

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **GORDON M. BETHUNE** ("Executive"), and is dated and effective as of July 25, 2000 (the "Effective Date").

**WITNESSETH:**

**WHEREAS**, Company and Executive were parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the "Old Agreement@"); and

**WHEREAS**, Air Partners, L.P., its partners and certain affiliates entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the AInvestment Agreement@), which investment agreement provided for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P.; and

**WHEREAS**, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the AAcquisition@) on November 20, 1998 constituted a Change in Control for purposes of the Company=s 1994 Incentive Equity Plan, as amended, the Company=s 1997 Stock Incentive Plan, as amended, the Company=s then existing Executive Bonus Program and the Old Agreement; and

**WHEREAS**, Company and Executive executed that certain Amended and Restated Employment Agreement dated as of November 20, 1998 to amend, restate and supersede the Original Agreement in its entirety, as provided for therein, and such Amended and Restated Employment Agreement dated as of November 20, 1998 was amended by Amendment to Employment Agreement dated as of May 19, 1999 and Amendment to Employment Agreement dated as of September 16, 1999 (as so amended, the "Existing Agreement"); and

**WHEREAS**, the Human Resources Committee of the Board of Directors of Company ("HR Committee") has deemed it advisable and in the best interests of Company and its stockholders to assure management continuity for Company and, consistent therewith, has authorized the execution, delivery and performance by Company of this Agreement;

**WHEREAS**, in connection therewith, the parties desire to enter into this Agreement to replace and supersede the Existing Agreement in its entirety, effective as of the Effective Date;

**NOW, THEREFORE**, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

**ARTICLE 1: EMPLOYMENT AND DUTIES**

1.1 **Employment; Effective Date.** Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date (as hereinafter defined) and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement.

1.2 **Positions.** From and after the Effective Date, Company shall employ Executive in the positions of Chairman of the Board and Chief Executive Officer of Company, or in such other positions as the parties mutually may agree, and shall, for the full term of Executive's employment hereunder, cause Executive to be nominated for election as a director of Company and use its best efforts to secure such election.

1.3 **Duties and Services.** Executive agrees to serve in the positions referred to in paragraph 1.2 and, if elected, as a director of Company and to perform diligently and to the best of his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices which the parties mutually may agree upon from time to time.

**ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT**

2.1 **Term.** Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any

such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

**2.2 Company's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

- (i) upon Executive's death;
- (ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;
- (iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;
- (iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or
- (v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

**2.3 Executive's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

- (i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of him from any such positions;
- (ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Board of Directors;
- (iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;
- (iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;
- (v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;
- (vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or
- (vii) for any other reason whatsoever, in the sole discretion of Executive.

**2.4 Notice of Termination.** If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

### **ARTICLE 3: COMPENSATION AND BENEFITS**

**3.1 Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$1,042,500.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

**3.2 Bonus Programs and Restricted Stock Grant.** (a) Cash Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0%

to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

(b) **Restricted Stock Grant.** On the Effective Date, Company shall make a restricted stock award to Executive of 30,000 shares of Class B common stock of Company under Company's Incentive Plan 2000, which restricted stock award shall vest as to 1/3 of the shares on the first anniversary of the Effective Date, 1/3 of the shares on the second anniversary of the Effective Date, and 1/3 of the shares on the third anniversary of the Effective Date, or otherwise in accordance with the terms of the Incentive Plan 2000 (including any grant document thereunder) and the terms of this Agreement.

3.3 **Life Insurance.** During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment, and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

3.4 **Vacation and Sick Leave.** During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

### 3.5 **Supplemental Executive Retirement Plan.**

(i) **Base Benefit.** Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 30 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 1995 ("Actual Years of Service"), (2) an additional four years of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on January 1, 2000 and ending on December 31, 2004, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), that number of additional years of service as is equal to (X) 28 years minus (Y) five times the number of full calendar years which have occurred during the period beginning January 1, 2000 and ending on the earlier of (i) the date that the Termination Payment under this Agreement first becomes payable to Executive or (ii) December 31, 2004. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$1,042,500.00 or (B) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment or Existing Severance paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company, and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

(ii) **Offset for CARP Benefit.** Any provisions of the Plan to the contrary notwithstanding, the Base Benefit shall be reduced by the actuarial equivalent (as defined below) of the pension benefit, if any, paid or payable to Executive from the CARP. In making such reduction, the Base Benefit and the benefit paid or payable under the CARP shall be determined under the provisions of each plan as if payable in the form of an annual straight life annuity beginning on the Retirement Date (as defined below). The net benefit payable under this Plan shall then be actuarially adjusted based on the actuarial assumptions set forth in paragraph 3.5(vii) for the actual time and form of payments.

(iii) **Normal and Early Retirement Benefits.** Executive's benefit under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit").

For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall be entitled to elect to commence to receive Executive's benefit under the Plan as of the first day of any month coinciding with or next following Executive's termination of employment, or as the first day of any subsequent month preceding the Retirement Date (an "Early Retirement Benefit"); provided, however, that (1) written notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, (2) each payment under an Early Retirement Benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined without regard to clause (3) of this proviso) to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time and form of payments), and (3) each payment under an Early Retirement Benefit that is made prior to the Retirement Date shall be reduced by an additional 10% of the amount of such payment as initially determined pursuant to clause (2) of this proviso. The HR Committee may, in its sole and absolute discretion, waive all or any part of the reductions contemplated in clauses (2) and/or (3) of the proviso of the preceding sentence.

(iv) Form of Retirement Benefit. If Executive is not married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive in the form of a single life annuity for the life of Executive. If Executive is married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive, at the written election of Executive made at least 15 days prior to the first payment of benefits under the Plan, in either (1) the form of a single life annuity for the life of Executive, or (2) the form of a joint and survivor annuity that is actuarially equivalent to the benefit that would have been payable under the Plan to Executive if Executive was not married on such date, with Executive's spouse as of the date benefit payments commence being entitled during such spouse's lifetime after Executive's death to a benefit equal to 50% of the benefit payable to Executive during their joint lifetimes. If Executive fails to make such election, Executive will be deemed to have elected a joint and survivor annuity.

(v) Death Benefit. Except as provided in this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit commences pursuant to paragraph 3.5(iii). In the event of Executive's death prior to the commencement of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, elected a joint and survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive elected a joint and survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death. Payment of such survivor annuity shall begin on the first day of the month following the later of (1) Executive's date of death or (2) the Retirement Date; provided, however, that if Executive was eligible to elect an Early Retirement Benefit as of the date of Executive's death, then Executive's surviving spouse shall be entitled to elect to commence to receive such survivor annuity as of the first day of the month next following the date of Executive's death, or as the first day of any subsequent month preceding the Retirement Date. Notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, and each payment of such survivor annuity shall be reduced based on the principles used for the reductions described in clauses (2) and (3) of the proviso to the third sentence of paragraph 3.5(iii).

(vi) Unfunded Benefit. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that he must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) Actuarial Equivalent. For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to his spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse.

(viii) Medicare Payroll Taxes. Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

**3.6 Additional Disability Benefit.** If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment. If Executive receives payment of a Termination Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

**3.7 Other Perquisites.** During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) **Automobile** - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii) or (iv)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

(ii) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel. Company shall also pay on behalf of Executive the expenses of one athletic club selected by Executive.

(iii) **Parking** - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

(iv) **Other Company Benefits** - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, Flight Benefits and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally; provided, however, that Company shall not change, amend or discontinue Executive's Flight Benefits without his consent.

#### **ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION**

**4.1 By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that (A) the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive

as provided in subparagraph 3.7(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP"), all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

**4.2 By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as Payment Amounts with respect to Awards are paid to other participants under the LTIP, all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (4) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable, and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i).

**4.3 By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

**4.4 Certain Additional Payments by Company.** Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business

days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

**4.5 Payment Obligations Absolute.** Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

**4.6 Liquidated Damages.** In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be received by Executive as liquidated damages. Payment of the Termination Payment and the Existing Severance pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

**4.7 Certain Definitions and Additional Terms.** As used herein, the following capitalized terms shall have the meanings assigned below:

(i) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

i. AExisting Severance@ shall mean the sum of five million sixty two thousand five hundred dollars (\$5,062,500), which sum represents the severance payable to Executive upon termination of employment by him after a Change in Control (as defined in the Old Agreement) caused by the Acquisition under the Old Agreement;

(iii) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on May 18, 1999), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's names for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare, or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be

rendered by an agency selected by Executive and approved by the Board of Directors (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of ten years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for Executive's lifetime or a shorter period if such perquisites become unavailable to the Company for use by Executive; and

- ii. "Termination Payment" shall mean an amount equal to three times the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment hereunder and (2) an amount equal to 125% of the amount described in the foregoing clause (1).

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially \$50,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$50,000 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Travel Limit would be increased by 15% to \$57,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially \$10,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$10,000 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Gross Up Limit would be increased by 15% to \$11,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of May 18, 1999 for purposes of Flight Benefits for a year to commence on December 1 and end on the following November 30 (for example, the twelve-month period from December 1, 1998 to November 30, 1999 is considered the year 1999 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on his UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be

suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above, Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive spouse's names, a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

## **ARTICLE 5: MISCELLANEOUS**

**5.1 Interest and Indemnification.** If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Chase Bank of Texas N.A. (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

**5.2 Notices.** For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

**If to Company to :** Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

**If to Executive to :** Mr. Gordon M. Bethune

3340 Del Monte

Houston, Texas 77019

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

**5.3 Applicable Law.** This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

**5.4 No Waiver.** No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

**5.5 Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

**5.6 Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

**5.7 Withholding of Taxes and Other Employee Deductions.** Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental

regulation or ruling and all other normal employee deductions made with respect to Company's employees generally.

5.8 **Headings.** The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 **Gender and Plurals.** Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Except as provided in the preceding sentence or in paragraph 3.3 (regarding assignment of life insurance benefits), this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 **Term.** This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Executive Bonus Performance Award Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 **Deemed Resignations.** Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors and from the board of directors of any affiliate of Company, and from the board of directors or similar governing body of any corporation, limited liability company or other entity in which Company or any affiliate holds an equity interest and with respect to which board or similar governing body Executive serves as Company's or such affiliate's designee or other representative.

5.14 **Executive Bonus Program and certain Change in Control Matters.** Executive agrees that the payment to Executive of the Existing Severance hereunder will not be deemed to be in connection with circumstances which would permit such Participant to receive severance benefits pursuant to any contract of employment between such Participant and the Company or any of its subsidiaries within the meaning of clause (d) of the last sentence of Section 7 of the Company's Executive Bonus Performance Award Program, as in effect on the date hereof. Executive agrees that any recapitalization, conversion, reclassification or similar transaction involving Class A common stock of Company owned by Northwest Airlines Corporation or its affiliates, or any acquisition by Company of Class A common stock owned by Northwest Airlines Corporation or its affiliates (whether or not involving other outstanding shares of Class A common stock), which results in a person who is an Institutional Investor (as defined in that certain Rights Agreement dated November 20, 1998, as amended by First Amendment to Rights Agreement dated as of February 8, 2000, between Company and Harris Trust and Savings Bank, as in effect on the date hereof) as of the date hereof and as of the date of any such recapitalization, conversion, reclassification, acquisition or similar transaction being or becoming the beneficial owner of securities of Company sufficient to otherwise trigger a Change in Control pursuant to clause (aa) of Section 12 (c) of Company's Incentive Plan 2000, as in effect on the date hereof, shall not constitute a Change in Control for purposes of this Agreement, or for purposes of Company's stock incentive plans or programs, Long Term Incentive Performance Award Program, Officer Retention and Incentive Award Program, Executive Bonus Performance Award Program or similar plans or programs.

\*\*\*\*\*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

CONTINENTAL AIRLINES, INC.

**By:**

**Name:** Jeffery A. Smisek

**Title:** Executive Vice President

**"EXECUTIVE"**

GORDON M. BETHUNE

**APPROVED:**

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Thomas J. Barrack, Jr.

Chair, Human Resources Committee

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **GREGORY D. BRENNEMAN** ("Executive"), and is dated and effective as of July 25, 2000 (the "Effective Date").

**W I T N E S S E T H:**

**WHEREAS**, Company and Executive were parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the AOld Agreement@); and

**WHEREAS**, Air Partners, L.P., its partners and certain affiliates entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the AInvestment Agreement@), which investment agreement provided for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P.; and

**WHEREAS**, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the AAcquisition@) on November 20, 1998 constituted a Change in Control for purposes of the Company=s 1994 Incentive Equity Plan, as amended, the Company=s 1997 Stock Incentive Plan, as amended, the Company=s then existing Executive Bonus Program and the Old Agreement; and

**WHEREAS**, Company and Executive executed that certain Amended and Restated Employment Agreement dated as of November 20, 1998 to amend, restate and supersede the Original Agreement in its entirety, as provided for therein, and such Amended and Restated Employment Agreement dated as of November 20, 1998 was amended by Amendment to Employment Agreement dated as of May 19, 1999 and Amendment to Employment Agreement dated as of September 16, 1999 (as so amended, the "Existing Agreement"); and

**WHEREAS**, the Human Resources Committee of the Board of Directors of Company ("HR Committee") has deemed it advisable and in the best interests of Company and its stockholders to assure management continuity for Company and, consistent therewith, has authorized the execution, delivery and performance by Company of this Agreement;

**WHEREAS**, in connection therewith, the parties desire to enter into this Agreement to replace and supersede the Existing Agreement in its entirety, effective as of the Effective Date;

**NOW, THEREFORE**, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

**ARTICLE 1: EMPLOYMENT AND DUTIES**

1.1 **Employment; Effective Date.** Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date (as hereinafter defined) and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement.

1.2 **Positions.** From and after the Effective Date, Company shall employ Executive in the positions of President and Chief Operating Officer of Company, or in such other positions as the parties mutually may agree, and shall, for the full term of Executive's employment hereunder, cause Executive to be nominated for election as a director of Company and use its best efforts to secure such election.

1.3 **Duties and Services.** Executive agrees to serve in the positions referred to in paragraph 1.2 and, if elected, as a director of Company and to perform diligently and to the best of his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices which the parties mutually may agree upon from time to time.

**ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT**

2.1 **Term.** Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

2.2 **Company's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

- (i) upon Executive's death;
- (ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;
- (iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;
- (iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or
- (v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 **Executive's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

- (i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of him from any such positions;
- (ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer or Board of Directors;
- (iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;
- (iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;
- (v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;
- (vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or
- (vii) for any other reason whatsoever, in the sole discretion of Executive.

2.4 **Notice of Termination.** If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

### **ARTICLE 3: COMPENSATION AND BENEFITS**

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$757,500.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 **Bonus Programs and Restricted Stock Grant.** (a) Cash Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0% to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

(b) **Restricted Stock Grant.** On the Effective Date, Company shall make a restricted stock award to Executive of 30,000 shares of Class B common stock of Company under Company's Incentive Plan 2000, which restricted stock award shall vest as to 1/3 of the shares on the first anniversary of the Effective Date, 1/3 of the shares on the second anniversary of the Effective Date, and 1/3 of the shares on the third anniversary of the Effective Date, or otherwise in accordance with the terms of the Incentive Plan 2000 (including any grant document thereunder) and the terms of this Agreement.

