

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 JUNE 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 July 7, 2000, 11,140,287 shares of Class A common stock and 48,976,047 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

Six Months

	<u>Ended June 30,</u>		<u>Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Operating Revenue:				
Passenger	\$2,424	\$2,054	\$4,561	\$3,974
Cargo and mail	89	70	173	137
Other	<u>58</u>	<u>57</u>	<u>114</u>	<u>112</u>
	<u>2,571</u>	<u>2,181</u>	<u>4,848</u>	<u>4,223</u>
Operating Expenses:				
Wages, salaries and related costs	712	622	1,377	1,238
Aircraft fuel	320	154	663	304
Aircraft rentals	210	189	416	373
Maintenance, materials and Repairs	171	155	330	298
Commissions	141	142	274	285
Other rentals and landing fees	138	121	267	235
Depreciation and amortization	98	88	193	173
Other	<u>502</u>	<u>463</u>	<u>995</u>	<u>917</u>
	<u>2,292</u>	<u>1,934</u>	<u>4,515</u>	<u>3,823</u>
Operating Income	<u>279</u>	<u>247</u>	<u>333</u>	<u>400</u>
Nonoperating Income (Expense):				
Interest expense	(63)	(57)	(127)	(110)
Interest capitalized	15	16	27	29
Interest income	21	15	43	30
Other, net	<u>(2)</u>	<u>(4)</u>	<u>(3)</u>	<u>9</u>
	<u>(29)</u>	<u>(30)</u>	<u>(60)</u>	<u>(42)</u>

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

	Three Months		Six Months	
	<u>Ended June 30,</u>		<u>Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Income before Income Taxes,				
Cumulative Effect of Accounting	\$ 250	\$ 217	\$ 273	\$ 358
Changes and Extraordinary Charge				
Income Tax Provision	<u>(97)</u>	<u>(85)</u>	<u>(106)</u>	<u>(141)</u>
Income before Cumulative Effect of				
Accounting Changes and Extra-	153	132	167	217
ordinary Charge				
Cumulative Effect of Accounting				
Changes, Net of Applicable Income	-	-	-	(33)
Taxes of \$19				
Extraordinary Charge, Net of	<u>(4)</u>	=	<u>(4)</u>	=
Applicable Income Taxes of \$2				
Net Income	<u>\$ 149</u>	<u>\$ 132</u>	<u>\$ 163</u>	<u>\$ 184</u>

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

	<u>Three Months</u>		<u>Six Months</u>	
	<u>Ended June 30,</u>		<u>Ended June 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 Extraordinary Charge	\$ 2.52	\$ 1.85	\$ 2.68	\$ 3.11
Cumulative Effect of Accounting Changes, net of tax	-	-	-	(0.47)
Extraordinary Charge, net of tax	<u>(0.08)</u>	=	<u>(0.07)</u>	=
Net Income	<u>\$ 2.44</u>	<u>\$ 1.85</u>	<u>\$ 2.61</u>	<u>\$ 2.64</u>
 Earnings per Common Share Assuming Dilution:				
Income Before Cumulative Effect of Accounting Changes and Extraordinary Charge	\$ 2.46	\$ 1.73	\$ 2.64	\$ 2.85
Cumulative Effect of Accounting Changes, net of tax	-	-	-	(0.42)

Extraordinary Charge, net of tax	<u>(0.07)</u>	=	<u>(0.07)</u>	=
Net Income	<u>\$ 2.39</u>	<u>\$ 1.73</u>	<u>\$ 2.57</u>	<u>\$ 2.43</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>	June 30, <u>2000</u> (Unaudited)	December 31, <u>1999</u>
Current Assets:		
Cash and cash equivalents	\$ 1,319	\$ 1,198
Short-term investments	-	392
Accounts receivable, net	586	506
Spare parts and supplies, net	254	236
Deferred income taxes	132	145
Prepayments and other	<u>239</u>	<u>129</u>
Total current assets	<u>2,530</u>	<u>2,606</u>
Property and Equipment:		
Owned property and equipment:		

