951

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of July 30, 1998, 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. 1951 dated July 23, 1996 (the Agreement), as amended and supplemented, relating to Boeing Model 737-500, 737-600, 737-700, 737-800, and 737-900 aircraft (the Aircraft); and

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

WHEREAS, Boeing and Buyer have mutually agreed to amend the Purchase Agreement to incorporate the effect of these and certain other changes;

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

1. Table of Contents and Articles:

1.1 Remove and replace, in its entirety, the "Table of Contents", with the Table of Contents attached hereto, to reflect the changes made by this Supplemental Agreement No. 6.

1.2 Remove and replace, in its entirety, Table T-2 entitled "Aircraft Deliveries and Descriptions, Model 737-700 Aircraft" with new Table T-2 attached hereto for the Model 737-700 Aircraft reflecting the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

1.3 Remove and replace, in its entirety, Table T-3 entitled "Aircraft Deliveries and Descriptions, Model 737-800 Aircraft" with new Table T-3 attached hereto for the Model 737-800 Aircraft reflecting the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 1951-3R2, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R3, "Option Aircraft - Model 737-824 Aircraft", attached hereto, to reflect to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2.2 Remove and replace, in its entirety, Letter Agreement 1951-9R1, "Option Aircraft - Model 737-624 Aircraft" with Letter Agreement 1951-9R2, "Option Aircraft - Model 737-724 Aircraft",

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

2.3 Delete Letter Agreement 1951-10 "Configuration Matters & [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] - Model 737-624 Aircraft" from the Agreement to reflect that there are no pending orders for Model 737-624 Aircraft.

2.4 Delete Letter Agreement 6-1162-MMF-379R1 "Aircraft [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] - Model 737-624" from the Agreement to reflect that there are no pending orders for Model 737-624 Aircraft.

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

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

THE BOEING COMPANY

CONTINENTAL AIRLINES, INC.

By: /s/ David M. Hurt

By: /s/ Brian Davis

Its: Attorney-In-Fact

Its: Vice President

TABLE OF CONTENTS

| | Page Number | SA Number |
|--|----------------|--------------|
| ARTICLES | | |
| 1. Subject Matter of Sale | 1-1 | SA 5 |
| 2. Delivery, Title and Risk of Loss | 2-1 | |
| 3. Price of Aircraft | 3-1 | SA 5 |
| 4. Taxes | 4-1 | |
| 5. Payment | 5-1 | |
| 6. Excusable Delay | 6-1 | |
| 7. Changes to the Detail Specification | 7-1 | SA 5 |
| 8. Federal Aviation Requirements and Certificates and Export License | 8-1 | SA 5 |
| 9. Representatives, Inspection, Flights and Test Data | 9-1 | |
| 10. Assignment, Resale or Lease | 10-1 | |
| 11. Termination for Certain Events. | 11-1 | |
| 12. Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification | | |

| | |
|---|------|
| and Insurance | 12-1 |
| 13. Buyer Furnished Equipment and Spare Parts | 13-1 |
| 14. Contractual Notices and Requests. | 14-1 |
| 15. Miscellaneous | 15-1 |

TABLE OF CONTENTS

| | Page Number | SA Number |
|--|-------------|-----------|
| TABLES | | |
| 1. Aircraft Deliveries and Descriptions - 737-500. | T-1 | SA 3 |
| Aircraft Deliveries and Descriptions - 737-700. | T-2 | SA 6 |
| Aircraft Deliveries and Descriptions - 737-800. | T-3 | SA 6 |
| Aircraft Deliveries and Descriptions - 737-600. | T-4 | SA 4 |
| Aircraft Deliveries and Descriptions - 737-900. | T-5 | SA 5 |