3.3 **Life Insurance.** During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment, and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

3.4 **Vacation and Sick Leave.** During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

### 3.5 **Supplemental Executive Retirement Plan.**

(i) **Base Benefit.** Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 30 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 1995 ("Actual Years of Service"), (2) an additional three years of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on January 1, 2000 and ending on December 31, 2004, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), that number of additional years of service as is equal to (X) 23 years minus (Y) four times the number of full calendar years which have occurred during the period beginning January 1, 2000 and ending on the earlier of (i) the date that the Termination Payment under this Agreement first becomes payable to Executive or (ii) December 31, 2004. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$757,500.00 or (B) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment or Existing Severance paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company, and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

(ii) **Offset for CARP Benefit.** Any provisions of the Plan to the contrary notwithstanding, the Base Benefit shall be reduced by the actuarial equivalent (as defined below) of the pension benefit, if any, paid or payable to Executive from the CARP. In making such reduction, the Base Benefit and the benefit paid or payable under the CARP shall be determined under the provisions of each plan as if payable in the form of an annual straight life annuity beginning on the Retirement Date (as defined below). The net benefit payable under this Plan shall then be actuarially adjusted based on the actuarial assumptions set forth in paragraph 3.5(vii) for the actual time and form of payments.

(iii) **Normal and Early Retirement Benefits.** Executive's benefit under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit"). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated,

for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall be entitled to elect to commence to receive Executive's benefit under the Plan as of the first day of any month coinciding with or next following Executive's termination of employment, or as the first day of any subsequent month preceding the Retirement Date (an "Early Retirement Benefit"); provided, however, that (1) written notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, (2) each payment under an Early Retirement Benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined without regard to clause (3) of this proviso) to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time and form of payments), and (3) each payment under an Early Retirement Benefit that is made prior to the Retirement Date shall be reduced by an additional 10% of the amount of such payment as initially determined pursuant to clause (2) of this proviso. The HR Committee may, in its sole and absolute discretion, waive all or any part of the reductions contemplated in clauses (2) and/or (3) of the proviso of the preceding sentence.

(iv) Form of Retirement Benefit. If Executive is not married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive in the form of a single life annuity for the life of Executive. If Executive is married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive, at the written election of Executive made at least 15 days prior to the first payment of benefits under the Plan, in either (1) the form of a single life annuity for the life of Executive, or (2) the form of a joint and survivor annuity that is actuarially equivalent to the benefit that would have been payable under the Plan to Executive if Executive was not married on such date, with Executive's spouse as of the date benefit payments commence being entitled during such spouse's lifetime after Executive's death to a benefit equal to 50% of the benefit payable to Executive during their joint lifetimes. If Executive fails to make such election, Executive will be deemed to have elected a joint and survivor annuity.

(v) Death Benefit. Except as provided in this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit commences pursuant to paragraph 3.5(iii). In the event of Executive's death prior to the commencement of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, elected a joint and survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive elected a joint and survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death. Payment of such survivor annuity shall begin on the first day of the month following the later of (1) Executive's date of death or (2) the Retirement Date; provided, however, that if Executive was eligible to elect an Early Retirement Benefit as of the date of Executive's death, then Executive's surviving spouse shall be entitled to elect to commence to receive such survivor annuity as of the first day of the month next following the date of Executive's death, or as the first day of any subsequent month preceding the Retirement Date. Notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, and each payment of such survivor annuity shall be reduced based on the principles used for the reductions described in clauses (2) and (3) of the proviso to the third sentence of paragraph 3.5(iii).

(vi) Unfunded Benefit. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that he must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) Actuarial Equivalent. For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to his spouse) by the Actuary. The actuarial assumptions

used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse.

(viii) Medicare Payroll Taxes. Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

**3.6 Additional Disability Benefit**. If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment. If Executive receives payment of a Termination Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

**3.7 Other Perquisites**. During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) **Automobile** - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii) or (iv)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, if applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

(ii) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel. Company shall also pay on behalf of Executive the expenses of one athletic club selected by Executive.

(iii) **Parking** - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

(iv) **Other Company Benefits** - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, Flight Benefits and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally; provided, however, that Company shall not change, amend or discontinue Executive's Flight Benefits without his consent.

#### **ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION**

**4.1 By Expiration**. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that (A) the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately

upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP"), all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

**4.2 By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as Payment Amounts with respect to Awards are paid to other participants under the LTIP, all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (4) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable, and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i).

**4.3 By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

**4.4 Certain Additional Payments by Company.** Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and

hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

4.5 **Payment Obligations Absolute.** Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

4.6 **Liquidated Damages.** In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be received by Executive as liquidated damages. Payment of the Termination Payment and the Existing Severance pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

4.7 **Certain Definitions and Additional Terms.** As used herein, the following capitalized terms shall have the meanings assigned below:

(i) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

i. AExisting Severance@ shall mean the sum of three million eight hundred eighty-one thousand two hundred fifty dollars (\$3,881,250), which sum represents the severance payable to Executive upon termination of employment by him after a Change in Control (as defined in the Old Agreement) caused by the Acquisition under the Old Agreement;

(iii) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on May 18, 1999), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's names for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare, or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a

period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive; and

- ii. "Termination Payment" shall mean an amount equal to three times the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment hereunder and (2) an amount equal to 125% of the amount described in the foregoing clause (1).

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially \$50,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$50,000 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Travel Limit would be increased by 15% to \$57,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially \$10,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$10,000 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Gross Up Limit would be increased by 15% to \$11,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of May 18, 1999 for purposes of Flight Benefits for a year to commence on December 1 and end on the following November 30 (for example, the twelve-month period from December 1, 1998 to November 30, 1999 is considered the year 1999 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on his UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's

reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above, Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive spouse's names, a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

## **ARTICLE 5: MISCELLANEOUS**

**5.1 Interest and Indemnification.** If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Chase Bank of Texas N.A. (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

**5.2 Notices.** For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

**If to Company to :** Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

**If to Executive to :** Mr. Gregory D. Brenneman

31 Hollymead Drive

Houston, Texas 77387

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

**5.3 Applicable Law.** This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

**5.4 No Waiver.** No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

**5.5 Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

**5.6 Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

**5.7 Withholding of Taxes and Other Employee Deductions.** Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions made with respect to Company's employees generally.

5.8 **Headings.** The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 **Gender and Plurals.** Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Except as provided in the preceding sentence or in paragraph 3.3 (regarding assignment of life insurance benefits), this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 **Term.** This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Executive Bonus Performance Award Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 **Deemed Resignations.** Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors and from the board of directors of any affiliate of Company, and from the board of directors or similar governing body of any corporation, limited liability company or other entity in which Company or any affiliate holds an equity interest and with respect to which board or similar governing body Executive serves as Company's or such affiliate's designee or other representative.

5.14 **Executive Bonus Program and certain Change in Control Matters.** Executive agrees that the payment to Executive of the Existing Severance hereunder will not be deemed to be in connection with circumstances which would permit such Participant to receive severance benefits pursuant to any contract of employment between such Participant and the Company or any of its subsidiaries within the meaning of clause (d) of the last sentence of Section 7 of the Company's Executive Bonus Performance Award Program, as in effect on the date hereof. Executive agrees that any recapitalization, conversion, reclassification or similar transaction involving Class A common stock of Company owned by Northwest Airlines Corporation or its affiliates, or any acquisition by Company of Class A common stock owned by Northwest Airlines Corporation or its affiliates (whether or not involving other outstanding shares of Class A common stock), which results in a person who is an Institutional Investor (as defined in that certain Rights Agreement dated November 20, 1998, as amended by First Amendment to Rights Agreement dated as of February 8, 2000, between Company and Harris Trust and Savings Bank, as in effect on the date hereof) as of the date hereof and as of the date of any such recapitalization, conversion, reclassification, acquisition or similar transaction being or becoming the beneficial owner of securities of Company sufficient to otherwise trigger a Change in Control pursuant to clause (aa) of Section 12 (c) of Company's Incentive Plan 2000, as in effect on the date hereof, shall not constitute a Change in Control for purposes of this Agreement, or for purposes of Company's stock incentive plans or programs, Long Term Incentive Performance Award Program, Officer Retention and Incentive Award Program, Executive Bonus Performance Award Program or similar plans or programs.

\*\*\*\*\*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By:

**Name:** Jeffery A. Smisek

**Title:** Executive Vice President

**"EXECUTIVE"**

GREGORY D. BRENNEMAN

**APPROVED:**

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Thomas J. Barrack, Jr.

Chair, Human Resources Committee

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **LAWRENCE W. KELLNER** ("Executive"), and is dated and effective as of July 25, 2000 (the "Effective Date").

**W I T N E S S E T H:**

**WHEREAS**, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of September 16, 1999 (the "Existing Agreement"), which expires on November 21, 2000; and

**WHEREAS**, the Human Resources Committee of the Board of Directors of Company ("HR Committee") has deemed it advisable and in the best interests of Company and its stockholders to assure management continuity for Company and, consistent therewith, has authorized the execution, delivery and performance by Company of this Agreement;

**WHEREAS**, in connection therewith, the parties desire to enter into this Agreement to replace and supersede the Existing Agreement in its entirety, effective as of the Effective Date;

**NOW, THEREFORE**, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

**ARTICLE 1: EMPLOYMENT AND DUTIES**

1.1 **Employment; Effective Date.** Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement.

1.2 **Positions.** From and after the Effective Date, Company shall employ Executive in the positions of Executive Vice President and Chief Financial Officer of Company, or in such other positions as the parties mutually may agree.

1.3 **Duties and Services.** Executive agrees to serve in the positions referred to in paragraph 1.2 and to perform diligently and to the best of his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices which the parties mutually may agree upon from time to time.

**ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT**

2.1 **Term.** Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

2.2 **Company's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

- (i) upon Executive's death;
- (ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;
- (iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;
- (iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or
- (v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 **Executive's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of him from any such positions;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer of Company;

(iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;

(iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or

(vii) for any other reason whatsoever, in the sole discretion of Executive.

2.4 **Notice of Termination.** If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

### **ARTICLE 3: COMPENSATION AND BENEFITS**

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$693,500.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 **Bonus Programs and Restricted Stock Grant.** (a) Cash Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0% to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

(b) Restricted Stock Grant. On the Effective Date, Company shall make a restricted stock award to Executive of 30,000 shares of Class B common stock of Company under Company's Incentive Plan 2000, which restricted stock award shall vest as to 1/3 of the shares on the first anniversary of the Effective Date, 1/3 of the shares on the second anniversary of the Effective Date, and 1/3 of the shares on the third anniversary of the Effective Date, or otherwise in accordance with the terms of the Incentive Plan 2000 (including any grant document thereunder) and the terms of this Agreement.

3.3 **Life Insurance.** During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7, and based on a Severance Period of thirty-six months). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months), and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any

reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment (based on a Severance Period of thirty-six months) and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

**3.4 Vacation and Sick Leave.** During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

### **3.5 Supplemental Executive Retirement Plan.**

(i) **Base Benefit.** Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 1995 ("Actual Years of Service"), (2) an additional two years of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on January 1, 2000 and ending on December 31, 2004, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), that number of additional years of service as is equal to (X) 18 years minus (Y) three times the number of full calendar years which have occurred during the period beginning January 1, 2000 and ending on the earlier of (i) the date that the Termination Payment under this Agreement first becomes payable to Executive or (ii) December 31, 2004. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$693,500.00 or (B) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company, and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

(ii) **Offset for CARP Benefit.** Any provisions of the Plan to the contrary notwithstanding, the Base Benefit shall be reduced by the actuarial equivalent (as defined below) of the pension benefit, if any, paid or payable to Executive from the CARP. In making such reduction, the Base Benefit and the benefit paid or payable under the CARP shall be determined under the provisions of each plan as if payable in the form of an annual straight life annuity beginning on the Retirement Date (as defined below). The net benefit payable under this Plan shall then be actuarially adjusted based on the actuarial assumptions set forth in paragraph 3.5(vii) for the actual time and form of payments.

(iii) **Normal and Early Retirement Benefits.** Executive's benefit under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit"). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall be entitled to elect to commence to receive Executive's benefit under the Plan as of the first day of any month coinciding with or next following Executive's termination of employment, or as the first day of any subsequent month preceding the Retirement Date (an "Early Retirement Benefit"); provided, however, that (1) written notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, (2) each payment under an Early Retirement Benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined without regard to clause (3) of this proviso) to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time and form of payments), and (3) each payment under an Early Retirement Benefit that is made prior to the Retirement Date shall be reduced by an additional 10% of the amount of such payment as initially determined pursuant to clause (2) of this proviso. The HR Committee may, in its sole and absolute discretion, waive all or any part of the reductions contemplated in clauses (2) and/or (3) of the proviso of the preceding sentence.

(iv) **Form of Retirement Benefit.** If Executive is not married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive in the form of a single life annuity for the life of Executive. If Executive is married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive, at the written election of Executive made at least 15 days prior to the first payment of benefits under the Plan, in either (1) the form of a single life annuity for the life of Executive, or (2) the form of a joint and survivor annuity that is actuarially equivalent to the benefit that would have been payable under the Plan to Executive if Executive was not married on such date, with Executive's spouse as of the date benefit payments commence being entitled during such spouse's lifetime after Executive's death to a benefit equal to 50% of the benefit payable to Executive during their joint lifetimes. If Executive fails to make such election, Executive will be deemed to have elected a joint and survivor annuity.

(v) **Death Benefit.** Except as provided in this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit commences pursuant to paragraph 3.5(iii). In the event of Executive's death prior to the commencement of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, elected a joint and survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive elected a joint and survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death. Payment of such survivor annuity shall begin on the first day of the month following the later of (1) Executive's date of death or (2) the Retirement Date; provided, however, that if Executive was eligible to elect an Early Retirement Benefit as of the date of Executive's death, then Executive's surviving spouse shall be entitled to elect to commence to receive such survivor annuity as of the first day of the month next following the date of Executive's death, or as the first day of any subsequent month preceding the Retirement Date. Notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, and each payment of such survivor annuity shall be reduced based on the principles used for the reductions described in clauses (2) and (3) of the proviso to the third sentence of paragraph 3.5(iii).

(vi) **Unfunded Benefit.** The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that he must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) **Actuarial Equivalent.** For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to his spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse.

(viii) **Medicare Payroll Taxes.** Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

**3.6 Additional Disability Benefit.** If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months). If Executive receives payment of a Termination

Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

**3.7 Other Perquisites.** During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) **Automobile** - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii) or (iv)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

(ii) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel. Company shall also pay on behalf of Executive the expenses of one athletic club selected by Executive.

(iii) **Parking** - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

(iv) **Other Company Benefits** - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, Flight Benefits and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally; provided, however, that Company shall not change, amend or discontinue Executive's Flight Benefits without his prior written consent.

#### **ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION**

**4.1 By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that (A) the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP"), all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

**4.2 By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in

paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as other Payment Amounts with respect to Awards are paid to other participants under the LTIP, all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (4) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable, and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i).

**4.3 By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

**4.4 Certain Additional Payments by Company.** Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

**4.5 Payment Obligations Absolute.** Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

**4.6 Liquidated Damages.** In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be

received by Executive as liquidated damages. Payment of the Termination Payment pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

**4.7 Certain Definitions and Additional Terms.** As used herein, the following capitalized terms shall have the meanings assigned below:

- i. "Annualized Compensation" shall mean an amount equal to the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment hereunder and (2) an amount equal to 125% of the amount described in the foregoing clause (1);
- ii. "Change in Control" shall have the meaning assigned to such term in Company's Incentive Plan 2000 in effect on May 23, 2000;

(iii) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

(iv) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on May 18, 1999), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's names for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare, or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

- i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;

(vi) "Severance Period" shall mean:

(1) in the case of a termination of Executive's employment with Company that occurs within two years after the date upon which a Change in Control occurs, a period commencing on the date of such termination and continuing for thirty-six months; or

(2) in the case of a termination of Executive's employment with Company that occurs prior to a Change in Control or after the date which is two years after a Change in Control occurs, a period commencing on the date of such termination and continuing for twenty-four months; and

(vii) "Termination Payment" shall mean an amount equal to Executive's Annualized Compensation multiplied by a fraction, the numerator of which is the number of months in the Severance Period and the denominator of which is twelve.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially \$50,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$50,000 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Travel Limit would be increased by 15% to \$57,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially \$10,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$10,000 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Gross Up Limit would be increased by 15% to \$11,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of May 18, 1999 for purposes of Flight Benefits for a year to commence on December 1 and end on the following November 30 (for example, the twelve-month period from December 1, 1998 to November 30, 1999 is considered the year 1999 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on his UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above,

Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive spouse's names, a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

## **ARTICLE 5: MISCELLANEOUS**

5.1 **Interest and Indemnification.** If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Chase Bank of Texas N.A. (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

5.2 **Notices.** For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

**If to Company to :** Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

**If to Executive to :** Lawrence W. Kellner

10915 Pifer Way

Houston, Texas 77024

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.3 **Applicable Law.** This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

5.4 **No Waiver.** No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.5 **Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

5.6 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

5.7 **Withholding of Taxes and Other Employee Deductions.** Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions made with respect to Company's employees generally.