Flight equipment	3,780	3,593
Other	<u>910</u>	<u>814</u>
	4,690	4,407
Less: Accumulated depreciation	<u>923</u>	<u>808</u>
	<u>3,767</u>	<u>3,599</u>
Purchase deposits for flight equipment	<u>562</u>	<u>366</u>
Capital leases:		
Flight equipment	287	300
Other	<u>85</u>	<u>88</u>
	372	388
Less: Accumulated amortization	<u>184</u>	<u>180</u>
	<u>188</u>	<u>208</u>
Total property and equipment	<u>4,517</u>	<u>4,173</u>
Other Assets:		
Routes, gates and slots, net	1,106	1,131
Other assets, net	<u>348</u>	<u>313</u>
Total other assets	<u>1,454</u>	<u>1,444</u>
Total Assets	<u>\$ 8,501</u>	<u>\$ 8,223</u>

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

	June 30,	December 31,
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>2000</u>	<u>1999</u>
	(Unaudited)	
Current Liabilities:		
Current maturities of long-term debt	\$ 356	\$ 278
Current maturities of capital leases	39	43

Accounts payable	922	856
Air traffic liability	1,317	1,042
Accrued payroll and pensions	273	299
Accrued other liabilities	<u>260</u>	<u>257</u>
Total current liabilities	<u>3,167</u>	<u>2,775</u>
Long-Term Debt	<u>2,684</u>	<u>2,855</u>
Capital Leases	<u>183</u>	<u>200</u>
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes	692	590
Other	<u>222</u>	<u>210</u>
Total deferred credits and other long-term liabilities	<u>914</u>	<u>800</u>
Commitments and Contingencies		
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 11,143,587 and 11,320,849 shares issued and outstanding in 2000 and 1999, respectively	-	-
Class B common stock - \$.01 par, 200,000,000 shares authorized; 63,923,431 issued in both 2000 and 1999	1	1
Additional paid-in capital	840	871
Retained earnings	1,277	1,114
Accumulated other comprehensive income (loss)	32	(1)
Treasury stock - 14,983,808 and 9,763,684 Class B shares in 2000 and 1999, respectively, at cost	<u>(597)</u>	<u>(392)</u>
Total common stockholders' equity	<u>1,553</u>	<u>1,593</u>
Total Liabilities and Stockholders' Equity	<u>\$ 8,501</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)

	Six Months	
	<u>Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>
	(Unaudited)	
Net cash provided by operating activities	\$ <u>586</u>	\$ <u>398</u>
Cash Flows from Investing Activities:		
Purchase deposits paid in connection with future aircraft deliveries	(306)	(685)
Purchase deposits refunded in connection with aircraft delivered	116	522
Capital expenditures	(207)	(313)
Proceeds from sale of short-term investments	392	-
Proceeds from sale of investments	-	20
Other	<u>1</u>	<u>(9)</u>
Net cash used by investing activities	<u>(4)</u>	<u>(465)</u>
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt, net	113	230
Payments on long-term debt and capital lease obligations	(343)	(159)
Purchase of Class B common stock	(274)	(171)
Proceeds from issuance of Class B common stock	39	19
Other	<u>4</u>	<u>8</u>
Net cash used by financing activities	<u>(461)</u>	<u>(73)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	121	(140)
Cash and Cash Equivalents - Beginning of Period	<u>1,198</u>	<u>1,399</u>



Cash and Cash Equivalents - End of Period	<u>\$1,319</u>	<u>\$1,259</u>
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 114	\$ 501
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,

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		Six Months	
	<u>Ended June 30,</u>		<u>Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)		(Unaudited)	
Numerator:				
Income before cumulative effect of accounting changes and extra- ordinary charge	\$153	\$132	\$167	\$217
Cumulative effect of accounting changes, net of income taxes	-	-	-	(33)
Extraordinary charge, net of income taxes	<u>(4)</u>	=	<u>(4)</u>	<u>-</u>