EXHIBITS

| | |
|--|------|
| A-1 Aircraft Configuration - Model 737-724. . . | SA 2 |
| A-2 Aircraft Configuration - Model 737-824. . . | SA 2 |
| A-3 Aircraft Configuration - Model 737-624. . . | SA 1 |
| A-4 Aircraft Configuration - Model 737-524. . . | SA 3 |
| A-5 Aircraft Configuration - Model 737-924. . . | SA 5 |
| B Product Assurance Document. | SA 1 |
| C Customer Support Document - Code Two - Major Model Differences | SA 1 |
| C1 Customer Support Document - Code Three - Minor Model Differences | SA 1 |
| D Aircraft Price Adjustments - New Generation Aircraft (1995 Base Price) . . . | SA 1 |
| D1 Airframe and Engine Price Adjustments - Current Generation Aircraft | SA 1 |
| D2 Aircraft Price Adjustments - New Generation Aircraft (1997 Base Price) . . . | SA 5 |
| E Buyer Furnished Equipment Provisions Document. | SA 5 |
| F Defined Terms Document. | SA 5 |

TABLE OF CONTENTS

SA Number

LETTER AGREEMENTS

| | |
|---|------|
| 1951-1 Not Used | |
| 1951-2R3 Seller Purchased Equipment | SA 5 |

| | | |
|-----------|---|------|
| 1951-3R3 | Option Aircraft-Model 737-824 Aircraft | SA 6 |
| 1951-4R1 | Waiver of Aircraft Demonstration . . . | SA 1 |
| 1951-5R2 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA 5 |
| 1951-6 | Configuration Matters. | |
| 1951-7R1 | Spares Initial Provisioning. | SA 1 |
| 1951-8R2 | Escalation Sharing - New Generation Aircraft | SA 4 |
| 1951-9R2 | Option Aircraft-Model 737-724 Aircraft | SA 6 |
| 1951-11R1 | Escalation Sharing-Current Generation Aircraft | SA 4 |
| 1951-12 | Option Aircraft - Model 737-924 Aircraft | SA 5 |
| 1951-13 | Configuration Matters - Model 737-924. | SA 5 |

TABLE OF CONTENTS

SA
Number

RESTRICTED LETTER AGREEMENTS

| | | |
|------------------|---|------|
| 6-1162-MMF-295 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | |
| 6-1162-MMF-296 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | |
| 6-1162-MMF-308R3 | Disclosure of Confidential . Information | SA 5 |
| 6-1162-MMF-309R1 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA 1 |
| 6-1162-MMF-311R3 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA 5 |
| 6-1162-MMF-312R1 | Special Purchase Agreement Provisions. | SA 1 |
| 6-1162-MMF-319 | Special Provisions Relating to the Rescheduled Aircraft | |
| 6-1162-MMF-378R1 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA 3 |
| 6-1162-GOC-015 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA 3 |

6-1162-GOC-131R2 Special Matters SA 5

6-1162-DMH-365 [CONFIDENTIAL MATERIAL OMITTED SA 5
AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE
COMMISSION PURSUANT TO A
REQUEST FOR CONFIDENTIAL TREATMENT]

TABLE OF CONTENTS

| | |
|--|-----------------|
| SUPPLEMENTAL AGREEMENTS | DATED AS OF: |
| Supplemental Agreement No. 1 | October 10,1996 |
| Supplemental Agreement No. 2 | March 5, 1997 |
| Supplemental Agreement No. 3 | July 17, 1997 |
| Supplemental Agreement No. 4 | October 10,1997 |
| Supplemental Agreement No. 5 | May 21,1998 |
| Supplemental Agreement No. 6 | July 30,1998 |

1951-3R3
July 30, 1998

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

Subject: Letter Agreement No. 1951-3R3 to
Purchase Agreement No. 1951 -
Option Aircraft - Model 737-824 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996(the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-824 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-3R2 dated May 21, 1998.

All terms used and not defined herein shall have the same meaning as in the 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 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 |
|-------------------------------|------------------------------|

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

2. Price. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT

TO A REQUEST FOR CONFIDENTIAL TREATMENT]

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 the execution of the 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 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 first business day of the month in each Option Exercise Date shown below:

| Option Aircraft | Option Exercise Date |
|-----------------|----------------------|
|-----------------|----------------------|

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

5. Contract Terms.

Within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to paragraph 4 above, Boeing and Buyer will use their best reasonable efforts to enter into a supplemental agreement amending the Agreement to add the applicable Option Aircraft to the Agreement as a firm Aircraft (the Option Aircraft Supplemental Agreement).