5.8 **Headings.** The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 **Gender and Plurals.** Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise.

Except as provided in the preceding sentence or in paragraph 3.3 (regarding assignment of life insurance benefits), this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 **Term.** This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Executive Bonus Performance Award Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

13. **Deemed Resignations.** Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors (if applicable) and from the board of directors of any affiliate of Company and from the board of directors or similar governing body of any corporation, limited liability company or other entity in which Company or any affiliate holds an equity interest and with respect to which board or similar governing body Executive serves as Company's or such affiliate's designee or other representative.

5.14 **Certain Change in Control Matters.** Executive agrees that any recapitalization, conversion, reclassification or similar transaction involving Class A common stock of Company owned by Northwest Airlines Corporation or its affiliates, or any acquisition by Company of Class A common stock owned by Northwest Airlines Corporation or its affiliates (whether or not involving other outstanding shares of Class A common stock), which results in a person who is an Institutional Investor (as defined in that certain Rights Agreement dated November 20, 1998, as amended by First Amendment to Rights Agreement dated as of February 8, 2000, between Company and Harris Trust and Savings Bank, as in effect on the date hereof) as of the date hereof and as of the date of any such recapitalization, conversion, reclassification, acquisition or similar transaction being or becoming the beneficial owner of securities of Company sufficient to otherwise trigger a Change in Control pursuant to clause (aa) of Section 12 (c) of Company's Incentive Plan 2000, as in effect on the date hereof, shall not constitute a Change in Control for purposes of this Agreement, or for purposes of

Company's stock incentive plans or programs, Long Term Incentive Performance Award Program, Officer Retention and Incentive Award Program, Executive Bonus Performance Award Program or similar plans or programs.

\*\*\*\*\*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By:

Name:

**Title:**

**"EXECUTIVE"**

LAWRENCE W. KELLNER

**APPROVED:**

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Thomas J. Barrack, Jr.

Chair, Human Resources Committee

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **C.D. McLEAN** ("Executive"), and is dated and effective as of July 25, 2000 (the "Effective Date").

**W I T N E S S E T H:**

**WHEREAS**, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of September 16, 1999 (the "Existing Agreement"), which expires on November 21, 2000; and

**WHEREAS**, the Human Resources Committee of the Board of Directors of Company ("HR Committee") has deemed it advisable and in the best interests of Company and its stockholders to assure management continuity for Company and, consistent therewith, has authorized the execution, delivery and performance by Company of this Agreement;

**WHEREAS**, in connection therewith, the parties desire to enter into this Agreement to replace and supersede the Existing Agreement in its entirety, effective as of the Effective Date;

**NOW, THEREFORE**, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

**ARTICLE 1: EMPLOYMENT AND DUTIES**

1.1 **Employment; Effective Date.** Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement.

1.2 **Positions.** From and after the Effective Date, Company shall employ Executive in the position of Executive Vice President - Operations of Company, or in such other positions as the parties mutually may agree.

1.3 **Duties and Services.** Executive agrees to serve in the positions referred to in paragraph 1.2 and to perform diligently and to the best of his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices which the parties mutually may agree upon from time to time.

**ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT**

2.1 **Term.** Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

2.2 **Company's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

(i) upon Executive's death;

(ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;

(iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;

(iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or

(v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 **Executive's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of him from any such positions;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the President or the Chief Executive Officer of Company;

(iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;

(iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or

(vii) for any other reason whatsoever, in the sole discretion of Executive.

2.4 **Notice of Termination.** If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

### **ARTICLE 3: COMPENSATION AND BENEFITS**

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$451,500.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 **Bonus Programs and Restricted Stock Grant.** (a) Cash Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0% to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

(b) Restricted Stock Grant. On the Effective Date, Company shall make a restricted stock award to Executive of 30,000 shares of Class B common stock of Company under Company's Incentive Plan 2000, which restricted stock award shall vest as to 1/3 of the shares on the first anniversary of the Effective Date, 1/3 of the shares on the second anniversary of the Effective Date, and 1/3 of the shares on the third anniversary of the Effective Date, or otherwise in accordance with the terms of the Incentive Plan 2000 (including any grant document thereunder) and the terms of this Agreement.

3.3 **Life Insurance.** During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7, and based on a Severance Period of thirty-six months). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months), and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any

reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment (based on a Severance Period of thirty-six months) and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

**3.4 Vacation and Sick Leave.** During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

### **3.5 Supplemental Executive Retirement Plan.**

(i) **Base Benefit.** Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 1995 ("Actual Years of Service"), (2) an additional two years of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on January 1, 2000 and ending on December 31, 2004, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), that number of additional years of service as is equal to (X) 18 years minus (Y) three times the number of full calendar years which have occurred during the period beginning January 1, 2000 and ending on the earlier of (i) the date that the Termination Payment under this Agreement first becomes payable to Executive or (ii) December 31, 2004. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$451,500.00 or (B) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company, and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

(ii) **Offset for CARP Benefit.** Any provisions of the Plan to the contrary notwithstanding, the Base Benefit shall be reduced by the actuarial equivalent (as defined below) of the pension benefit, if any, paid or payable to Executive from the CARP. In making such reduction, the Base Benefit and the benefit paid or payable under the CARP shall be determined under the provisions of each plan as if payable in the form of an annual straight life annuity beginning on the Retirement Date (as defined below). The net benefit payable under this Plan shall then be actuarially adjusted based on the actuarial assumptions set forth in paragraph 3.5(vii) for the actual time and form of payments.

(iii) **Normal and Early Retirement Benefits.** Executive's benefit under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit"). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall be entitled to elect to commence to receive Executive's benefit under the Plan as of the first day of any month coinciding with or next following Executive's termination of employment, or as the first day of any subsequent month preceding the Retirement Date (an "Early Retirement Benefit"); provided, however, that (1) written notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, (2) each payment under an Early Retirement Benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined without regard to clause (3) of this proviso) to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time and form of payments), and (3) each payment under an Early Retirement Benefit that is made prior to the Retirement Date shall be reduced by an additional 10% of the amount of such payment as initially determined pursuant to clause (2) of this proviso. The HR Committee may, in its sole and absolute discretion, waive all or any part of the reductions contemplated in clauses (2) and/or (3) of the proviso of the preceding sentence.

(iv) **Form of Retirement Benefit.** If Executive is not married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive in the form of a single life annuity for the life of Executive. If Executive is married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive, at the written election of Executive made at least 15 days prior to the first payment of benefits under the Plan, in either (1) the form of a single life annuity for the life of Executive, or (2) the form of a joint and survivor annuity that is actuarially equivalent to the benefit that would have been payable under the Plan to Executive if Executive was not married on such date, with Executive's spouse as of the date benefit payments commence being entitled during such spouse's lifetime after Executive's death to a benefit equal to 50% of the benefit payable to Executive during their joint lifetimes. If Executive fails to make such election, Executive will be deemed to have elected a joint and survivor annuity.

(v) **Death Benefit.** Except as provided in this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit commences pursuant to paragraph 3.5(iii). In the event of Executive's death prior to the commencement of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, elected a joint and survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive elected a joint and survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death. Payment of such survivor annuity shall begin on the first day of the month following the later of (1) Executive's date of death or (2) the Retirement Date; provided, however, that if Executive was eligible to elect an Early Retirement Benefit as of the date of Executive's death, then Executive's surviving spouse shall be entitled to elect to commence to receive such survivor annuity as of the first day of the month next following the date of Executive's death, or as the first day of any subsequent month preceding the Retirement Date. Notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, and each payment of such survivor annuity shall be reduced based on the principles used for the reductions described in clauses (2) and (3) of the proviso to the third sentence of paragraph 3.5(iii).

(vi) **Unfunded Benefit.** The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that he must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) **Actuarial Equivalent.** For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to his spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse.

(viii) **Medicare Payroll Taxes.** Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

**3.6 Additional Disability Benefit.** If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months). If Executive receives payment of a Termination

Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

**3.7 Other Perquisites.** During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) **Automobile** - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii) or (iv)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

(ii) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel. Company shall also pay on behalf of Executive the expenses of one athletic club selected by Executive.

(iii) **Parking** - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

(iv) **Other Company Benefits** - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, Flight Benefits and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally; provided, however, that Company shall not change, amend or discontinue Executive's Flight Benefits without his prior written consent.

#### **ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION**

**4.1 By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that (A) the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP"), all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

**4.2 By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in

paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as other Payment Amounts with respect to Awards are paid to other participants under the LTIP, all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (4) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable, and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i).

**4.3 By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

**4.4 Certain Additional Payments by Company.** Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

**4.5 Payment Obligations Absolute.** Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

**4.6 Liquidated Damages.** In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be

received by Executive as liquidated damages. Payment of the Termination Payment pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

**4.7 Certain Definitions and Additional Terms.** As used herein, the following capitalized terms shall have the meanings assigned below:

- i. "Annualized Compensation" shall mean an amount equal to the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment hereunder and (2) an amount equal to 125% of the amount described in the foregoing clause (1);
- ii. "Change in Control" shall have the meaning assigned to such term in Company's Incentive Plan 2000 in effect on May 23, 2000;

(iii) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

(iv) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on May 18, 1999), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's names for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare, or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

- i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;

(vi) "Severance Period" shall mean:

(1) in the case of a termination of Executive's employment with Company that occurs within two years after the date upon which a Change in Control occurs, a period commencing on the date of such termination and continuing for thirty-six months; or

(2) in the case of a termination of Executive's employment with Company that occurs prior to a Change in Control or after the date which is two years after a Change in Control occurs, a period commencing on the date of such termination and continuing for twenty-four months; and

(vii) "Termination Payment" shall mean an amount equal to Executive's Annualized Compensation multiplied by a fraction, the numerator of which is the number of months in the Severance Period and the denominator of which is twelve.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially \$50,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$50,000 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Travel Limit would be increased by 15% to \$57,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially \$10,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$10,000 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Gross Up Limit would be increased by 15% to \$11,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of May 18, 1999 for purposes of Flight Benefits for a year to commence on December 1 and end on the following November 30 (for example, the twelve-month period from December 1, 1998 to November 30, 1999 is considered the year 1999 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on his UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above,

Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive spouse's names, a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

## **ARTICLE 5: MISCELLANEOUS**

5.1 **Interest and Indemnification.** If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Chase Bank of Texas N.A. (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

5.2 **Notices.** For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

**If to Company to :** Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

**If to Executive to :** C.D. McLean

1111 Caroline, Apt. 2602

Houston, TX 77010

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.3 **Applicable Law.** This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

5.4 **No Waiver.** No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.5 **Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

5.6 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

5.7 **Withholding of Taxes and Other Employee Deductions.** Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions made with respect to Company's employees generally.

5.8 **Headings.** The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 **Gender and Plurals.** Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise.

Except as provided in the preceding sentence or in paragraph 3.3 (regarding assignment of life insurance benefits), this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 **Term.** This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Executive Bonus Performance Award Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 **Deemed Resignations.** Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors (if applicable) and from the board of directors of any affiliate of Company and from the board of directors or similar governing body of any corporation, limited liability company or other entity in which Company or any affiliate holds an equity interest and with respect to which board or similar governing body Executive serves as Company's or such affiliate's designee or other representative.

5.14 **Certain Change in Control Matters.** Executive agrees that any recapitalization, conversion, reclassification or similar transaction involving Class A common stock of Company owned by Northwest Airlines Corporation or its affiliates, or any acquisition by Company of Class A common stock owned by Northwest Airlines Corporation or its affiliates (whether or not involving other outstanding shares of Class A common stock), which results in a person who is an Institutional Investor (as defined in that certain Rights Agreement dated November 20, 1998, as amended by First Amendment to Rights Agreement dated as of February 8, 2000, between Company and Harris Trust and Savings Bank, as in effect on the date hereof) as of the date hereof and as of the date of any such recapitalization, conversion, reclassification, acquisition or similar transaction being or becoming the beneficial owner of securities of Company sufficient to otherwise trigger a Change in Control pursuant to clause (aa) of Section 12 (c) of Company's Incentive Plan 2000, as in effect on the date hereof, shall not constitute a Change in Control for purposes of this Agreement, or for purposes of

Company's stock incentive plans or programs, Long Term Incentive Performance Award Program, Officer Retention and Incentive Award Program, Executive Bonus Performance Award Program or similar plans or programs.

\*\*\*\*\*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

**CONTINENTAL AIRLINES, INC.**

**By:**

**Name:**

**Title:**

**"EXECUTIVE"**

C.D. McLEAN

**APPROVED:**

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Thomas J. Barrack, Jr.  
Chair, Human Resources Committee

**EMPLOYMENT AGREEMENT**

**THIS EMPLOYMENT AGREEMENT** ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **JEFFERY A. SMISEK** ("Executive"), and is dated and effective as of July 25, 2000 (the "Effective Date").

**W I T N E S S E T H:**

**WHEREAS**, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of September 16, 1999 (the "Existing Agreement"), which expires on November 21, 2000; and

**WHEREAS**, the Human Resources Committee of the Board of Directors of Company ("HR Committee") has deemed it advisable and in the best interests of Company and its stockholders to assure management continuity for Company and, consistent therewith, has authorized the execution, delivery and performance by Company of this Agreement;

**WHEREAS**, in connection therewith, the parties desire to enter into this Agreement to replace and supersede the Existing Agreement in its entirety, effective as of the Effective Date;

**NOW, THEREFORE**, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

**ARTICLE 1: EMPLOYMENT AND DUTIES**

1.1 **Employment; Effective Date.** Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement.

1.2 **Positions.** From and after the Effective Date, Company shall employ Executive in the positions of Executive Vice President, General Counsel and Secretary of Company, or in such other positions as the parties mutually may agree.

1.3 **Duties and Services.** Executive agrees to serve in the positions referred to in paragraph 1.2 and to perform diligently and to the best of his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices which the parties mutually may agree upon from time to time.

**ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT**

2.1 **Term.** Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

2.2 **Company's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

- (i) upon Executive's death;
- (ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;
- (iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;
- (iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or
- (v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 **Executive's Right to Terminate.** Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of him from any such positions;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer of Company;

(iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;

(iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or

(vii) for any other reason whatsoever, in the sole discretion of Executive.

2.4 **Notice of Termination.** If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

### **ARTICLE 3: COMPENSATION AND BENEFITS**

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$420,000.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 **Bonus Programs and Restricted Stock Grant.** (a) Cash Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0% to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

(b) Restricted Stock Grant. On the Effective Date, Company shall make a restricted stock award to Executive of 30,000 shares of Class B common stock of Company under Company's Incentive Plan 2000, which restricted stock award shall vest as to 1/3 of the shares on the first anniversary of the Effective Date, 1/3 of the shares on the second anniversary of the Effective Date, and 1/3 of the shares on the third anniversary of the Effective Date, or otherwise in accordance with the terms of the Incentive Plan 2000 (including any grant document thereunder) and the terms of this Agreement.