Numerator for basic earnings per share - net income	149	132	163	184
Effect of dilutive securities:				
6-3/4% convertible subordinated notes	<u>—</u>	<u>1</u>	<u>—</u>	<u>3</u>
Numerator for diluted earnings per share - net income after assumed conversions	<u>\$149</u>	<u>\$133</u>	<u>\$163</u>	<u>\$187</u>
Denominator:				
Denominator for basic earnings per share - weighted-average shares	<u>60.9</u>	<u>70.9</u>	<u>62.1</u>	<u>69.7</u>
Effect of dilutive securities:				
Employee stock options	1.3	1.7	1.1	1.5
Preferred Securities of Trust	-	-	-	0.1
6-3/4% convertible subordinated notes	<u>—</u>	<u>4.2</u>	<u>—</u>	<u>5.9</u>
Dilutive potential common shares	<u>1.3</u>	<u>5.9</u>	<u>1.1</u>	<u>7.5</u>
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions	<u>62.2</u>	<u>76.8</u>	<u>63.2</u>	<u>77.2</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 second quarter of 2000 and 1999, total comprehensive income amounted to \$178 million and \$122 million, respectively. For the six months ended 2000 and 1999, total comprehensive income amounted to \$196 million and \$203 mil

#### 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

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 sta

Extraordinary Charge. During 2000, Continental repurchased \$188 million of its 9-1/2% senior unsecured notes, in addition to the early extinguishment of other debt, resulting in a \$4 million extraordinary charge (net of income tax benefit) for early debt repayment.

#### NOTE 4 - AIRCRAFT PURCHASE COMMITMENTS

As shown in the following table, Continental's aircraft fleet consisted of 363 jets, 78 regional jets and 81 turboprop aircraft at June 30, 2000. Continental's purchase commitments as of June 30, 2000 are also shown below.

<u>Aircraft</u> <u>Type</u>	<u>Total</u> <u>Aircraft</u>	<u>Owned</u>	<u>Leased</u>	<u>Orders</u>	<u>Options</u>
777-200	16	4	12	-	9
767-400ER	-	-	-	26	-
767-200ER	-	-	-	10	11
757-200	40	12	28	1	-
737-900	-	-	-	15	15
737-800	43	12	31	29	40
737-700	36	12	24	-	31
737-500	66	15	51	-	-
737-300	65	14	51	-	-
DC10-30	24	6	18	-	-
727-200	5	2	3	-	-
MD-80	<u>68</u>	<u>17</u>	<u>51</u>	-	-
	<u>363</u>	<u>94</u>	<u>269</u>	<u>81</u>	<u>106</u>
ERJ-145	66	-	66	94	39
ERJ-135	<u>12</u>	<u>-</u>	<u>12</u>	<u>38</u>	<u>25</u>
	<u>78</u>	<u>-</u>	<u>78</u>	<u>132</u>	<u>64</u>
ATR-72	2	2	-		
ATR-42-500	1	-	1		
ATR-42-320	31	4	27		
EMB-120	22	12	10		
Beech 1900-D	<u>25</u>	-	<u>25</u>		
	<u>81</u>	<u>18</u>	<u>63</u>		

Total 522 112 410

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

The Company's wholly owned subsidiary, Continental Express, Inc. ("Express") anticipates taking delivery in 2000 of 22 Embraer ERJ-145 ("ERJ-145") regional jets (10 of which were placed in service in the first half of 2000) and 12 Embraer ERJ-135 ("ERJ-135") regional jets (six of which were placed in service in the first half of 2000) and the remainder of its firm orders through the fourth quarter of 2003.

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. Three of these aircraft were placed in service in the first half of 2000, and the remaining aircraft are scheduled for delivery from July 2000 to December 2000.

As of June 30, 2000, the estimated aggregate cost of the Company's firm commitments 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 June 30, 2000, Continental had approximately \$639 million in financing arranged for such future Boeing deliveries. Continental

As of June 30, 2000, the estimated aggregate cost of Express' firm commitments for ERJ-145 and ERJ-135 aircraft is approximately \$1.9 billion. Embraer has agreed to arrange lease financing by third parties of the firm ERJ-135 and ERJ-145 aircraft to be delivered to Express, subject to Express' option to purchase ERJ-135 aircraft.

#### **NOTE 5 - 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 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 June 30, 2000, the net carrying value of slots at O'Hare and LaGuardia was \$50 million and \$11 million, respectively. The Company has no slots at Kennedy.

#### **NOTE 6 - OTHER**

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.

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 pro rata proceeds to certain of its members (including Continental) that elected to participate in the offering. Continental recorded a gain of \$20 m

## **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 re

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 half of 2000. However, management believes the Company is well positioned to respond to market conditions in the event of a sustained economic downturn d

#### **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 six months ended June 30, 2000 as compared to the corresponding periods ended June 30, 1999.