In the event the parties have not entered into such an Option Aircraft Supplemental Agreement within the time period contemplated herein, either party shall have the right, exercisable by written or telegraphic notice given to the other within ten (10) days after such period, to cancel the purchase of such Option Aircraft.

6. Cancellation of Option to Purchase.

Either Boeing or Buyer may cancel the option to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this Letter Agreement, or in the Agreement, as the case may be:

(i) purchase of the Aircraft under the Agreement for any reason not attributable to the cancelling party;

(ii) payment by Buyer of the Option Deposit with respect to such Option Aircraft pursuant to paragraph 3 herein; or

(iii) exercise of the option to purchase such Option Aircraft pursuant to the terms hereof.

Any cancellation of an option to purchase by Boeing which is based on the termination of the purchase of an Aircraft under the Agreement shall be on a one-for-one basis, for each Aircraft so terminated.

Cancellation of an option to purchase provided by this letter agreement shall be caused by either party giving written notice

to the other within ten (10) days after the respective date in question. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the option to purchase has been cancelled shall thereupon terminate.

Boeing shall promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft. Boeing shall be entitled to retain the Option Deposit unless cancellation is attributable to Boeing's fault, in which case the Option Deposit shall also be returned to Buyer without interest.

7. Applicability.

Except as otherwise specifically provided, limited or excluded herein, all Option Aircraft that are added to the Agreement by an Option Aircraft Supplemental Agreement as firm Aircraft shall benefit from all the applicable terms, conditions and provisions of the Agreement.

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/ David M. Hurt

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: July 30, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

Model 737-824 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D6-38808, Revision E, dated September 15, 1995, as amended and revised pursuant to the Agreement.

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

(1) Changes applicable to the basic Model 737-800 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of an Option Aircraft Supplemental Agreement.

(2) Changes mutually agreed upon.

(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 Option Aircraft weight, balance, design and performance.

2. Price Description.

2.1 Price Adjustments.

2.1.1 Base Price Adjustments. The base aircraft price (pursuant to Article 3 of the 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.

2.1.3 Escalation Adjustments. The base airframe and special features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D of the Agreement.

Buyer agrees that the engine escalation provisions will be adjusted if they are changed by the engine manufacturer prior to signing the Option Aircraft Supplemental Agreement. In such case, the then-current engine escalation provisions in effect at the time of execution of the Option Aircraft Supplemental Agreement will be incorporated into such agreement.

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 10% of such price.

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.

1951-9R2
July 30, 1998

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

Subject: Letter Agreement No. 1951-9R2 to
Purchase Agreement No. 1951 -
Option Aircraft - Model 737-724 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-724 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-9R1 dated May 21, 1998.

All terms used and not defined herein shall have the same meaning as in the 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 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 |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

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

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

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 the execution of the 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 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 first business day of the month in each Option Exercise Date shown below:

| Option Aircraft | Option Exercise Date |
|-----------------|----------------------|
|-----------------|----------------------|

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

5. Contract Terms.

Within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to paragraph 4 above, Boeing and Buyer will use their best reasonable efforts to enter into a supplemental agreement amending the Agreement to add the applicable Option Aircraft to the Agreement as a firm Aircraft (the Option Aircraft Supplemental Agreement).

In the event the parties have not entered into such an Option Aircraft Supplemental Agreement within the time period contemplated herein, either party shall have the right, exercisable by written or telegraphic notice given to the other within ten (10) days after such period, to cancel the purchase of

such Option Aircraft.

6. Cancellation of Option to Purchase.

Either Boeing or Buyer may cancel the option to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this Letter Agreement, or in the Agreement, as the case may be:

(i) purchase of the Aircraft under the Agreement for any reason not attributable to the cancelling party;

(ii) payment by Buyer of the Option Deposit with respect to such Option Aircraft pursuant to paragraph 3 herein; or

(iii) exercise of the option to purchase such Option Aircraft pursuant to the terms hereof.

Any cancellation of an option to purchase by Boeing which is based on the termination of the purchase of an Aircraft under the Agreement shall be on a one-for-one basis, for each Aircraft so terminated.

Cancellation of an option to purchase provided by this letter agreement shall be caused by either party giving written notice to the other within ten (10) days after the respective date in question. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the option to purchase has been cancelled shall thereupon terminate.