3.3 **Life Insurance.** During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7, and based on a Severance Period of thirty-six months). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months), and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any

reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment (based on a Severance Period of thirty-six months) and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

**3.4 Vacation and Sick Leave.** During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

### **3.5 Supplemental Executive Retirement Plan.**

(i) **Base Benefit.** Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 1995 ("Actual Years of Service"), (2) an additional two years of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on January 1, 2000 and ending on December 31, 2004, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), that number of additional years of service as is equal to (X) 18 years minus (Y) three times the number of full calendar years which have occurred during the period beginning January 1, 2000 and ending on the earlier of (i) the date that the Termination Payment under this Agreement first becomes payable to Executive or (ii) December 31, 2004. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$420,000.00 or (B) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company, and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

(ii) **Offset for CARP Benefit.** Any provisions of the Plan to the contrary notwithstanding, the Base Benefit shall be reduced by the actuarial equivalent (as defined below) of the pension benefit, if any, paid or payable to Executive from the CARP. In making such reduction, the Base Benefit and the benefit paid or payable under the CARP shall be determined under the provisions of each plan as if payable in the form of an annual straight life annuity beginning on the Retirement Date (as defined below). The net benefit payable under this Plan shall then be actuarially adjusted based on the actuarial assumptions set forth in paragraph 3.5(vii) for the actual time and form of payments.

(iii) **Normal and Early Retirement Benefits.** Executive's benefit under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit"). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall be entitled to elect to commence to receive Executive's benefit under the Plan as of the first day of any month coinciding with or next following Executive's termination of employment, or as the first day of any subsequent month preceding the Retirement Date (an "Early Retirement Benefit"); provided, however, that (1) written notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, (2) each payment under an Early Retirement Benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined without regard to clause (3) of this proviso) to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time and form of payments), and (3) each payment under an Early Retirement Benefit that is made prior to the Retirement Date shall be reduced by an additional 10% of the amount of such payment as initially determined pursuant to clause (2) of this proviso. The HR Committee may, in its sole and absolute discretion, waive all or any part of the reductions contemplated in clauses (2) and/or (3) of the proviso of the preceding sentence.

(iv) **Form of Retirement Benefit.** If Executive is not married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive in the form of a single life annuity for the life of Executive. If Executive is married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive, at the written election of Executive made at least 15 days prior to the first payment of benefits under the Plan, in either (1) the form of a single life annuity for the life of Executive, or (2) the form of a joint and survivor annuity that is actuarially equivalent to the benefit that would have been payable under the Plan to Executive if Executive was not married on such date, with Executive's spouse as of the date benefit payments commence being entitled during such spouse's lifetime after Executive's death to a benefit equal to 50% of the benefit payable to Executive during their joint lifetimes. If Executive fails to make such election, Executive will be deemed to have elected a joint and survivor annuity.

(v) **Death Benefit.** Except as provided in this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit commences pursuant to paragraph 3.5(iii). In the event of Executive's death prior to the commencement of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, elected a joint and survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive elected a joint and survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death. Payment of such survivor annuity shall begin on the first day of the month following the later of (1) Executive's date of death or (2) the Retirement Date; provided, however, that if Executive was eligible to elect an Early Retirement Benefit as of the date of Executive's death, then Executive's surviving spouse shall be entitled to elect to commence to receive such survivor annuity as of the first day of the month next following the date of Executive's death, or as the first day of any subsequent month preceding the Retirement Date. Notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit, and each payment of such survivor annuity shall be reduced based on the principles used for the reductions described in clauses (2) and (3) of the proviso to the third sentence of paragraph 3.5(iii).

(vi) **Unfunded Benefit.** The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that he must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) **Actuarial Equivalent.** For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to his spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse.

(viii) **Medicare Payroll Taxes.** Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

**3.6 Additional Disability Benefit.** If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months). If Executive receives payment of a Termination

Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

**3.7 Other Perquisites.** During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) **Automobile** - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii) or (iv)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

(ii) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel. Company shall also pay on behalf of Executive the expenses of one athletic club selected by Executive.

(iii) **Parking** - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

(iv) **Other Company Benefits** - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, Flight Benefits and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally; provided, however, that Company shall not change, amend or discontinue Executive's Flight Benefits without his prior written consent.

#### **ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION**

**4.1 By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that (A) the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP"), all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

**4.2 By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in

paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as other Payment Amounts with respect to Awards are paid to other participants under the LTIP, all Payment Amounts with respect to Awards made to Executive under the LTIP having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in his current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP), (4) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable, and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i).

**4.3 By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and his eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

**4.4 Certain Additional Payments by Company.** Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

**4.5 Payment Obligations Absolute.** Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

**4.6 Liquidated Damages.** In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be

received by Executive as liquidated damages. Payment of the Termination Payment pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

**4.7 Certain Definitions and Additional Terms.** As used herein, the following capitalized terms shall have the meanings assigned below:

- i. "Annualized Compensation" shall mean an amount equal to the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment hereunder and (2) an amount equal to 125% of the amount described in the foregoing clause (1);
- ii. "Change in Control" shall have the meaning assigned to such term in Company's Incentive Plan 2000 in effect on May 23, 2000;

(iii) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

(iv) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on May 18, 1999), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's names for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare, or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

- i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;

(vi) "Severance Period" shall mean:

(1) in the case of a termination of Executive's employment with Company that occurs within two years after the date upon which a Change in Control occurs, a period commencing on the date of such termination and continuing for thirty-six months; or

(2) in the case of a termination of Executive's employment with Company that occurs prior to a Change in Control or after the date which is two years after a Change in Control occurs, a period commencing on the date of such termination and continuing for twenty-four months; and

(vii) "Termination Payment" shall mean an amount equal to Executive's Annualized Compensation multiplied by a fraction, the numerator of which is the number of months in the Severance Period and the denominator of which is twelve.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially \$50,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$50,000 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Travel Limit would be increased by 15% to \$57,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially \$10,000), which amount shall be adjusted (i) annually (beginning with the year 2000) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 1999, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of May 18, 1999), so as to preserve the benefit of \$10,000 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of May 18, 1999 (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of May 18, 1999, then the Annual Gross Up Limit would be increased by 15% to \$11,500, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of May 18, 1999 for purposes of Flight Benefits for a year to commence on December 1 and end on the following November 30 (for example, the twelve-month period from December 1, 1998 to November 30, 1999 is considered the year 1999 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on his UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above,

Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive spouse's names, a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

## **ARTICLE 5: MISCELLANEOUS**

5.1 **Interest and Indemnification.** If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Chase Bank of Texas N.A. (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

5.2 **Notices.** For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

**If to Company to :** Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

**If to Executive to :** Jeffery A. Smisek

5211 Briar Drive

Houston, Texas 77056

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.3 **Applicable Law.** This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

5.4 **No Waiver.** No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.5 **Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

5.6 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

5.7 **Withholding of Taxes and Other Employee Deductions.** Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions made with respect to Company's employees generally.

5.8 **Headings.** The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 **Gender and Plurals.** Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise.

Except as provided in the preceding sentence or in paragraph 3.3 (regarding assignment of life insurance benefits), this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 **Term.** This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Executive Bonus Performance Award Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 **Deemed Resignations.** Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors (if applicable) and from the board of directors of any affiliate of Company and from the board of directors or similar governing body of any corporation, limited liability company or other entity in which Company or any affiliate holds an equity interest and with respect to which board or similar governing body Executive serves as Company's or such affiliate's designee or other representative.

5.14 **Certain Change in Control Matters.** Executive agrees that any recapitalization, conversion, reclassification or similar transaction involving Class A common stock of Company owned by Northwest Airlines Corporation or its affiliates, or any acquisition by Company of Class A common stock owned by Northwest Airlines Corporation or its affiliates (whether or not involving other outstanding shares of Class A common stock), which results in a person who is an Institutional Investor (as defined in that certain Rights Agreement dated November 20, 1998, as amended by First Amendment to Rights Agreement dated as of February 8, 2000, between Company and Harris Trust and Savings Bank, as in effect on the date hereof) as of the date hereof and as of the date of any such recapitalization, conversion, reclassification, acquisition or similar transaction being or becoming the beneficial owner of securities of Company sufficient to otherwise trigger a Change in Control pursuant to clause (aa) of Section 12 (c) of Company's Incentive Plan 2000, as in effect on the date hereof, shall not constitute a Change in Control for purposes of this Agreement, or for purposes of

Company's stock incentive plans or programs, Long Term Incentive Performance Award Program, Officer Retention and Incentive Award Program, Executive Bonus Performance Award Program or similar plans or programs.

\*\*\*\*\*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

**CONTINENTAL AIRLINES, INC.**

**By:**

**Name:**

**Title:**

**"EXECUTIVE"**

JEFFERY A. SMISEK

**APPROVED:**

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Thomas J. Barrack, Jr.

Chair, Human Resources Committee

Supplemental Agreement No. 18

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 September 11, 2000, 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

WHEREAS, Buyer has requested to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**; and

WHEREAS, Boeing and Buyer have mutually agreed that the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** and

WHEREAS, Boeing and Buyer have mutually agreed to amend the 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 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. 18.

1.2 Remove and replace, in its entirety, page T-3 of Table 1 entitled "Aircraft Deliveries and Descriptions" that relates to Model 737-800 Aircraft with new page 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 1951-3R10, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R11; "Option Aircraft - Model 737-824 Aircraft", attached thereto, to reflect the **[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 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.

By: /s/ Henry H. Hart By: /s/ Gerald Laderman

Its: Attorney-In-Fact Its: Senior Vice President-Finance

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6-1162-MMF-309R1 [CONFIDENTIAL MATERIAL OMITTED SA 1

**AND FILED SEPARATELY WITH THE**

**SECURITIES AND EXCHANGE COMMISSION**

**PURSUANT TO A REQUEST FOR**

**CONFIDENTIAL TREATMENT]**

6-1162-MMF-311R3 [CONFIDENTIAL MATERIAL OMITTED SA 5

**AND FILED SEPARATELY WITH THE**

**SECURITIES AND EXCHANGE COMMISSION**

**PURSUANT TO A REQUEST FOR**

**CONFIDENTIAL TREATMENT]**

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6-1162-MMF-378R1 Performance Guarantees - Model

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6-1162-GOC-015 [CONFIDENTIAL MATERIAL OMITTED SA 2

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

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

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

6-1162-DMH-680 Delivery Delay Resolution Program SA 9

6-1162-DMH-1020 [CONFIDENTIAL MATERIAL OMITTED SA 14

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

6-1162-DMH-1035 [CONFIDENTIAL MATERIAL OMITTED SA 15

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

6-1162-DMH-1054 [CONFIDENTIAL MATERIAL OMITTED SA 16

**AND FILED SEPARATELY WITH THE  
SECURITIES AND EXCHANGE COMMISSION  
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Supplemental Agreement No. 7 November12,1998  
Supplemental Agreement No. 8 December 7,1998  
Supplemental Agreement No. 9 February 18,1999  
Supplemental Agreement No. 10 March 19,1999  
Supplemental Agreement No. 11 May 14,1999  
Supplemental Agreement No. 12 July 2,1999  
Supplemental Agreement No. 13 October 13,1999  
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Supplemental Agreement No. 16 March 17,2000  
Supplemental Agreement No. 17 May 16, 2000  
Supplemental Agreement No. 18 September11,2000

Table 1 to  
Purchase Agreement 1951  
Aircraft Deliveries and Descriptions  
Model 737-800 Aircraft  
CFM56-7B26 Engines  
Detail Specification No. D6-38808-43  
Exhibit A-2

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

1951-3R11

September 11, 2000

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Letter Agreement No. 1951-3R11 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 1951-3R10 dated May 16, 2000.

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]** additional Model 737-824 Aircraft (the Option Aircraft) 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 Number of  
of Delivery\_ 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, Buyer has paid 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) prior to the date of this Letter Agreement. 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 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 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/ Henry H. Hart

Its Attorney In Fact

ACCEPTED AND AGREED TO this

Date: September 11, 2000

CONTINENTAL AIRLINES, INC.,

By /s/ Gerald Laderman

Its Senior Vice President - Finance

Attachment

Model 737-824 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D6-38808-43, Revision B, dated April 30,2000, 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 **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

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.

BY-LAWS  
OF  
CONTINENTAL AIRLINES, INC.

Including all amendments through October 2, 2000

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BY-LAWS

OF

Incorporated under the Laws of the State of Delaware

ARTICLE I Stockholders

Section 1.1 Annual Meeting. The annual meeting of stockholders of the Corporation for the election of Directors and for the transaction of any other proper business shall be held at such time and date in each year as the Board of Directors may determine from time to time. The annual meeting in each year shall be held at such place within or without the State of Delaware as may be fixed by the Board of Directors, or if not so fixed, at the principal business office of the Corporation.

Section 1.2 Special Meetings. Subject to the rights of the holders of any class or series of preferred stock of the Corporation, or any other series or class of stock as set forth in the Restated Certificate of Incorporation of the Corporation (as it may be amended from time to time in accordance with its terms and applicable law, the "Restated Certificate of Incorporation"), to elect additional Directors under specified circumstances, special meetings of the stockholders may be called only by (i) stockholders holding Common Stock constituting more than 50% of the voting power of the outstanding shares of Common Stock, (ii) the Chief Executive Officer or (iii) the Board of Directors.

Section 1.3 Place of Meeting. The Board of Directors may designate the place of meeting for any meeting of the stockholders. If no designation is made by the Board of Directors, the place of meeting shall be the principal executive offices of the Corporation.

Section 1.4 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, unless notice is waived in writing or by electronic transmission by all stockholders entitled to vote at the meeting, a notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, and, in the case of a special meeting, the purpose for which the meeting is called.

Unless otherwise provided by law, and except as to any stockholder duly waiving notice, the notice of any meeting shall be given personally or by mail or by electronic transmission in the manner provided by law, not less than ten nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at his or her address as it appears on the records of the Corporation.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If, however, the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.5 Quorum. Except as otherwise provided by law, by the Restated Certificate of Incorporation, or by these By-Laws in respect of the vote required for a specified action, at any meeting of stockholders the holders of a majority of the aggregate voting power of the outstanding stock entitled to vote thereat, either present or represented by proxy, shall constitute a quorum for the transaction of any business, but the stockholders present, although less than a quorum, may adjourn the meeting to another time or place and, except as provided in the last paragraph of Section 1.4, notice need not be given of the adjourned meeting.

Section 1.6 Voting. Except as otherwise provided by the Restated Certificate of Incorporation or these By-Laws, whenever Directors are to be elected at a meeting, they shall be elected by a plurality of the votes cast at the meeting by the holders of stock entitled to vote. Whenever any corporate action, other than the election of Directors, is to be taken by vote of stockholders at a meeting, it shall be authorized by a majority of the votes cast at the meeting by the holders of stock entitled to vote thereon, except as otherwise required by law, by the Restated Certificate of Incorporation or by these By-Laws.

Except as otherwise provided by law, or by the Restated Certificate of Incorporation or these By-Laws, each holder of record of stock of the Corporation entitled to vote on any matter at any meeting of stockholders shall be entitled to one vote for each share of such stock standing in the name of such holder on the stock ledger of the Corporation on the record date for the determination of the stockholders entitled to vote at the meeting.

Upon the demand of any stockholder entitled to vote, the vote for Directors or the vote on any other matter at a meeting shall be by written ballot, but otherwise the method of voting and the manner in which votes are counted shall be discretionary with the presiding officer at the meeting.