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

The Company recorded consolidated net income of \$149 million for the three months ended June 30, 2000 as compared to consolidated net income of \$132 million for the three months ended June 30, 1999.

Passenger revenue increased 18.0%, \$370 million, during the quarter ended June 30, 2000 as compared to the same period in 1999, which was principally due to new transatlantic and Latin American destinations served as well as an improvement in yield and load factors for domestic markets.

Cargo and mail revenue increased 27.1%, \$19 million, in the second quarter of 2000 compared to the second quarter of 1999 primarily due to increased international volumes resulting from new markets.

Wages, salaries and related costs increased 14.5%, \$90 million, during the quarter ended June 30, 2000 as compared to the same period in 1999, primarily due to a 5.2% increase in average full-time equivalent employees to support increased flying, increased employee incentives and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft fuel expense increased 107.8%, \$166 million, in the three months ended June 30, 2000 as compared to the same period in the prior year. The average price per gallon increased 101.9% from 38.13 cents in the second quarter of 1999 to 76.98 cents in the second quarter of 2000. In addition, jet fuel consumption increased 0.8% principally reflecting increased flight operations offset significantly by the fuel efficiency of the Company's younger fleet. During the second quar

Aircraft rentals increased 11.1%, \$21 million, in the second quarter of 2000 compared to the second quarter of 1999, due to the delivery of new aircraft.

Maintenance, materials and repairs increased 10.3%, \$16 million, during the quarter ended June 30, 2000 as compared to the same period in 1999 due to the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Other rentals and landing fees increased 14.0%, \$17 million, in the three months ended June 30, 2000 as compared to the same period in the prior year primarily due to higher facilities rent and landing fees resulting from increased operations.

Depreciation and amortization expense increased 11.4%, \$10 million, in the second quarter of 2000 compared to the second quarter of 1999 due principally to the addition of new aircraft and related spare parts.

Other operating expense increased 8.4%, \$39 million, in the three months ended June 30, 2000 as compared to the same period in the prior year, as a result of increases in reservations and sales expense, passenger services expense, aircraft servicing expense and other miscellaneous expense, resulting primarily from an increase in enplanements and revenue passenger miles.

Interest expense increased 10.5%, \$6 million, 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 and the repurchase of a portion of the Company's 9-1/2% senior unsecured notes in 2000.

Interest income increased 40.0%, \$6 million, 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 three months ended June 30, 2000 and 1999 both included foreign currency losses of \$4 million.

In 2000, an extraordinary charge of \$4 million (net of income tax benefit) was recorded related to the early extinguishment of debt.

#### ***Comparison of Six Months Ended June 30, 2000 to Six Months Ended June 30, 1999***

The Company recorded consolidated net income of \$163 million and \$184 million for the six months ended June 30, 2000 and 1999, respectively. Net income for the first half of 1999 included a charge for the cumulative effect of accounting changes (\$33 million, net of taxes) related to the write-off of pilot training costs and a change in the method of accounting for the sale of mileage credits to participating partners in the Company's frequent flyer program.

Passenger revenue increased 14.8%, \$587 million, during the six months ended June 30, 2000 as compared to the same period in 1999. The increase was principally due to new transatlantic and Latin American destinations served as well as an improvement in yield and load factor for domestic markets.

Cargo and mail revenue increased 26.3%, \$36 million, in the second half of 2000 compared to the second half of 1999 primarily due to increased international volumes resulting from new markets.

Wages, salaries and related costs increased 11.2%, \$139 million, during the six months ended June 30, 2000 as compared to the same period in 1999, primarily due to a 5.4% increase in average full-time equivalent employees to support increased flying and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft fuel expense increased 118.1%, \$359 million, in the six months ended June 30, 2000 as compared to the same period in the prior year. The average price per gallon increased 111.1% from 38.37 cents in the first six months of 1999 to 81.00 cents in the first six months of 2000. In addition, jet fuel consumption increased 1.2%, principally reflecting increased flight operations offset significantly by the increased fuel efficiency of the Company's younger fleet. During the fir

Aircraft rentals increased 11.5%, \$43 million, during the six months ended June 30, 2000 as compared to the same period in 1999, due primarily to the delivery of new aircraft.