Boeing shall promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft. Boeing shall be entitled to retain the Option Deposit unless cancellation is attributable to Boeing's fault, in which case the Option Deposit shall also be returned to Buyer without interest.

7. Applicability.

Except as otherwise specifically provided, limited or excluded herein, all Option Aircraft that are added to the Agreement by an Option Aircraft Supplemental Agreement as firm Aircraft shall benefit from all the applicable terms, conditions and provisions of the Agreement.

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/David M. Hurt

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: July 30, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

Model 737-724 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D6-38808-42, dated as of January 6, 1997, as amended and revised pursuant to the Agreement.

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

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of an Option Aircraft Supplemental Agreement.

(2) Changes mutually agreed upon.

(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 Option Aircraft weight, balance, design and performance.

2. Price Description.

2.1 Price Adjustments.

2.1.1 Base Price Adjustments. The base aircraft price (pursuant to Article 3 of the 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.

2.1.3 Escalation Adjustments. The base airframe and special features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D of the Agreement.

Buyer agrees that the engine escalation provisions will be adjusted if they are changed by the engine manufacturer prior to signing the Option Aircraft Supplemental Agreement. In such case, the then-current engine escalation provisions in effect at the time of execution of the Option Aircraft Supplemental Agreement will be incorporated into such agreement.

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 10% of such price.

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 Agreement.

Table 1 to

Purchase Agreement 1951

Aircraft Deliveries and Descriptions

Model 737-700 Aircraft

CFM56-7B24 Engines

Detail Specification No. D6-38808-42 dated January 6, 1997

Exhibit A-1

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

Table 1 to

Purchase Agreement 1951

Aircraft Deliveries and Descriptions

Model 737-700 Aircraft

CFM56-7B24 Engines

Detail Specification No. D6-38808-42 dated January 6, 1997

Exhibit A-2

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

Supplemental Agreement No. 11

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 July 30, 1998 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 [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 addition of Block C Aircraft.

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 C 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 C 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. Exhibits:

2.1 Remove and replace, in its entirety, Exhibit D entitled "AIRFRAME AND ENGINE PRICE ADJUSTMENT" with new Exhibit D (attached hereto) to incorporate the Aircraft Price Adjustment provisions for Aircraft and Engine with a 1997 Base Price.

3. Letter Agreements:

3.1 Add revised Letter Agreement 1783-10R3, Option Aircraft,

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

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

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/ John A. McGarvey By: /s/ Brian Davis

Its: Attorney-In-Fact Its: Vice President

PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Relating to Boeing Model 757-224 Aircraft

Purchase Agreement Number 1783

TABLE OF CONTENTS

| ARTICLES | | Page | Revised By |
|-------------|---|------|---------------|
| ARTICLE 1. | Subject Matter of Sale. | 1-1 | SA#11 |
| ARTICLE 2. | Delivery, Title and Risk of Loss. | 2-1 | SA#11 |
| ARTICLE 3. | Price of Aircraft | 3-1 | SA#11 |
| ARTICLE 4. | Taxes | 4-1 | |
| ARTICLE 5. | Payment | 5-1 | |
| ARTICLE 6. | Excusable Delay | 6-1 | |
| ARTICLE 7. | Changes to the Detail Specification | 7-1 | SA#4 |
| ARTICLE 8. | Federal Aviation Requirements and Certificates. | 8-1 | |
| ARTICLE 9. | Representatives, Inspection, Flights and Test Data | 9-1 | |
| ARTICLE 10. | Assignment, Resale or Lease | 10-1 | |
| ARTICLE 11. | Termination for Certain Events. | 11-1 | |
| ARTICLE 12. | Product Assurance; Disclaimer and | | |

| | | | |
|-------------|--|------|-------|
| | Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance | 12-1 | |
| ARTICLE 13. | Buyer Furnished Equipment and Spare Parts | 13-1 | SA#2 |
| ARTICLE 14. | Contractual Notices and Requests. . . | 14-1 | |
| ARTICLE 15. | Miscellaneous | 15-1 | |
| | Schedule for Delivery of Model 757-224 Aircraft. | | SA#11 |

TABLE OF CONTENTS (Continued)