Section 1.7 Presiding Officer and Secretary. At every meeting of stockholders the Chairman of the Board or the Chief Executive Officer, as designated by the Board of Directors, or, if neither is present, or in the absence of any such designation, the appointee of the meeting, shall preside. The Secretary, or in his or her absence an Assistant Secretary, or if none be present, the appointee of the presiding officer of the meeting, shall act as secretary of the meeting.

Section 1.8 Proxies. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him or her by proxy executed in writing by the stockholder or as otherwise permitted by law, or by his or her duly authorized attorney-in-fact. Such proxy must be filed with the Secretary of the Corporation or his or her representative at or before the time of the meeting.

Section 1.9 List of Stockholders. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder in the manner provided by law. The list shall also be open to the examination of any stockholder during the whole time of the meeting as provided by law.

The stock ledger shall be the only evidence as to which stockholders are the stockholders entitled to examine the stock ledger or the list required by this Section 1.9, or to vote in person or by proxy at any meeting of stockholders.

Section 1.10 Notice of Stockholder Business and Nominations.

A. Annual Meetings of Stockholders.

(1) Subject to Section 2.2 of these By-Laws, nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting delivered pursuant to Section 1.4 of these By-Laws, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who is entitled to vote at the meeting, who complied with the notice procedures set forth in clauses (2) and (3) of paragraph (A) of this Section 1.10 and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Section 1.10, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than seventy days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than twenty days, or delayed by more than seventy days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of the seventieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A) (2) of this Section 1.10 to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least eighty days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 1.10 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(B) Special Meeting of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Section 1.4 of these By-Laws. Subject to Section 2.2 of these By-Laws, nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Section 1.10 and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice as required by paragraph (A) (2) of this Section 1.10 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of the seventieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General. (1) Only persons who are nominated in accordance with the procedures set forth in this Section 1.10 shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.10. Except as otherwise provided by law, the Restated Certificate of Incorporation or these By-Laws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 1.10 and, if any proposed nomination or business is not in compliance with this Section 1.10, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Section 1.10, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 1.10, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.10. Nothing in this Section 1.10 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act. Section 1.11 Inspectors of Elections; Opening and Closing the Polls. The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act, at the meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by the General Corporation Law of the State of Delaware (the "GCL").

The chairman of the meeting shall fix and announce at the meeting the time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

## 1. ARTICLE IIDirectors

Section 2.1 Powers and Duties of Directors; Number. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not directed or required to be exercised or done by the stockholders by the Restated Certificate of Incorporation, by these By-Laws, or by law. Except as otherwise permitted by or consistent with Foreign Ownership Restrictions (as defined in the Restated Certificate of Incorporation), at no time shall more than one-third of the Directors in office be Aliens (as defined in the Restated Certificate of Incorporation). The Board shall adopt the Annual Capital Expenditure Budget and the Annual Financial Plan, both as defined in Section 3.3, for each fiscal year not later than the last day of the preceding fiscal year or at such later time as shall be determined by resolution of the Board.

The number of Directors which shall constitute the whole Board of Directors shall be determined from time to time by resolution of the Board of Directors (provided that no decrease in the number of Directors which would have the effect of shortening the term of an incumbent Director may be made by the Board of Directors). If the Board of Directors makes no such determination, the number of Directors shall be twelve.

Section 2.2 Election; Term; Vacancies. Each Director shall hold office until the next annual election and until his or her successor is elected and qualified, or until his earlier death, resignation or removal. The Directors shall be elected annually by the stockholders in the manner specified by the Restated Certificate of Incorporation and these By-Laws, except that if there be a vacancy in the Board of Directors by reason of death, resignation or otherwise, such vacancy may also be filled for the unexpired term by a majority affirmative vote of the Board of Directors; provided, that in the event of a vacancy by reason of death, resignation or otherwise of a Class D Director, such vacancy shall be filled for the unexpired term by the holders of Class D Common Stock, voting separately as a class by a majority affirmative vote thereof.

Section 2.3 Resignation. Any Director may resign at any time upon notice given in writing or by electronic transmission to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

Section 2.4 Removal. Any Director may be removed at any time, with or without cause, by vote at a meeting or written consent of the holders of stock entitled to vote on the election of such Director pursuant to the Restated Certificate of Incorporation.

### Section 2.5 Meetings.

(A) Annual Meeting. Immediately after each annual meeting of stockholders, the duly elected Directors shall hold an inaugural meeting for the purpose of organization, election of officers, and the transaction of other business, at such place as shall be fixed by the person presiding at the meeting of stockholders at which such Directors are elected.

(B) Regular Meetings. Regular meetings of the Board of Directors shall be held on such dates and at such times and places as shall be designated from time to time by the Board of Directors; provided, that regular meetings of the Board of Directors can be waived at the request of the Chief Executive Officer if at least a majority of the Directors agree in writing or by electronic transmission to such waiver at least seven days before the date of the meeting to be so waived. The Secretary shall forward to each Director, at least five days before any such regular meeting, a notice of the time and place of the meeting, together with the agenda for the meeting or in lieu thereof a notice of waiver if the regular meeting has been waived.

(C) Special Meetings. Special meetings of the Directors may be called by the Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer or a majority of the Directors, at such time and place as shall be specified in the notice or waiver thereof. Notice of each special meeting, including the time and place of the meeting and the agenda therefor, shall

be given by the Secretary or by the person calling the meeting to each Director by causing the same to be delivered personally or by facsimile transmission not later than the close of business on the second day next preceding the day of the meeting.

(D) Location; Methods of Participation. Meetings of the Board of Directors, regular or special, may be held at any place within or without the State of Delaware at such place as is indicated in the notice or waiver of notice thereof. Members of the Board of Directors, or of any committee designated by the Board, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

Section 2.6 Quorum and Voting. A majority of the total number of Directors (excluding those who must recuse themselves under the terms of the Restated Certificate of Incorporation or these By-Laws, or by law) ("Recused Directors") shall constitute a quorum for the transaction of business, but, if there be less than a quorum at any meeting of the Board of Directors, a majority of the Directors present may adjourn the meeting from time to time, and no further notice thereof need be given other than announcement at the meeting which shall be so adjourned. Except as otherwise provided by law, by the Restated Certificate of Incorporation, or by these By-Laws, the affirmative vote of a majority of the Directors present at a meeting (excluding Recused Directors) at which a quorum is present shall be the act of the Board of Directors; provided, however, that no action described in Exhibit 2.03 to that certain Governance Agreement dated as of January 25, 1998 (as amended by First Amendment to Governance Agreement dated as of March 2, 1998 and by Second Amendment to Governance Agreement dated as of November 20, 1998) among the Corporation, Newbridge Parent Corporation and Northwest Airlines Corporation (the "Governance Agreement") shall be taken without prior approval thereof by the affirmative vote of a majority of the Board of Directors, including the affirmative vote of a majority of the Independent Directors (as defined in the Governance Agreement).

Section 2.7 Written Consent of Directors in Lieu of a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.8 Compensation. Directors may receive compensation for services to the Corporation in their capacities as Directors or otherwise in such manner and in such amounts as may be fixed from time to time by the Board of Directors.

## 1. ARTICLE III Committees of the Board of Directors

Section 3.1 Creation. The Board of Directors, by resolution or resolutions passed by a majority of the whole Board of Directors (except as otherwise provided in the Restated Certificate of Incorporation), may designate one or more committees, each to consist of such number of Directors of the Corporation as shall be specified in such resolution; provided that for so long as there shall be any Class D Directors (as defined in Section 3.3), any such committee shall include (if so requested by any Class D Director), to the extent consistent with applicable laws and regulations, such number of Class D Directors as shall not be greater than the number of Directors equal to the same percentage of the Directors comprising such committee as the percentage of the total number of Class D Directors on the whole Board of Directors; provided further, that for so long as there shall be any Class D Directors, any executive or other similar committee of the Board with full power to take all actions which may lawfully be taken by the Board, and any nominating committee of the Board, shall consist, to the extent consistent with applicable laws and regulations, only of a Director that is an officer of the Corporation (or his or her designee) and a Class D Director. Each committee of the Board shall have and may exercise such powers and duties as may be provided in such resolution, except that no such committee shall have the power to elect Directors or the power or authority reserved for the whole Board of Directors pursuant to Section 141(c)(1) of the GCL, except as otherwise set forth in such Section 141(c)(1). The chairperson of the Executive Committee shall, as long as Air Partners (as defined in the Restated Certificate of Incorporation) may convert (or has converted) shares of Class A common stock of the Corporation into Class D common stock of the Corporation pursuant to Article Fourth, Section 2(e)(i) of the Restated Certificate of Incorporation and such Class D common stock would not then be (or has not been) converted into Class A common stock pursuant to Article Fourth, Section 2(e) (ii) or (iii) of the Restated Certificate of Incorporation, be appointed from among the members of such committee by a majority of the whole Board of Directors.

Section 3.2 Committee Procedure. Each committee of the Board of Directors shall meet at the times stated by the Board in the resolution or resolutions establishing such committee or on notice to all members given by any member of such committee. The Board by resolution or resolutions shall establish the rules of procedure to be followed by each committee, which shall include a requirement that such committee keep regular minutes of its proceedings and deliver to the Secretary the same. The affirmative vote of a majority of the members of any such committee shall constitute the act of such committee.

### Section 3.3 Certain Definitions.

(A) Annual Capital Expenditure Budget. When used in these By-Laws, the term "Annual Capital Expenditure Budget" shall mean an annual capital expenditure budget, which shall be approved by the Board of Directors not later than the last day of the preceding fiscal year (or at such later time determined by the Board pursuant to Section 2.1).

(B) Annual Financial Plan. When used in these By-Laws, the term "Annual Financial Plan" shall mean an annual financial plan, which shall be approved by the Board of Directors not later than the last day of the preceding fiscal year (or at such later time determined by the Board pursuant to Section 2.1).

(C) Class D Director. When used in these By-Laws, the term "Class D Director" shall mean a Director elected by the holders of Class D Common Stock or elected by Directors to fill a vacancy created by the departure of a Class D Director.

## ARTICLE IV Officers, Agents and Employees

Section 4.1 Appointment and Term of Office. The officers of the Corporation shall include a Chairman of the Board, a Chief Executive Officer, a President, and a Secretary, and may also include a Chief Operating Officer, a Treasurer, one or more Vice Presidents (who may be further classified by such descriptions as "executive", "senior", "assistant", "staff" or otherwise, as the Board of Directors shall determine), one or more Assistant Secretaries and one or more Assistant Treasurers. All such officers shall be appointed by the Board of Directors. Any number of such offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. Except as may be prescribed otherwise by the Board of Directors in a particular case, all such officers shall hold their offices at the pleasure of the Board for an unlimited term and need not be reappointed annually or at any other periodic interval. The Board of Directors may appoint, and may delegate power to appoint, such other officers, agents and employees as it may deem necessary or proper, who shall hold their offices or positions for such terms, have such authority and perform such duties as may from time to time be determined by or pursuant to authorization of the Board of Directors.

Section 4.2 Resignation and Removal. Any officer may resign at any time upon written notice to the Corporation. Any officer, agent or employee of the Corporation may be removed by the Board of Directors with or without cause at any time. The Board of Directors may delegate such power of removal as to officers, agents and employees not appointed by the Board of Directors. Such removal shall be without prejudice to a person's contract rights, if any, but the appointment of any person as an officer, agent or employee of the Corporation shall not of itself create contract rights.

Section 4.3 Compensation and Bond. The compensation of the officers of the Corporation shall be fixed by the Board of Directors, but this power may be delegated to any officer by the Board of Directors. The Corporation may secure the fidelity of any or all of its officers, agents or employees by bond or otherwise.

Section 4.4 Chairman of the Board. The Chairman of the Board shall be selected from the members of the Board of Directors and shall preside at all meetings of the Board of Directors. In addition, the Chairman of the Board shall have such other powers and duties as may be delegated to him or her by the Board of Directors. The Chairman of the Board shall not be deemed to be an officer of the Corporation for purposes of Article III of these By-Laws unless he or she shall also be the Chief Executive Officer.

Section 4.5 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and, in the absence of the Chairman of the Board (or if there be none), he or she shall preside at all meetings of the Board of Directors. The Chief Executive Officer shall have general charge of the business affairs of the Corporation. He or she may employ and discharge employees and agents of the Corporation, except such as shall be appointed by the Board of Directors, and he or she may delegate these powers. The Chief Executive Officer may vote the stock or other securities of any other domestic or foreign corporation of any type or kind which may at any time be owned by the Corporation, may execute any stockholders' or other consents in respect thereof and may in his or her discretion delegate such powers by executing proxies, or otherwise, on behalf of the Corporation. The Board of Directors by resolution from time to time may confer like powers upon any other person.

Section 4.6 President. The President shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 4.7 Chief Operating Officer. The Chief Operating Officer of the Company shall have general charge of the operating affairs of the Corporation, and shall have such other powers and duties as the Chief Executive Officer or the Board of Directors shall delegate to him or her from time to time.

Section 4.8 Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 4.9 Treasurer. The Treasurer shall have charge of all funds and securities of the Corporation, may endorse the same for deposit or collection when necessary and deposit the same to the credit of the Corporation in such banks or depositaries as the Board of Directors may authorize. He or she may endorse all commercial documents requiring endorsements for or on behalf of the Corporation and may sign all receipts and vouchers for payments made to the Corporation. He or she shall have all such further powers and duties as generally are incident to the position of Treasurer or as may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

Section 4.10 Secretary. The Secretary shall distribute all materials to be distributed in connection with regular and special meetings of the Board of Directors, record all the proceedings of the meetings of the stockholders and Directors in a book to be kept for that purpose and shall also record therein all action taken by written consent of the Directors, and committees of the Board of Directors in lieu of a meeting. He or she shall attend to the giving and serving of all notices of the Corporation. He or she shall have custody of the seal of the Corporation and shall attest the same by his or her signature whenever required. He or she shall have charge of the stock ledger and such other books and papers as the Board of Directors may direct, but he or she may delegate responsibility for maintaining the stock ledger to any transfer agent appointed by the Board of Directors. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

Section 4.11 Assistant Treasurers. In the absence or inability to act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Treasurer shall also perform such other duties as the Treasurer or the Board of Directors may assign to him or her.

Section 4.12 Assistant Secretaries. In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Secretary shall also perform such other duties as the Secretary or the Board of Directors may assign to him or her.

Section 4.13 Delegation of Duties. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any Director.

Section 4.14 Loans to Officers and Employees; Guaranty of Obligations of Officers and Employees. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or any subsidiary, including any officer or employee who is a Director of the Corporation or any subsidiary, whenever, in the judgment of the Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation.

#### ARTICLE VI Limitation of Liability and Indemnification

Section 5.1 Limitation of Liability of Directors. No Director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except for liability (i) for any breach of the Director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the GCL, or (iv) for any transaction from which the Director derived any improper personal benefit. If the GCL is amended to authorize corporate action further eliminating or limiting the personal liability of Directors, then the liability of Directors of the Corporation shall be eliminated or limited to the full extent permitted by the GCL, as so amended.

Section 5.2 Mandatory Indemnification of Directors and Officers. The Corporation shall indemnify to the full extent permitted by the laws of the State of Delaware as from time to time in effect any person who was or is a party or is threatened to be made a party to, or otherwise requires representation by counsel in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (whether or not an action by or in the right of the Corporation), by reason of the fact that he or she is or was a Director or officer of the Corporation, or, while serving as a Director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity. The right to indemnification conferred by this Section 5.2 also shall include the right of such persons described in this Section 5.2 to be paid in advance by the Corporation for their expenses (including attorneys' fees) to the full extent permitted by the laws of the State of Delaware, as from time to time in effect. The right to indemnification conferred on such persons by this Section 5.2 shall be a contract right.