Maintenance, materials and repairs increased 10.7%, \$32 million, during the six months ended June 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 3.9%, \$11 million, during the six months ended June 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.

Other rentals and landing fees increased 13.6%, \$32 million, primarily due to higher facilities rent and landing fees resulting from increased operations.

Depreciation and amortization expense increased 11.6%, \$20 million, in the first six 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 8.5%, \$78 million, in the six months ended June 30, 2000 as compared to the same period in the prior year, primarily as a result of increases in reservations and sales expense, passenger services expense, aircraft servicing expense, and other miscellaneous expense, primarily due to an increase in enplanements and revenue passenger miles.

Interest expense increased 15.5%, \$17 million, 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 and the repurchase of a portion of the Company's 9-1/2% senior unsecured notes in 2000.

Interest income increased 43.3%, \$13 million, 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 six months ended June 30, 2000 included foreign currency losses of \$4 million. Other nonoperating income (expense) in the six months ended June 30, 1999 included a \$20 million gain on the sale of a portion of the Company's indirect interest in Equant partially offset by foreign currency losses of \$11 million.

In 2000, an extraordinary charge of \$4 million (net of income tax benefit) was recorded related to the early extinguishment of debt.

#### Certain Statistical Information

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

	Three Months Ended		Net
	<u>June</u>		Increase/
	<u>2000</u>	<u>1999</u>	<u>(Decrease)</u>
Revenue passenger miles (millions) (1)	16,491	14,919	10.5 %
Available seat miles (millions) (2)	21,384	20,163	6.1 %
Passenger load factor (3)	77.1%	74.0%	3.1 pts.
Breakeven passenger load factor (4)	65.0%	61.9%	3.1 pts.
Passenger revenue per available seat mile (cents)	10.32	9.39	9.9 %
Total revenue per available seat mile (cents)	11.14	10.12	10.1 %
Operating cost per available seat mile (cents)	9.85	8.93	10.3 %
Average yield per revenue passenger mile (cents) (5)	13.38	12.69	5.4 %
Average fare per revenue passenger	\$182.61	\$164.77	10.8 %
Revenue passengers (thousands)	12,084	11,493	5.1 %
Average length of aircraft flight (miles)	1,156	1,104	4.7 %
Average daily utilization of each aircraft (hours) (6)	10:40	10:35	0.8 %
Actual aircraft in fleet at end of period (7)	363	360	0.8 %
	Six Months Ended		Net
	<u>June</u>		Increase/
	<u>2000</u>	<u>1999</u>	<u>(Decrease)</u>
Revenue passenger miles (millions) (1)	31,496	28,656	9.9 %
Available seat miles (millions) (2)	42,334	39,388	7.5 %
Passenger load factor (3)	74.4%	72.8%	1.6 pts.

Breakeven passenger load factor (4)	67.0%	62.7%	4.3 pts.
Passenger revenue per available seat mile (cents)	9.83	9.34	5.2 %
Total revenue per available seat mile (cents)	10.64	10.07	5.7 %
Operating cost per available seat mile (cents)	9.81	9.05	8.4 %
Average yield per revenue passenger mile (cents) (5)	13.21	12.84	2.9 %
Average fare per revenue passenger	\$178.71	\$165.24	8.2 %
Revenue passengers (thousands)	23,285	22,271	4.6 %
Average length of aircraft flight (miles)	1,143	1,093	4.6 %
Average daily utilization of each aircraft (hours) (6)	10:37	10:23	2.2 %
Actual aircraft in fleet at end of period (7)	363	360	0.8 %

Continental has entered into block-space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other. For the three months ended June 30, 2000 and June 30, 1999, respectively, the table above excludes 623 million and 633 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 260 million and 258 million avai

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 six all-cargo 727 aircraft at Continental Micronesia, Inc., a wholly owned subsidiary of the Company, in 1999.

#### LIQUIDITY AND CAPITAL COMMITMENTS

As of June 30, 2000, the Company had \$1.3 billion in cash and cash equivalents. Net cash provided by operating activities increased \$188 million during the six months ended June 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 \$461 million for the six months ended June 30, 2000 compared to the same period in the prior year, primarily as a re

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. Three of these aircraft were placed in service in the first half of 2000, and the remaining aircraft are scheduled for delivery from July 2000 to December 2000.