EXHIBITS

| | | | |
|-----------|--|-----|-------|
| EXHIBIT A | Aircraft Configuration. | A-1 | SA#8 |
| EXHIBIT B | Product Assurance Document. | B-1 | SA#2 |
| EXHIBIT C | Customer Support Document | C-1 | SA#2 |
| EXHIBIT D | Price Adjustments Due to Economic Fluctuations - Airframe and Engines | D-1 | SA#11 |
| EXHIBIT E | Buyer Furnished Equipment Provisions Document. | E-1 | SA#4 |
| EXHIBIT F | Defined Terms Document. | F-1 | SA#2 |

LETTER AGREEMENTS

| | | | |
|------------------|--|--|-------|
| 1783-1 | Spare Parts Support | | SA#2 |
| 1783-2 | Seller Purchased Equipment | | SA#2 |
| 1783-4 | Waiver of Aircraft Demonstration Flights | | SA#2 |
| 1783-5 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | | SA #2 |
| 1783-6 | Configuration Matters | | SA#2 |
| 1783-7 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | | SA#2 |
| 1783-8 | Spare Parts Provisioning | | SA#2 |
| 1783-9R1 | Escalation Sharing | | SA#10 |
| 1783-10R3 | Option Aircraft | | SA#11 |
| 6-1162-WLJ-359 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | | SA #2 |
| 6-1162-WLJ-367R5 | Disclosure of Confidential Info | | SA#9 |
| 6-1162-WLJ-369 | Additional Considerations | | SA#2 |
| 6-1162-WLJ-372 | Conditions Relating to Purchase Agreement | | SA#2 |

| | | |
|------------------|---|-------|
| 6-1162-WLJ-380 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA#2 |
| 6-1162-WLJ-384 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA#2 |
| 6-1162-WLJ-391R1 | Special Purchase Agreement Provisions | SA#4 |
| 6-1162-WLJ-393 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA#2 |
| 6-1162-WLJ-405 | Certain Additional Contractual Matters | SA#2 |
| 6-1162-WLJ-409 | Satisfaction of Conditions Relating to the Purchase Agreement | SA#2 |
| 6-1162-WLJ-497 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA#3 |
| 6-1162-RGP-946R1 | Special Provisions Relating to the Rescheduled Aircraft | SA#5 |
| 6-1162-MMF-289R1 | [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] | SA#10 |
| 6-1162-MMF-319 | Special Provisions Relating to the Rescheduled Aircraft | SA#7 |
| 6-1162-GOC-132 | Special Matters | SA#10 |

TABLE OF CONTENTS (Continued)

| | |
|-------------------------------|-------------------|
| 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 |
| Supplemental Agreement No.10 | October 10, 1997 |
| Supplemental Agreement No. 11 | July 30, 1998 |

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), Nine (9) Block B Aircraft (the Block B Aircraft), and One (1) Block C Aircraft (the Block C 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 |
|-------------------------------|----------------------|
|-------------------------------|----------------------|

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

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 MATERIAL OMITTED AND |
| Special Features | FILED SEPARATELY WITH THE SECURITIES |
| Engine Price | AND EXCHANGE COMMISSION PURSUANT TO |
| | A REQUEST FOR CONFIDENTIAL |
| Block A Aircraft | TREATMENT] |
| Basic Price | |

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

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.

3.2.2 Block C Aircraft. The Aircraft Basic Price of the Block C Aircraft with delivery, expressed in July 1997 dollars, is set forth below:

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

The special features value above for the Block C 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] 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.

3.3.1 Block C Aircraft. The Aircraft Price of the Block C 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 C Aircraft Basic Price, [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 Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Airframe and Engine - Block C 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 |
|--------------------------------------|---|
|--------------------------------------|---|

[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

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

AIRFRAME AND ENGINE PRICE ADJUSTMENT

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Exhibit D to Purchase Agreement Number 1783

PRICE ADJUSTMENT DUE TO
ECONOMIC FLUCTUATIONS
AIRFRAME PRICE ADJUSTMENT
(1992 Base Price)

(Relating to Block A, A-1, and B Aircraft)

1. Formula.

The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$Pa = (P)(L + M - 1)$$

Where:

Pa = Airframe Price Adjustment.