Section 5.3 Permissive Indemnification of Non-Officer Employees and Agents. The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (whether or not an action by or in the right of the Corporation) by reason of the fact that the person is or was an employee (other than an officer) or agent of the Corporation, or, while serving as an employee (other than an officer) or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, to the extent (i) permitted by the laws of the State of Delaware as from time to time in effect, and (ii) authorized in the sole discretion of the Chief Executive Officer and at least one other of the following officers: the President, the Chief Financial Officer, or the General Counsel of the Corporation (the Chief Executive Officer and any of such other officers so authorizing such indemnification, the "Authorizing Officers"). The Corporation may, to the extent permitted by Delaware law and authorized in the sole discretion of the Authorizing Officers, pay expenses (including attorneys' fees) reasonably incurred by any such employee or agent in defending any civil, criminal, administrative or investigative action, suit or proceeding in advance of the final disposition of such action, suit or proceeding, upon such terms and conditions as the Authorizing Officers authorizing such expense advancement determine in their sole discretion. The provisions of this Section 5.3 shall not constitute a contract right for any such employee or agent.

5.4 General Provisions. The rights and authority conferred in any of the Sections of this Article V shall not be exclusive of any other right which any person seeking indemnification or advancement of expenses may have or hereafter acquire under any statute, provision of the Restated Certificate of Incorporation or these By-Laws, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office and shall continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. Neither the amendment or repeal of this Article V or any of the Sections thereof nor the adoption of any provision of the Restated Certificate of Incorporation or these By-Laws or of any statute inconsistent with this Article V or any of the Sections thereof shall eliminate or reduce the effect of this Article V or any of the Sections thereof in respect of any acts or omissions occurring prior to such amendment, repeal or adoption or an inconsistent provision.

## ARTICLE VI Common Stock

Section 6.1 Certificates . Certificates for stock of the Corporation shall be in such form as shall be approved by the Board of Directors and shall be signed in the name of the Corporation by the Chairman of the Board or the Chief Executive Officer or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. Such certificates may be sealed with the seal of the Corporation or a facsimile thereof. Any of or all the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 6.2 Transfers of Stock . Upon surrender to any transfer agent of the Corporation of a certificate for shares of the Corporation duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation, provided such succession, assignment or transfer is not prohibited by the Restated Certificate of Incorporation, these By-Laws, applicable law or contractual prohibitions, to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 6.3 Lost, Stolen or Destroyed Certificates . The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his or her legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements.

Section 6.4 Stockholder Record Date . In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than ten days before the date of such meeting, nor more than 60 days prior to any other action. Only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, or to give such consent, or to receive payment of such dividend or other distribution, or to exercise such rights in respect of any such change, conversion or exchange of stock, or to participate in such action, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any record date so fixed.

If no record date is fixed by the Board of Directors, (a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the date on which notice is given, or, if notice is waived by all stockholders entitled to vote at the meeting, at the close of business on the day next preceding the day on which the meeting is held and (b) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

## ARTICLE VII Ownership by Aliens

Section 7.1 Foreign Stock Record . There shall be maintained a separate stock record, designated the "Foreign Stock Record," for the registration of Voting Stock, as defined in Section 7.2, that is Beneficially Owned (as defined in the Restated Certificate of Incorporation) by Aliens, as defined in the Restated Certificate of Incorporation ("Alien Stock"). The Beneficial Ownership by Aliens of Voting Stock shall be determined in conformity with regulations prescribed by the Board of Directors.

Section 7.2 Maximum Percentage . At no time shall ownership of shares representing more than the Maximum Percentage, as defined below, be registered in the Foreign Stock Record. As used herein, (a) "Maximum Percentage" means the maximum percentage of voting power of Voting Stock, as defined below, which may be voted by, or at the direction of, Aliens without violating Foreign Ownership Restrictions or adversely affecting the Corporation's operating certificates or authorities, and (b) "Voting Stock" means all outstanding shares of capital stock of the Corporation issued from time to time by the Corporation and Beneficially Owned by Aliens which, but for the provisions of Section 1 of Article Sixth of the Restated Certificate of Incorporation, by their terms may vote (at the time such determination is made) for the election of Directors of the Corporation, except shares of Preferred Stock that are entitled to vote for the election of Directors solely as a result of the failure to pay dividends by the Corporation or other breach of the terms of such Preferred Stock.

Section 7.3 Recording of Shares . If at any time there exist shares of Voting Stock that are Alien Stock but that are not registered in the Foreign Stock Record, the Beneficial Owner thereof may request, in writing, the Corporation to register ownership of such shares on the Foreign Stock Record and the Corporation shall comply with such request, subject to the limitation set forth in Section 7.2. The order in which Alien Stock shall be registered on the Foreign Stock Record shall be chronological, based on the date the Corporation received a written request to so register such shares of Alien Stock; provided, that for so long as any transferee of Air Partners is an Alien, shares of Voting Stock held by such transferee which were originally acquired by Air Partners pursuant

to the Investment Agreement, dated as of November 9, 1992, as amended, among the Corporation, Air Canada and Air Partners (the "Investment Agreement"), or upon conversion or exchange of such securities, or as a dividend or distribution in respect of such securities (collectively "AP Original Equity Securities") shall be registered on the Foreign Ownership Record prior to, and to the exclusion of, any other shares of Alien Stock whether or not any such other shares of Alien Stock are registered on the Foreign Stock Record at the time that any such transferee of Air Partners requests that shares of AP Original Equity Securities be so registered. If at any time the Corporation shall find that the combined voting power of Voting Stock then registered in the Foreign Stock Record exceeds the Maximum Percentage, there shall be removed from the Foreign Stock Record the registration of such number of shares so registered as is sufficient to reduce the combined voting power of the shares so registered to an amount not in excess of the Maximum Percentage. The order in which such shares shall be removed shall be reverse chronological order based upon the date the Corporation received a written request to so register such shares of Alien Stock; provided, that for so long as any transferee of Air Partners is an Alien, shares of AP Original Equity Securities owned by such transferee shall not be removed from the Foreign Ownership Record (regardless of the date on which such shares were registered thereon) until all other outstanding shares of Alien Stock have been so removed.

## ARTICLE VIII General Provisions

Section 8.1 Fiscal Year. The fiscal year of the Corporation shall begin the first day of January and end on the last day of December of each year.

Section 8.2 Dividends. Dividends upon the capital stock may be declared by the Board of Directors at any regular or special meeting and may be paid in cash or in property or in shares of the capital stock. Before paying any dividend or making any distribution of profits, the Directors may set apart out of any funds of the Corporation available for dividends a reserve or reserves for any proper purpose and may alter or abolish any such reserve or reserves.

Section 8.3 Checks, Notes, Drafts, Etc. Checks, notes, drafts, acceptances, bills of exchange and other orders or obligations for the payment of money shall be signed by such officer or officers or person or persons as the Board of Directors or a duly authorized committee thereof, the Chief Executive Officer or the Treasurer may from time to time designate.

Section 8.4 Corporate Seal. The seal of the Corporation shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board of Directors, the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 8.5 Waiver of Notice. Whenever notice is required to be given by statute, or under any provision of the Restated Certificate of Incorporation or these By-Laws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. In the case of a stockholder, such waiver of notice may be signed by such stockholder's attorney or proxy duly appointed in writing or as otherwise permitted by law. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, Directors or members of a committee of Directors need be specified in any written waiver of notice or any waiver by electronic transmission.

## ARTICLE IX Restated Certificate of Incorporation to Govern

Section 9.1 Restated Certificate of Incorporation to Govern. Notwithstanding anything to the contrary herein, if any provision contained herein is inconsistent with or conflicts with a provision of the Restated Certificate of Incorporation, such provision herein shall be superseded by the inconsistent provision in the Restated Certificate of Incorporation, to the extent necessary to give effect to such provision in the Restated Certificate of Incorporation.

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, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number 0-9781

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

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

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 6, 2000, 10,966,938 shares of Class A common stock and 47,397,247 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		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Operating Revenue:				
Passenger	\$2,469	\$2,132	\$7,030	\$6,106
Cargo and mail	93	76	266	213
Other	<u>60</u>	<u>56</u>	<u>174</u>	<u>168</u>
	<u>2,622</u>	<u>2,264</u>	<u>7,470</u>	<u>6,487</u>
Operating Expenses:				
Wages, salaries and related costs	740	644	2,117	1,882
Aircraft fuel	363	208	1,026	512
Aircraft rentals	215	197	631	570
Maintenance, materials and repairs	167	156	497	454
Commissions	138	154	412	439
Landing fees and other rentals	133	130	400	365
Reservations and sales	117	107	352	314
Depreciation and amortization	102	93	295	266
Other	<u>393</u>	<u>373</u>	<u>1,153</u>	<u>1,083</u>
	<u>2,368</u>	<u>2,062</u>	<u>6,883</u>	<u>5,885</u>
Operating Income	<u>254</u>	<u>202</u>	<u>587</u>	<u>602</u>
Nonoperating Income (Expense):				
Interest expense	(60)	(58)	(187)	(168)
Interest capitalized	15	13	42	42
Interest income	22	16	65	46
Other, net	<u>(7)</u>	<u>(6)</u>	<u>(10)</u>	<u>3</u>
	<u>(30)</u>	<u>(35)</u>	<u>(90)</u>	<u>(77)</u>

(continued on next page)

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In millions, except per share data)**

	Three Months		Nine Months	
	<u>Ended September 30,</u>		<u>Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Income before Income Taxes,				
Cumulative Effect of Accounting	\$ 224	\$ 167	\$497	\$ 525
Changes and Extraordinary Charge				
Income Tax Provision	_(87)	(63)	(193)	(204)
Income before Cumulative Effect of				
Accounting Changes and Extra-	137	104	304	321
ordinary Charge				
Cumulative Effect of Accounting				
Changes, Net of Applicable Income	-	-	-	(33)
Taxes of \$19				
Extraordinary Charge, Net of	-	-	-	-
Applicable Income Taxes of \$1	(2)	=	_(6)	=
and \$3, respectively				
Net Income	<u>\$ 135</u>	<u>\$ 104</u>	<u>\$ 298</u>	<u>\$ 288</u>

(continued on next page)

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

	Three Months		Nine Months	
	<u>Ended September 30,</u>		<u>Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Earnings per Common Share:				
Income Before Cumulative Effect				
of Accounting Changes and	\$ 2.29	\$ 1.47	\$ 4.95	\$ 4.58
Extraordinary Charge				
Cumulative Effect of Accounting	-	-	-	(0.47)
Changes, net of tax				
Extraordinary Charge, net of tax	(0.03)	=	(0.10)	=
Net Income	<u>\$ 2.26</u>	<u>\$ 1.47</u>	<u>\$ 4.85</u>	<u>\$ 4.11</u>
Earnings per Common Share				
Assuming Dilution:				
Income Before Cumulative Effect				
of Accounting Changes and	\$ 2.24	\$ 1.44	\$ 4.85	\$ 4.29
Extraordinary Charge				
Cumulative Effect of Accounting	-	-	-	(0.43)
Changes, net of tax				
Extraordinary Charge, net of tax	(0.03)	=	(0.09)	=
Net Income	<u>\$ 2.21</u>	<u>\$ 1.44</u>	<u>\$ 4.76</u>	<u>\$ 3.86</u>

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)**

<b>ASSETS</b>	September 30, <u>2000</u> (Unaudited)	December 31, <u>1999</u>
Current Assets:		
Cash and cash equivalents	\$ 1,156	\$ 1,198
Short-term investments	-	392
Accounts receivable, net	600	506
Spare parts and supplies, net	264	236
Deferred income taxes	142	145
Prepayments and other	<u>187</u>	<u>129</u>
Total current assets	<u>2,349</u>	<u>2,606</u>
Property and Equipment:		
Owned property and equipment:		
Flight equipment	4,107	3,593
Other	<u>985</u>	<u>814</u>
	5,092	4,407
Less: Accumulated depreciation	<u>1,011</u>	<u>808</u>
	<u>4,081</u>	<u>3,599</u>

Purchase deposits for flight equipment	<u>453</u>	<u>366</u>
Capital leases:		
Flight equipment	225	300
Other	<u>85</u>	<u>88</u>
	310	388
Less: Accumulated amortization	<u>160</u>	<u>180</u>
	<u>150</u>	<u>208</u>
Total property and equipment	<u>4,684</u>	<u>4,173</u>
Other Assets:		
Routes, gates and slots, net	1,093	1,131
Other assets, net	<u>333</u>	<u>313</u>
Total other assets	<u>1,426</u>	<u>1,444</u>
Total Assets	\$ <u>8,459</u>	\$ <u>8,223</u>

(continued on next page)

**CONTINENTAL AIRLINES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

**(In millions, except for share data)**

	September 30, <u>2000</u>	December 31, <u>1999</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
	(Unaudited)	
Current Liabilities:		
Current maturities of long-term debt	\$ 257	\$ 278
Current maturities of capital leases	24	43
Accounts payable	996	856
Air traffic liability	1,241	1,042
Accrued payroll and pensions	234	299
Accrued other liabilities	<u>256</u>	<u>257</u>
Total current liabilities	<u>3,008</u>	<u>2,775</u>
Long-Term Debt	<u>2,738</u>	<u>2,855</u>

Capital Leases	<u>166</u>	<u>200</u>
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes	778	590
Other	<u>208</u>	<u>210</u>
Total deferred credits and other long-term liabilities	<u>986</u>	<u>800</u>

Commitments and Contingencies

Common Stockholders' Equity:

Class A common stock - \$.01 par, 50,000,000 shares authorized; 10,969,438 and 11,320,849 shares issued and outstanding in 2000 and 1999, respectively	-	-
Class B common stock - \$.01 par, 200,000,000 shares authorized; 64,073,431 issued in 2000 and 63,923,431 issued in 1999	1	1
Additional paid-in capital	814	871
Retained earnings	1,411	1,114
Accumulated other comprehensive income (loss)	20	(1)
Treasury stock - 16,518,584 and 9,763,684 Class B shares in 2000 and 1999, respectively, at cost	<u>(685)</u>	<u>(392)</u>
Total common stockholders' equity	<u>1,561</u>	<u>1,593</u>
Total Liabilities and Stockholders' Equity	<u>\$ 8,459</u>	<u>\$ 8,223</u>

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

**CONTINENTAL AIRLINES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In millions)**

	Nine Months	
	<u>Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>
	(Unaudited)	
Net cash provided by operating activities	<u>\$ 836</u>	<u>\$ 679</u>

Cash Flows from Investing Activities:

Purchase deposits paid in connection with future aircraft deliveries, net of refunds	(94)	(135)
Capital expenditures	(352)	(513)
Proceeds from sale (purchase) of short-term investments	392	(155)
Proceeds from sale of investments	-	20
Other	<u>19</u>	<u>25</u>
Net cash used by investing activities	<u>-(35)</u>	<u>(758)</u>

Cash Flows from Financing Activities:

Proceeds from issuance of long-term debt, net	153	369
Payments on long-term debt and capital lease obligations	(648)	(243)
Purchase of Class B common stock	(431)	(344)
Proceeds from issuance of Class B common stock	80	29
Other	<u>3</u>	<u>14</u>
Net cash used by financing activities	<u>-(843)</u>	<u>(175)</u>

Net Decrease in Cash and Cash Equivalents (42) (254)

Cash and Cash Equivalents - Beginning of Period 1,198 1,399

Cash and Cash Equivalents - End of Period \$1,156 \$1,145

Investing and Financing Activities Not Affecting Cash:

Property and equipment acquired through the issuance of debt	\$ 315	\$ 673
Conversion of trust originated preferred securities	\$ -	\$ 111
Conversion of 6-3/4% Convertible Subordinated Notes	\$ -	\$ 230

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, 1999 (the "1999 10-K").