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 acco

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 \$700 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 o

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 certain 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 six months ended June 30, 2000 aggregated \$93 million, exclu

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 September 1997, the Company announced its intention to bring all employees to industry standard wages no later than the end of the year 2000. Effective July 1, 2000, the Company has completed its program to bring all employees to industry standard wages. The Company is in the process of formulating a plan to bring employees to industry standard benefits over a multi-year period, and is implementing certain benefits enhancements.

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 fo u

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. During the second quarter, the Company entered into petroleum call options to hedge jet fuel prices for approximately 56% of its anticipated fuel requirements through December 2000. At June 30, 2000 and 1999, the fair value of the Company's fuel hedges was approxi

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 e

Among other things, the legislation encourages the development of air service to smaller communities from slot-controlled airports, and Express was recently awarded slot exemptions to permit it to provide extensive service at LaGuardia using regional jets.

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 an

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

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Continental's 1999 10-K.

## **PART II - OTHER INFORMATION**

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

None.

### **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.**

The Company's Annual Meeting of Stockholders was held on May 23, 2000. The following individuals were elected to the Company's Board of Directors to hold office for the ensuing year:

<u>NOMINEE</u>	<u>VOTES FOR</u>	<u>VOTES WITHHELD</u>
Thomas J. Barrack, Jr.	148,466,235	5,782,648
Gordon M. Bethune	148,461,818	5,787,065
David Bonderman	148,426,360	5,822,523



Gregory D. Brenneman	148,463,341	5,785,542
Kirbyjon H. Caldwell	148,464,114	5,784,769
Patrick Foley	148,457,692	5,791,191
Douglas H. McCorkindale	148,466,561	5,782,322
George G. C. Parker	148,464,474	5,784,409
Richard W. Pogue	148,418,610	5,830,273
William S. Price III	148,460,307	5,788,576
Donald L. Sturm	148,473,122	5,775,761
Charles A. Yamarone	148,474,459	5,774,424
Karen Hastie Williams	148,453,394	5,795,489

A proposal to approve the Continental Airlines, Inc. Incentive Plan 2000, as adopted by the Board of Directors of the Company, was voted on by the stockholders as follows:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Votes</u>
107,692,510	39,908,315	207,424	6,440,634

A proposal to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2000 was voted on by the stockholders as follows:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Votes</u>
140,551,493	13,573,335	124,055	-

## Item 5. Other Information.

None.

## Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

1. 1997 Employee Stock Purchase Plan, as amended and restated as of April 24, 2000.
2. Supplemental Agreement No. 17, including side letters, to Boeing Purchase Agreement No. 1951, dated May 16, 2000.
  - 27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

- i. Report dated June 13, 2000 reporting Item 5. "Other Events". No financial statements were filed with the 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.

CONTINENTAL AIRLINES, INC.

(Registrant)

Date: July 18, 2000 by: /s/ Lawrence W. Kellner

Lawrence W. Kellner

Executive Vice President and

Chief Financial Officer

(On behalf of Registrant)

Date: July 18, 2000 /s/ Chris Kenny

Chris Kenny

Staff Vice President and Controller

(Principal Accounting Officer)

## **INDEX TO EXHIBITS**

### **OF**

### **CONTINENTAL AIRLINES, INC.**

1. 1997 Employee Stock Purchase Plan, as amended and restated as of April 24, 2000.
2. Supplemental Agreement No. 17, including side letters, to Boeing Purchase Agreement No. 1951, dated May 16, 2000. (1)  
27.1 Financial Data Schedule.

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

## CONTINENTAL AIRLINES, INC.

## 1997 EMPLOYEE STOCK PURCHASE PLAN

As Amended and Restated as of April 24, 2000

1. **Purpose.** The Continental Airlines, Inc. 1997 Employee Stock Purchase Plan (the "Plan") is intended to provide an incentive for employees of Continental Airlines, Inc. (the "Company") and any Participating Company (as defined in paragraph 3) to acquire or increase a proprietary interest in the Company through the purchase of shares of the Company's Class B common stock, par value \$.01 per share (the "Stock"). The Plan is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall be construed in a manner consistent with the requirements of that section of the Code.