L = [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE

M = COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

P = Aircraft Basic Price (as set forth in Article 3.2 of this Agreement) less the base price of Engines (as defined in this Exhibit D) in the amount of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

ECI = A value using the "Employment Cost Index for workers in aerospace manufacturing" (aircraft manufacturing, standard industrial classification code 3721, compensation, base month and year June 1989 = 100), as released by the Bureau of Labor Statistics, U.S. Department of Labor on a quarterly basis for the months of March, June, September and December, calculated as follows: A three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) will be determined using the months set forth in the table below for the applicable Aircraft, with the released Employment Cost Index value described above for the month of March also being used for the months of January and February; the value for June also used for April and May; the value for September also used for July and August; and the value for December also used for October and November.

ICI = The three-month arithmetic average of the released monthly values for the Industrial Commodities Index as set forth in the "Producer Prices and Price Index" (Base Year 1982 = 100) as released by the Bureau of Labor Statistics, U.S. Department of Labor values (expressed as a decimal and rounded to the nearest tenth) for the months set forth in the table below for the applicable Aircraft.

In determining the value of L, the ratio of ECI divided by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL

TREATMENT] with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

In determining the value of M, the ratio of ICI divided by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

| | | |
|--|----------------------|---|
| Month of Scheduled Aircraft Delivery as Set Forth in Article 2.1 of this Agreement | Quantity of Aircraft | Months to be Utilized in Determining the Value of ECI and ICI |
|--|----------------------|---|

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

2. If at the time of delivery of an Aircraft Boeing is unable to determine the Airframe Price Adjustment because the applicable values to be used to determine the ECI and ICI have not been released by the Bureau of Labor Statistics, then:

2.1 The Airframe Price Adjustment, to be used at the time of delivery of each of the Aircraft, will be determined by utilizing the escalation provisions set forth above. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled month of Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment. If no values have been released for an applicable month, the provisions set forth in Paragraph 2.2 below will apply. If prior to delivery of an Aircraft the U.S. Department of Labor changes the base year for determination of the ECI or ICI values as defined above, such rebased values will be incorporated in the Airframe Price Adjustment calculation. The payment by Buyer to Boeing of the amount of the Purchase Price for such Aircraft, as determined at the time of Aircraft delivery, will be deemed to be the payment for such Aircraft required at the delivery thereof.

2.2 If prior to delivery of an Aircraft the U.S. Department of Labor substantially revises the methodology used for the determination of the values to be used to determine the ECI and ICI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Aircraft Airframe Price Adjustment, the parties will, prior to delivery of any such Aircraft, select a substitute for such values from data published by the Bureau of Labor Statistics or other similar data reported by non-governmental United States organizations, such substitute to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original values as they may have fluctuated during the applicable time period. Appropriate revision of the formula will be made as required to reflect any substitute values. However, if within 24 months from delivery of the Aircraft the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment, such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft.

2.3 In the event escalation provisions are made non-enforceable or otherwise rendered null and void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Purchase Price of any affected Aircraft to reflect an allowance for increases or decreases in labor compensation and material costs occurring since February, 1992, which is consistent with the applicable provisions of paragraph 1 of this Exhibit D.

2.4 If required, Boeing will submit either a supplemental invoice or refund the amounts due Buyer as appropriate to reflect any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft. Any payments due Boeing or Buyer will be made with reasonable promptness.

3. For the calculations herein, the values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled month of Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment.

Note: Any rounding of a number, as required under this Exhibit D with respect to escalation of the airframe price, will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next higher number.

PRICE ADJUSTMENT DUE TO
ECONOMIC FLUCTUATIONS
AIRFRAME PRICE ADJUSTMENT
(1997 Base Price)

(Relating to Block C Aircraft)

1. Formula.

The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$Pa = (P)(L + M - 1)$$

Where:

Pa = Airframe Price Adjustment.