Certain reclassifications have been made in the prior year's financial statements to conform to the current year presentation.

## NOTE 1 - EARNINGS PER SHARE

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Numerator for basic earnings per share - net income	\$135	\$104	\$298	\$288
Effect of dilutive securities:				
6-3/4% convertible subordinated notes	<u>—</u>	<u>=</u>	<u>—</u>	<u>4</u>
Numerator for diluted earnings per share - net income after assumed conversions	<u>\$135</u>	<u>\$104</u>	<u>\$298</u>	<u>\$292</u>
Denominator for basic earnings per share - weighted-average shares	<u>59.7</u>	<u>70.8</u>	<u>61.3</u>	<u>70.1</u>
Effect of dilutive securities:				
Employee stock options	1.4	1.3	1.2	1.4
Preferred Securities of Trust	-	-	-	0.1
6-3/4% convertible subordinated notes	<u>—</u>	<u>—</u>	<u>—</u>	<u>3.9</u>
Dilutive potential common shares	<u>1.4</u>	<u>1.3</u>	<u>1.2</u>	<u>5.4</u>
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions	<u>61.1</u>	<u>72.1</u>	<u>62.5</u>	<u>75.5</u>

## NOTE 2 - COMPREHENSIVE INCOME

The Company includes unrealized gains and losses on available-for-sale securities, changes in minimum pension liabilities and changes in the fair value of derivative financial instruments, which qualify for hedge accounting in other comprehensive income. During the third quarter of 2000 and 1999, total comprehensive income amounted to \$123 million and \$103 million, respectively. For the nine months ended 2000 and 1999, total comprehensive income amounted to \$319 million and \$305 million, respectively. The significant difference between net income and total comprehensive income for all periods was primarily attributable to changes in the fair value of derivative financial instruments.

### NOTE 3 - CUMULATIVE EFFECT OF ACCOUNTING CHANGES AND EXTRAORDINARY CHARGE

Frequent Flyer Program. The Company sells mileage credits in its frequent flyer program ("OnePass") to participating partners, such as hotels, car rental agencies and credit card companies. During 1999, as a result of Staff Accounting Bulletin No. 101 - "Revenue Recognition in Financial Statements," the Company changed the method it uses to account for the sale of these mileage credits. This change, which totaled \$27 million, net of tax, was applied retroactively to January 1, 1999. Under the new accounting method, revenue from the sale of mileage credits is deferred and recognized when transportation is provided. Previously, the resulting revenue, net of the incremental cost of providing future air travel, was recorded in the period in which the credits were sold. This change reduced net income for the three months and nine months ended September 30, 1999 by \$6 million (\$10 million pre-tax) and \$16 million (\$26 million pre-tax), respectively. The quarterly information for 1999 presented herein reflects this change.

Start-Up Costs. Continental adopted Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities ("SOP 98-5") in the first quarter of 1999. SOP 98-5 amended Statement of Position 88-1, "Accounting for Developmental and Preoperating Costs, Purchases and Exchanges of Take-Off and Landing Slots, and Airframe Modifications" by requiring preoperating costs related to the integration of new types of aircraft to be expensed as incurred and requiring all unamortized start-up costs (e.g., pilot training costs related to induction of new aircraft) to be expensed upon adoption. This resulted in the Company recording a \$6 million cumulative effect of a change in accounting principle, net of tax, in the first quarter of 1999.

Extraordinary Charge. During 2000, Continental repurchased or redeemed the remaining \$242 million of its 9-1/2% senior unsecured notes, in addition to the early extinguishment of other debt, resulting in a \$2 million and \$6 million extraordinary charge (net of income tax benefit) for early debt repayment for the three months and nine months ended September 30, 2000, respectively.

### NOTE 4 - AIRCRAFT PURCHASE COMMITMENTS

As shown in the following table, Continental's aircraft fleet consisted of 367 jets, 91 regional jets and 77 turboprop aircraft at September 30, 2000. Continental's purchase commitments as of September 30, 2000 are also shown below.

Aircraft Type	Total Aircraft	<u>Owned</u>	<u>Leased</u>	Firm Orders	<u>Options</u>
777-200	16	4	12	2	7
767-400ER	2	2	-	22	-
767-200ER	-	-	-	10	11
757-200	41	13	28	-	-
737-900	-	-	-	15	15
737-800	53	15	38	29	35
737-700	36	12	24	-	31
737-500	66	15	51	-	-
737-300	65	14	51	-	-
DC10-30	23	6	17	-	-
MD-80	<u>65</u>	<u>17</u>	<u>48</u>	=	=
	<u>367</u>	<u>98</u>	<u>269</u>	<u>78</u>	<u>99</u>
ERJ-145XR	-	-	-	75	100
ERJ-145	76	-	76	73	-

ERJ-135	<u>15</u>	<u>-</u>	<u>15</u>	<u>35</u>	<u>-</u>
	<u>91</u>	<u>-</u>	<u>91</u>	<u>183</u>	<u>100</u>
ATR-72	2	2	-		
ATR-42-320	31	9	22		
EMB-120	22	12	10		
Beech 1900-D	<u>22</u>	<u>-</u>	<u>22</u>		
	<u>77</u>	<u>23</u>	<u>54</u>		
Total	<u>535</u>	<u>121</u>	<u>414</u>		

The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000 (18 of which were placed in service during the first nine months of 2000) and the remainder of its firm orders through November 2005.

In October 2000, the Company announced an order for 15 new Boeing 757-300 aircraft. The first delivery is expected in late 2001 with deliveries continuing through 2003.

During 2000, the Company's wholly owned subsidiary, Continental Express, Inc. ("Express") anticipates taking delivery of 22 Embraer ERJ-145 ("ERJ-145") regional jets (20 of which were placed in service in the first nine months of 2000) and 12 Embraer ERJ-135 ("ERJ-135") regional jets (nine of which were placed in service in the first nine months of 2000) and the remainder of its firm orders through the first quarter of 2005.

As of September 30, 2000, the estimated aggregate cost of the Company's firm orders for Boeing aircraft is approximately \$4.1 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. As of September 30, 2000, Continental had approximately \$316 million in financing arranged for such future Boeing deliveries. Continental also has commitments or letters of intent for backstop financing for approximately 19% of the anticipated remaining acquisition cost of such Boeing deliveries. In addition, at September 30, 2000, Continental had firm commitments to purchase 28 spare engines related to the new Boeing aircraft for approximately \$189 million, which will be deliverable through March 2005. Further financing will be needed to satisfy the Company's capital commitments for 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 continue to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of September 30, 2000, the estimated aggregate cost of Express's firm orders for ERJ-145 and ERJ-135 aircraft is approximately \$2.8 billion. Embraer has agreed to arrange lease financing by third parties of the firm ERJ-145 and ERJ-135 aircraft to be delivered to Express, subject to Express's option to purchase ERJ-135 aircraft. In the fourth quarter of 2000, Continental expects to purchase 18 ERJ-145 aircraft which are currently being leased.

#### NOTE 5 - LONG-TERM DEBT

Long-term debt is summarized as follows (in millions):

	September 30,	December 31,
	<u>2000</u>	<u>1999</u>
<u>Secured</u>		
Notes payable, interest rates of 5.00% to 8.50%, payable through 2019	\$2,052	\$1,817
Floating rate notes, interest rates of LIBOR plus 0.65% to 1.00%, Eurodollar plus 1.00%, or Commercial Paper plus 0.45% to 0.60%, payable through 2012	357	241

Notes payable, interest rates of 8.49% to 9.46%, payable through 2008	40	51
Revolving credit facility, floating interest rates of LIBOR or Eurodollar plus 1.38%, payable through 2001	-	160
<u>Unsecured</u>		
Senior notes payable, interest rate of 8.00%, payable through 2005	200	200
Credit facility, floating interest rate of LIBOR or Eurodollar plus 1.00%, payable through 2002	150	215
Notes payable, interest rate of 8.13%, payable through 2008	112	112
Floating rate note, interest rate of LIBOR or Eurodollar plus 1.25%, payable through 2004	72	74
Senior notes payable, 9.50%, payable through 2001	-	242
Other	<u>12</u>	<u>21</u>
	2,995	3,133
Less: current maturities	<u>257</u>	<u>278</u>
Total long-term debt	<u>\$2,738</u>	<u>\$2,855</u>

In March 2000, the Company completed an offering of \$743 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 21 Boeing aircraft.

During 2000, Continental repurchased or redeemed the remaining \$242 million of its 9-1/2% senior unsecured notes. The Company also prepaid its \$160 million revolving credit facility, in addition to the early extinguishment of other debt. See Note 3.

Due to the cost of the facility, the lack of prior use and Continental's significant cash position, the Company did not renew its \$225 million unused revolving credit facility which expired June 30, 2000.

Maturities of long-term debt due over the next five years are as follows (in millions):

Year ending September 30,

2001	\$257
2002	264
2003	180
2004	287
2005	226

## NOTE 6 - REGULATORY MATTERS

The Federal Aviation Administration has designated John F. Kennedy International Airport ("Kennedy") and LaGuardia Airport ("LaGuardia") in New York, O'Hare International Airport in Chicago ("O'Hare") and Ronald Reagan Washington National Airport in Washington, D.C. ("Reagan National") as "high density traffic airports" and has limited the number of departure and arrival slots at those airports. In April 2000, legislation was signed eliminating slot restrictions beginning in 2001 at O'Hare and in 2007 at LaGuardia and Kennedy. As a result of the passage of this legislation, the Company performed an evaluation of the slots to determine, in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"), whether future cash flows expected to result from the use of the slots will be less than the aggregate carrying amount of these slots. As a result of the evaluation, management determined that the estimated future cash flows expected to be generated by the slots will be more than their carrying value, and therefore, these slots are not impaired. At September 30, 2000, the net carrying value of the Company's slots at O'Hare and LaGuardia was \$49 million and \$11 million, respectively. The Company has no slots at Kennedy.

#### **NOTE 7 - OTHER**

On September 12, 2000, the Company's Board of Directors increased the size of its common stock repurchase program by the amount of cash proceeds received by the Company for the purchase of common stock by employees and other participants under the Company's employee stock purchase and stock option plans after January 1, 2000. The program also permits the expenditure of one half of future net income, plus all the proceeds from the sale of non-strategic assets, to repurchase common stock. As of September 30, 2000, the Company had approximately \$265 million remaining in its stock repurchase program.

The Company holds a membership interest in The SITA Foundation ("SITA"), an organization which provides data communication services to the airline industry. SITA's primary asset is its ownership in Equant N.V. ("Equant"). In February 1999, SITA sold a portion of its interest in Equant in a secondary public offering and distributed the proceeds pro rata to certain of its members (including Continental) that elected to participate in the offering. Continental recorded a gain of \$20 million (\$12 million after tax) related to this transaction. The gain is included in other nonoperating income (expense) in the accompanying consolidated statement of operations for the nine months ended September 30, 1999. As of September 30, 2000, Continental owned depository certificates with respect to 356,873 shares of Equant.

#### **NOTE 8 - SUBSEQUENT EVENTS**

In October 2000, the Company made an offer to purchase for \$215 million in cash certain assets currently used by US Airways, Inc. ("US Airways") at Reagan National that United Air Lines, Inc. ("United") proposes to sell if the proposed merger of United and US Airways occurs. The assets would include 119 jet and 103 commuter slots at Reagan National, as well as eight gates and related ticket counter, ramp, aircraft parking, office space and other facilities at the airport. The offer also includes the option to assume the lease of US Airways' line maintenance hangar at Reagan National

## **Item 2. Management's Discussion and Analysis of Financial Condition and**

### **Operations.**

The following discussion may contain forward-looking statements. In connection therewith, please see the risk factors set forth in the Company's 1999 10-K which identify important factors such as the Company's high leverage and significant financing needs, its historical operating results, the significant cost of aircraft fuel, labor costs, certain tax matters, the Japanese economy and currency risk, the significant ownership interest of Northwest Airlines in the Company and risks relating to the Company's strategic alliance with Northwest Airlines, competition and industry conditions, regulatory matters and the seasonal nature of the airline business, that could cause actual results to differ materially from those in the forward-looking statements. In addition, in recent years, and particularly since its deregulation in 1978, the U.S. airline industry has undergone substantial consolidation, and it may in the future undergo additional consolidation. For example, in May 2000, United, the nation's largest commercial airline, announced its agreement to acquire US Airways, the nation's sixth largest commercial airline, subject to regulatory approvals and other conditions. The impact on Continental of this pending transaction and any additional consolidation within the U.S. airline industry cannot be predicted at this time.

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, including those listed above, that are not necessarily seasonal. Rising jet fuel prices significantly impacted results of operations in the first nine months of 2000. However, management believes the Company is well positioned to respond to market conditions in the event of a sustained economic downturn due to its flexible fleet plan, a strong cash balance 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, 2000 as compared to the corresponding periods ended September 30, 1999.

#### ***Comparison of Three Months Ended September 30, 2000 to Three Months Ended September 30, 1999***

The Company recorded consolidated net income of \$135 million for the three months ended September 30, 2000 as compared to consolidated net income of \$104 million for the three months ended September 30, 1999.

Passenger revenue increased 15.8%, \$337 million, during the quarter ended September 30, 2000 as compared to the same period in 1999, which was principally due to improvements in yield and load factor as well as new transatlantic and Latin American destinations served.

Cargo and mail revenue increased 22.4%, \$17 million, in the third quarter of 2000 compared to the third quarter of 1999 primarily due to increased international volumes resulting from new markets.

Wages, salaries and related costs increased 14.9%, \$96 million, during the quarter ended September 30, 2000 as compared to the same period in 1999, primarily due to a 3.9% increase in average full-time equivalent employees to support increased flying, increased employee incentives and higher wage rates resulting from the Company's completion of its program bringing employees to industry standard wages in July 2000.

Aircraft fuel expense increased 74.5%, \$155 million, in the three months ended September 30, 2000 as compared to the same period in the prior year. The average price per gallon increased 72.9% from 48.70 cents in the third quarter of 1999 to 84.18 cents in the third quarter of 2000. In addition, jet fuel consumption decreased 1.2% principally reflecting the fuel efficiency of the Company's younger fleet offset in part by increased flight operations. During the third quarter of 2000 and 1999, the Company recognized gains of approximately \$27 million and \$42 million, respectively, related to its fuel hedging program. See "Fuel Hedging" below.

Aircraft rentals increased 9.1%, \$18 million, in the third quarter of 2000 compared to the third quarter of 1999 due to the delivery of new aircraft, offset in part by exiting aircraft.

Maintenance, materials and repairs increased 7.1%, \$11 million, during the quarter ended September 30, 2000 as compared to the same period in 1999 due to an increase in line maintenance and the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Commissions expense decreased 10.4%, \$16 million, during the three months ended September 30, 2000 as compared to the same period in 1999 due to a lower volume of commissionable sales and lower rates resulting from international commission caps, partially offset by increased passenger revenue.

Reservations and sales increased 9.4%, \$10 million, in the third quarter of 2000 compared to the third quarter of 1999 primarily due to higher credit card fees resulting from increased sales.

Depreciation and amortization expense increased 9.7%, \$9 million, in the third quarter of 2000 compared to the third quarter of 1999 due principally to the addition of new aircraft and related spare parts.

Interest expense increased 3.4%, \$2 million, in the third quarter of 2000 compared to the same period in the prior year, due to an increase in long-term debt primarily resulting from the purchase of new aircraft, partially offset by interest savings due to the repurchase or redemption of the remainder of the Company's 9-1/2% senior unsecured notes and the prepayment of the Company's \$160 million revolving credit facility in 2000.

Interest income increased 37.5%, \$6 million, in the third quarter of 2000 compared to the same period in the prior year, due to higher average balances of cash and short-term investments and due to higher rates.

#### ***Comparison of Nine Months Ended September 30, 2000 to Nine Months Ended September 30, 1999***

The Company recorded consolidated net income of \$298 million and \$288 million for the nine months ended September 30, 2000 and 1999, respectively. Net income in 1999 included a charge for the cumulative effect of accounting changes (\$33 million, net of taxes). See Note 3.

Passenger revenue increased 15.1%, \$924 million, during the nine months ended September 30, 2000 as compared to the same period in 1999. The increase was principally due to improvements in yield and load factor as well as new transatlantic and Latin American destinations served.

Cargo and mail revenue increased 24.9%, \$53 million, in the nine months of 2000 compared to the nine months of 1999 primarily due to increased international volumes resulting from new markets.

Wages, salaries and related costs increased 12.5%, \$235 million, during the nine months ended September 30, 2000 as compared to the same period in 1999, primarily due to a 5.0% increase in average full-time equivalent employees to support increased flying, increased employee incentives and higher wage rates resulting from the Company's completion of its program bringing employees to industry standard wages in July 2000.

Aircraft fuel expense increased 100.4%, \$514 million, in the nine months ended September 30, 2000 as compared to the same period in the prior year. The average price per gallon increased 95.6% from 41.97 cents in the first nine months of 1999 to 82.10 cents in the first nine months of 2000. In addition, jet fuel consumption increased 0.4%, principally reflecting increased flight operations offset significantly by the increased fuel efficiency of the Company's younger fleet. During the first nine months of 2000 and 1999, the Company recognized gains of approximately \$30 million and \$83 million, respectively, related to its fuel hedging program. See "Fuel Hedging" below.

Aircraft rentals increased 10.7%, \$61 million, during the nine months ended September 30, 2000 as compared to the same period in 1999, due primarily to the delivery of new aircraft.

Maintenance, materials and repairs increased 9.5%, \$43 million, during the nine months ended September 30, 2000 as compared to the same period in the prior year due to the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Commissions expense decreased 6.2%, \$27 million, during the nine months ended September 30, 2000 as compared to the same period in 1999 due to a lower volume of commissionable sales and lower rates resulting from international commission caps, partially offset by increased passenger revenue.

Landing fees and other rentals increased 9.6%, \$35 million, during the nine months ended September 30, 2000 primarily due to higher facilities rent and landing fees resulting from increased operations.

Reservations and sales increased 12.1%, \$38 million, in the nine months ended September 30, 2000 as compared to the same period in the prior year, primarily due to increased booking fees and higher credit card fees resulting from increased sales.

Depreciation and amortization expense increased 10.9%, \$29 million, in the first nine months of 2000 compared to the same period in 1999 primarily due to the addition of new aircraft and related spare parts.

Other operating expense increased 6.5%, \$70 million, in the nine months ended September 30, 2000 as compared to the same period in the prior year, primarily due to an increase in enplanements and revenue passenger miles.

Interest expense increased 11.3%, \$19 million, in the nine months ended September 30, 2000 compared to the same period in the prior year, due to an increase in long-term debt primarily resulting from the purchase of new aircraft, partially offset by interest savings due to the conversion of the Company's 6-3/4% Convertible Subordinated Notes into Class B common stock in the second quarter of 1999, the repurchase or redemption of the remainder of the Company's 9-1/2% senior unsecured notes and the prepayment of the Company's \$160 million revolving credit facility in 2000.

Interest income increased 41.3%, \$19 million, in the nine months ended September 30, 2000 compared to the same period in the prior year, due to higher average balances of cash and short-term investments and due to higher rates.

The Company's other nonoperating income (expense) in the nine months ended September 30, 2000 included foreign currency losses of \$6 million and the Company's equity in the net losses of certain investments of \$2 million. Other nonoperating income (expense) in the nine months ended September 30, 1999 included a \$20 million gain on the sale in the first quarter of 1999 of a portion of the Company's indirect interest in Equant partially offset by foreign currency losses of \$10 million.

## 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		Net Increase/ (Decrease)
	<u>September 30, 2000</u>	<u>September 30, 1999</u>	
Revenue passengers (thousands)	12,155	11,922	2.0 %
Revenue passenger miles (millions) (1)	17,325	16,394	5.7 %
Available seat miles (millions) (2)	22,356	21,573	3.6 %
Passenger load factor (3)	77.5%	76.0%	1.5 pts.
Breakeven passenger load factor (4)	65.6%	66.1%	(0.5)pts.
Passenger revenue per available seat mile (cents)	10.06	9.07	10.9 %
Total revenue per available seat mile (cents)	10.89	9.78	11.4 %
Operating cost per available seat mile (cents)	9.65	8.83	9.3 %
Average yield per revenue passenger mile	12.98	11.93	8.8 %

(cents) (5)

Average price per gallon of fuel, excluding fuel taxes (cents)	84.18	48.70	72.9 %
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Average price per gallon of fuel, including fuel taxes (cents)	88.41	52.76	67.6 %
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Fuel gallons consumed (millions)	399	404	(1.2)%
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Average fare per revenue passenger	\$185.06	\$164.03	12.8 %
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Average daily utilization of each aircraft	10:46	10:44	0.3 %
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(hours) (6)

Actual aircraft in fleet at end of period (7)	367	359	2.2 %
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Average length of aircraft flight (miles)	1,187	1,141	4.0 %
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	Nine Months Ended		Net
	<u>September 30, ____</u>		Increase/
	<u>2000</u>	<u>1999</u>	<u>(Decrease)</u>

Revenue passengers (thousands)	35,440	34,193	3.7 %
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Revenue passenger miles (millions) (1)	48,821	45,050	8.4 %
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Available seat miles (millions) (2)	64,691	60,961	6.1 %
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Passenger load factor (3)	75.5%	73.9%	1.6 pts.
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Breakeven passenger load factor (4)	66.3%	63.6%	2.7 pts.
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Passenger revenue per available seat mile (cents)	9.91	9.24	7.3 %
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Total revenue per available seat mile (cents)	10.73	9.97	7.6 %
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Operating cost per available seat mile (cents)	9.73	8.95	8.7 %
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Average yield per revenue passenger mile	13.13	12.51	5.0 %
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(cents) (5)

Average price per gallon of fuel, excluding fuel taxes (cents)	82.10	41.97	95.6 %
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Average price per gallon of fuel, including fuel taxes (cents)	86.32	46.25	86.6 %
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Fuel gallons consumed (millions)	1,162	1,158	0.4 %
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Average fare per revenue passenger	\$180.89	\$164.82	9.8 %
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Average daily utilization of each aircraft	10:40	10:30	1.6 %
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(hours) (6)

Actual aircraft in fleet at end of period (7)	367	359	2.2 %
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Average length of aircraft flight (miles)	1,158	1,110	4.3 %
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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, 2000 and September 30, 1999, respectively, the table above excludes 638 million and 623 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 276 million and 261 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, 2000 and September 30, 1999, respectively, the table above excludes 1.9 billion available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 800 million and 751 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. The average revenue received for each mile a revenue passenger is carried.
6. The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).
7. Excludes four all-cargo 727 aircraft at Continental Micronesia, Inc., a wholly owned subsidiary of the Company, in 1999.

## **LIQUIDITY AND CAPITAL COMMITMENTS**

As of September 30, 2000, the Company had \$1.2 billion in cash and cash equivalents. Net cash provided by operating activities increased \$157 million during the nine months ended September 30, 2000 compared to the same period in the prior year primarily due to an increase in net income and changes in working capital. Net cash used by investing activities decreased \$723 million for the nine months ended September 30, 2000 compared to the same period in the prior year, primarily as a result of the proceeds from the sale of short-term investments in 2000. Net cash used by financing activities for the nine months ended September 30, 2000 compared to the same period in the prior year increased \$668 million primarily due to an increase in payments on long-term debt and capital lease obligations, a decrease in proceeds from the issuance of long-term debt and an increase in the purchase of the Company's Class B common stock.

In March 2000, the Company completed an offering of \$743 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 21 Boeing aircraft.

Deferred Tax Assets. The Company had, as of December 31, 1999, deferred tax assets aggregating \$611 million, including \$266 million of net operating losses ("NOLs") and a valuation allowance of \$263 million. The Company has consummated several transactions, which resulted in the recognition of NOLs of the Company's predecessor. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would reduce the value ascribed to 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 \$900 million of taxable income following December 31, 1999. 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.

On November 20, 1998, an affiliate of Northwest Airlines, Inc. completed its acquisition of certain equity of the Company previously held by Air Partners, L.P. and its affiliates, together with certain Class A common stock of the Company held by other investors, totaling 8,661,224 shares of Class A common stock (the "Air Partners Transaction"). The Company does not believe that the Air Partners Transaction resulted in an ownership change for purposes of Section 382.

Purchase Commitments. Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. See Note 4.

Continental expects its cash outlays for 2000 capital expenditures, exclusive of fleet plan requirements, to aggregate \$200 million, primarily relating to 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, 2000 aggregated \$155 million, exclusive of fleet plan expenditures.

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.

Employees. In July 2000, the Company completed a three-year program bringing all employees to industry standard wages. In July 2000, the Company announced a phased plan to bring employee benefits to industry standard levels by 2003. The plan provides for increases in vacation, paid holidays, increased 401(k) Company matching contributions and additional past service retirement credit for most senior employees.

In March 2000, Continental Airlines' flight attendants ratified a 54-month collective bargaining agreement between the Company and the International Association of Machinists and Aerospace Workers (the "IAM"). This agreement will become amendable in September 2004. In June 2000, Express's flight attendants ratified a 54-month collective bargaining agreement between Express and the IAM. This agreement will become amendable in December 2004. Also in July 2000, Express ratified a four-year collective bargaining agreement with the Transport Workers Union representing the aircraft dispatchers.

Fuel Hedging. The Company uses a combination of petroleum swap contracts, petroleum call options, and jet fuel purchase commitments to provide some short-term protection against a sharp increase in jet fuel prices. As of September 30, 2000, the Company had petroleum call options to hedge jet fuel prices for approximately 95% of its anticipated fuel requirements through December 2000. At September 30, 2000 and 1999, the fair value of the Company's fuel hedges was approximately \$28 and \$32 million, respectively, and is recorded in other current assets with the offset primarily to other comprehensive income (loss), net of applicable income taxes.

Other. In April 2000, legislation was signed eliminating slot restrictions beginning in 2001 at O'Hare and in 2007 at LaGuardia and Kennedy. As a result of the passage of this legislation, the Company performed an evaluation of the slots to determine, in accordance with SFAS 121, whether future cash flows expected to result from the use of the slots will be less than the aggregate carrying amount of these slots. As a result of the evaluation, management determined that the estimated future cash flows expected to be generated by the slots will be more than their carrying value, and therefore, these slots are not impaired. At September 30, 2000, the net carrying value of the Company's slots at O'Hare and LaGuardia was \$49 million and \$11 million, respectively. The Company has no slots at Kennedy.

Among other things, the legislation encourages the development of air service to smaller communities from slot-controlled airports. Express has been awarded slot exemptions to permit it to provide extensive service at LaGuardia using regional jets. The Port Authority of New York and New Jersey has recently taken action which purports to restrict the provision of additional service at LaGuardia during certain hours, which may adversely impact certain of the Company's planned future service using such slot exemptions.

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 distribution costs and structure, (v) changes in governmental regulations and taxes affecting air transportation and the costs charged for airport access, including new security requirements, (vi) changes in the Company's fleet and related capacity and (vii) the Company's continuing efforts to reduce costs throughout its operations, including reduced maintenance costs for new aircraft, reduced distribution expense from using Continental's electronic ticket product, E-ticket, and the internet for bookings, and reduced interest expense.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

None.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

On July 25, 2000 a Concorde aircraft operated by Air France crashed shortly after takeoff from France's Charles de Gaulle airport, killing 114 people, most of whom were tourists on board the chartered aircraft, which was also destroyed. The preliminary investigation conducted by French authorities suggests that one of the aircraft's tires burst and that pieces of rubber from the tire pierced a wing of the aircraft and ruptured fuel tanks, leading to a fire and the crash. In early September 2000, Continental learned that a small piece of metal found on the runway after the Concorde took off is believed by the French authorities to have caused or contributed to the tire failure and is suspected by investigators to have come from a Continental DC10 aircraft that had taken off on the same runway a short time before the Concorde.

The following lawsuits involving the Company have been filed to date in connection with the accident, which remains under investigation: Air France and its Insurers v. Continental Airlines, Inc., USAU, Inc. and USAIG filed on September 15, 2000 before the Commercial Court of Pontoise, France, in which the plaintiffs seek damages for indemnification paid to the passengers' families and other parties, for destruction of the aircraft, and for any other expenses and costs incurred by Air France; and Case No. 00-3581, Martin Guldner, as the Personal Representative and/or Administrator of the Estate of William Guldner, deceased v. Air France, BAE (U.S.), Inc. f/k/a British Aerospace, Inc., Aerospatiale Matra, Inc., The Goodyear Tire & Rubber Company, Continental Airlines, Inc., The Boeing Company, McDonnell Douglas Corporation, General Electric Company, and Middle River Aircraft Systems filed on September 26, 2000 in the United States District Court for the Southern District of Florida, in which the plaintiffs seek to recover damages for the death of Mr. Guldner; and Case No. 00-07707, In re: Petition of Ina Frentzen, Rita

Frentzen-Bien, and Ralf Frentzen Requesting Depositions Before Suit; filed on September 29, 2000 in the District Court for Dallas County, Texas, D-95th Judicial District (Parties in interest include Continental Airlines, Inc. and The Goodyear Tire & Rubber Company), in which the plaintiffs seek to depose certain parties, including officers and employees of the Company, prior to determining whether to file suit against the Company and certain other parties. The Company anticipates that additional suits will be filed against the Company in the future connected with this accident.

The foregoing litigation, and the investigation of the Concorde accident, are in preliminary stages. The Company is cooperating with French and U.S. authorities in the investigation of the accident. Although the outcome of such suits or any future litigation cannot be known at this time, the Company's costs to defend these matters and, the Company believes, any potential liability exposure are covered by insurance. Consequently, management does not expect the foregoing litigation or any additional suits that may arise from the accident to have a material adverse effect on the financial position or results of operations of the Company.

## **Item 2. Changes in Securities and Use of Proceeds.**

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:

3.1	Bylaws of Continental, as amended to date.
10.1	Employment Agreement between the Company and Gordon M. Bethune, dated as of July 25, 2000.
10.2	Employment Agreement between the Company and Gregory D. Brenneman, dated as of July 25, 2000.
10.3	Employment Agreement between the Company and Lawrence W. Kellner, dated as of July 25, 2000.
10.4	Employment Agreement between the Company and C. D. McLean, dated as of July 25, 2000.
10.5	Employment Agreement between the Company and Jeffery A. Smisek, dated as of July 25, 2000.
10.6	Supplemental Agreement No. 18, including side letter, to Boeing Purchase Agreement No. 1951, dated September 11, 2000.
27.1	Financial Data Schedule.

b. Reports on Form 8-K:

- i. Report dated September 21, 2000 reporting Item 5. "Other Events". No financial statements were filed with this report, which included an Exhibit Index related to certain presentation data and risk factors.

## **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.

(Registrant)

Date: October 17, 2000 by: /s/ Lawrence W. Kellner

Lawrence W. Kellner

Executive Vice President and

Chief Financial Officer

(On behalf of Registrant)

Date: October 17, 2000 by: /s/ Chris Kenny

Chris Kenny

Staff Vice President and Controller

(Principal Accounting Officer)

## **INDEX TO EXHIBITS**

### **OF**

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