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

P = Aircraft Basic Price (as set forth in Article 3.2 of this Agreement) less the base price of Engines (as defined in this Exhibit D) in the amount of \$+

ECI = A value using the "Employment Cost Index for workers in aerospace manufacturing" (aircraft manufacturing, standard industrial classification code 3721, compensation, base month and year June 1989 = 100), as released by the Bureau of Labor Statistics, U.S. Department of Labor on a quarterly basis for the months of March, June, September and December, calculated as follows: A three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) will be determined using the months set forth in the table below for the applicable Aircraft, with the released Employment Cost Index value described above for the month of March also being used for the months of January and February; the value for June also used for April and May; the value for September also used for July and August; and the value for December also used for October and November.

ICI = The three-month arithmetic average of the released monthly values for the Industrial Commodities Index as set forth in the "Producer Prices and Price Index" (Base Year 1982 = 100) as released by the Bureau of Labor Statistics, U.S. Department of Labor values (expressed as a decimal and rounded to the nearest tenth) for the months set forth in the table below for the applicable

Aircraft.

In determining the value of L, the ratio of ECI divided by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

In determining the value of M, the ratio of ICI divided by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

| Month of Scheduled Aircraft Delivery | Months to be Utilized in Determining the Value of ECI and ICI |
|--------------------------------------|---|
| January | June B, July B, Aug. B |
| February | July B, Aug. B, Sept. B |
| March | Aug. B, Sept. B, Oct. B |
| April | Sept. B, Oct. B, Nov. B |
| May | Oct. B, Nov. B, Dec. B |
| June | Nov. B, Dec. B, Jan. D |
| July | Dec. B, Jan. D, Feb. D |
| August | Jan. D, Feb. D, Mar. D |
| September | Feb. D, Mar. D, Apr. D |
| October | Mar. D, Apr. D, May D |
| November | Apr. D, May D, June D |
| December | May D, June D, July D |

The following definitions of B and D will apply:

- B = The calendar year before the year in which the scheduled month of delivery as set forth in Article 2.1 occurs.
- D = The calendar year during which the scheduled month of delivery as set forth in Article 2.1 occurs.

2. If at the time of delivery of an Aircraft Boeing is unable to determine the Airframe Price Adjustment because the applicable values to be used to determine the ECI and ICI have not been released by the Bureau of Labor Statistics, then:

2.1 The Airframe Price Adjustment, to be used at the time of delivery of each Aircraft, will be determined by utilizing the escalation provisions set forth above. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment. If no values have been released for an applicable month, the provisions set forth in Paragraph 2.2 below will apply. If prior to delivery of an Aircraft the U.S. Department of Labor changes the base year for determination of the ECI or ICI values as defined above, such rebased values will be incorporated in the Airframe Price Adjustment calculation. The payment by Buyer to Boeing of the amount of the Purchase Price for such Aircraft, as determined at the time of Aircraft delivery, will be deemed to be the payment for such Aircraft required at the delivery thereof.

2.2 If prior to delivery of an Aircraft the U.S. Department

of Labor substantially revises the methodology used for the determination of the values to be used to determine the ECI and ICI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Aircraft Airframe Price Adjustment, the parties will, prior to delivery of any such Aircraft, select a substitute for such values from data published by the Bureau of Labor Statistics or other similar data reported by non-governmental United States organizations, such substitute to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original values as they may have fluctuated during the applicable time period. Appropriate revision of the formula will be made as required to reflect any substitute values. However, if within 24 months from delivery of the Aircraft the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment, such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft.

2.3 In the event escalation provisions are made non-enforceable or otherwise rendered null and void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Purchase Price of any affected Aircraft to reflect an allowance for increases or decreases in labor compensation and material costs occurring since February, 1997, which is consistent with the applicable provisions of paragraph 1 of this Exhibit D.

3. For the calculations herein, the values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment.

Note: Any rounding of a number, as required under this Exhibit D with respect to escalation of the airframe price, will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next higher number.

ENGINE PRICE ADJUSTMENT - ROLLS-ROYCE
(1992 BASE PRICE)

(Relating to Block A, A-1, and B Aircraft)

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

ENGINE PRICE ADJUSTMENT - ROLLS-ROYCE
(1997 BASE PRICE)

(Relating to Block C Aircraft)

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

July 30, 1998
1783-10R3

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

Subject: Letter Agreement No. 1783-10R3 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 1783-10R2.

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 |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

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

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

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 first business day of the month in each Option Exercise Date shown below:

| Option Aircraft | Option Exercise Date |
|-----------------|----------------------|
|-----------------|----------------------|

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

5. Contract Terms.

Within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to paragraph 4 above, Boeing and Buyer will use their best reasonable efforts to enter into a supplemental agreement amending the Purchase Agreement to add the applicable Option Aircraft to the Purchase Agreement as a firm

Aircraft (the Option Aircraft Supplemental Agreement).

In the event the parties have not entered into such an Option Aircraft Supplemental Agreement within the time period contemplated herein, either party shall have the right, exercisable by written or telegraphic notice given to the other within ten (10) days after such period, to cancel the purchase of such Option Aircraft.

6. Cancellation of Option to Purchase.

Either Boeing or Buyer may cancel the option to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Purchase Agreement, as the case may be:

(i) purchase of an Aircraft under the Purchase Agreement for any reason not attributable to the canceling party;

(ii) payment by Buyer of the Option Deposit with respect to such Option Aircraft pursuant to paragraph 3 herein; or

(iii) exercise of the option to purchase such Option Aircraft pursuant to the terms hereof.

Any cancellation of an option to purchase by Boeing which is based on the termination of the purchase of an Aircraft under the Purchase Agreement shall be on a one-for-one basis, for each Aircraft so terminated.

Cancellation of an option to purchase provided by this letter agreement shall be caused by either party giving written notice to the other within ten (10) days after the respective date in question. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the option to purchase has been canceled shall thereupon terminate.

Boeing shall promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft. Boeing shall be entitled to retain the Option Deposit unless cancellation is attributable to Boeing's fault, in which case the Option Deposit shall also be returned to Buyer without interest.

7. Applicability.

Except as otherwise specifically provided, limited or excluded herein, all Option Aircraft that are added to the Purchase Agreement by an Option Aircraft Supplemental Agreement as firm Aircraft shall benefit from all the applicable terms, conditions and provisions of the Purchase Agreement.

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 John A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: July 30, 1998

CONTINENTAL AIRLINES, INC.,

By Brian Davis

Its Vice President

Attachment

Model 757-224 Aircraft

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:

(1) Changes applicable to the basic Model 757-200 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of an Option Aircraft Supplemental Agreement.

(2) Changes mutually agreed upon.

(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 Option Aircraft weight, balance, design and performance.

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.

2.1.3 Escalation Adjustments. The base airframe and special features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D of the Purchase Agreement.

Buyer agrees that the engine escalation provisions will be adjusted if they are changed by the engine manufacturer prior to the signing the Option Aircraft Supplemental Agreement. In such case, the then-current engine escalation provisions in effect at the time of execution of the Option Aircraft Supplemental Agreement will be incorporated into such agreement.

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 10% 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.

<ARTICLE> 5

| | | |
|------------------------------|-------|-------------|
| <PERIOD-TYPE> | 9-MOS | |
| <FISCAL-YEAR-END> | | DEC-31-1998 |
| <PERIOD-END> | | SEP-30-1998 |
| <CASH> | | 1,226 |
| <SECURITIES> | | 44 |
| <RECEIVABLES> | | 549 |
| <ALLOWANCES> | | 0 |
| <INVENTORY> | | 152 |
| <CURRENT-ASSETS> | | 2,212 |
| <PP&E> | | 2,906 |
| <DEPRECIATION> | | 752 |
| <TOTAL-ASSETS> | | 6,708 |
| <CURRENT-LIABILITIES> | | 2,566 |
| <BONDS> | | 0 |
| <PREFERRED-MANDATORY> | | 242 |
| <PREFERRED> | | 0 |
| <COMMON> | | 1 |
| <OTHER-SE> | | 1,090 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 6,708 |
| <SALES> | | 6,006 |
| <TOTAL-REVENUES> | | 6,006 |
| <CGS> | | 0 |
| <TOTAL-COSTS> | | 0 |
| <OTHER-EXPENSES> | | 5,433 |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 131 |
| <INCOME-PRETAX> | | 537 |
| <INCOME-TAX> | | 206 |
| <INCOME-CONTINUING> | | 321 |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 4 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | 317 |
| <EPS-PRIMARY> | | 5.27 |
| <EPS-DILUTED> | | 4.10 |