2. **Administration of the Plan.** The Plan shall be administered by the Human Resources Committee (the "Committee") of the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Committee shall interpret the Plan and all options granted under the Plan, make such rules as it deems necessary for the proper administration of the Plan and make all other determinations necessary or advisable for the administration of the Plan. In addition, the Committee shall correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any option granted under the Plan, in the manner and to the extent that the Committee deems desirable to carry the Plan or any option into effect. The Committee shall, in its sole discretion, make such decisions or determinations and take such actions, and all such decisions, determinations and actions taken or made by the Committee pursuant to this and the other paragraphs of the Plan shall be conclusive on all parties. The Committee shall not be liable for any decision, determination or action taken in good faith in connection with the administration of the Plan. The Committee shall have the authority to delegate routine day-to-day administration of the Plan to such officers and employees of the Company as the Committee deems appropriate.

3. **Participating Companies.** The Committee may designate any present or future parent or subsidiary corporation of the Company that is eligible by law to participate in the Plan as a "Participating Company" by written instrument delivered to the designated Participating Company. Such written instrument shall specify the effective date of such designation and shall become, as to such designated Participating Company and persons in its employment, a part of the Plan. The terms of the Plan may be modified as applied to the Participating Company only to the extent permitted under Section 423 of the Code. Transfer of employment among the Company and Participating Companies (and among any other parent or subsidiary corporation of the Company) shall not be considered a termination of employment hereunder. Any Participating Company may, by appropriate action of its Board of Directors, terminate its participation in the Plan. Moreover, the Committee may, in its discretion, terminate a Participating Company's Plan participation at any time.

4. **Eligibility.** Subject to the provisions hereof, all employees of the Company and the Participating Companies who are employed by the Company or any Participating Company as of a Date of Grant (as defined in subparagraph 6(a)) shall be eligible to participate in the Plan; provided, however, that no option shall be granted to an employee if such employee, immediately after the option is granted, owns stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of its parent or subsidiary corporations (within the meaning of Sections 423(b)(3) and 424(d) of the Code).

5. **Stock Subject to the Plan.** Subject to the provisions of paragraph 12, the aggregate number of shares that may be sold pursuant to options granted under the Plan shall not exceed 1,750,000 shares of the authorized Stock, which shares may be unissued or reacquired shares, including shares bought on the market or otherwise for purposes of the Plan. Should any option granted under the Plan expire or terminate prior to its exercise in full, the shares theretofore subject to such option may again be subject to an option granted under the Plan. Any shares that are not subject to outstanding options upon the termination of the Plan shall cease to be subject to the Plan.

**6. Grant of Options.**

(a) **General Statement; "Date of Grant"; "Option Period"; "Date of Exercise".** Following the effective date of the Plan and continuing while the Plan remains in force, the Company shall offer options under the Plan to purchase shares of Stock to all eligible employees who elect to participate in the Plan. Except as otherwise determined by the Committee, these options shall be granted on January 1, 1997, and, thereafter, on the first day of each successive July, October, January and April (each of which dates is herein referred to as a "Date of Grant"). Except as provided in paragraph 12, the term of each option granted on January 1, 1997, shall be for six months, and the term of each option granted thereafter shall be for three months (each of such six-month and three-month periods is herein referred to as an "Option Period"), which shall begin on a Date of Grant and end on the last day of each Option Period (herein referred to as a "Date of Exercise"). Subject to subparagraph 6(e), the number of shares subject to an option for a participant shall be equal to the quotient of (i) the aggregate payroll deductions withheld on behalf of such participant during the Option Period in accordance with subparagraph 6(b), divided by (ii) the Option Price (as defined in subparagraph 7(b)) of the Stock applicable to the Option Period, including fractions; provided, however, that the maximum number of shares that may be subject to any option for a participant may not exceed 2,500 (subject to adjustment as provided in paragraph 12).

(b) **Election to Participate; Payroll Deduction Authorization.** An eligible employee may participate in the Plan only by means of payroll deduction. Except as provided in subparagraph 6(g), each eligible employee who elects to participate in the Plan shall deliver to the Company, within the time period prescribed by the Committee, a written payroll deduction authorization in a form prepared by the Company whereby he gives notice of his election to participate in the Plan as of the next following Date of Grant, and whereby he designates an integral percentage of his Eligible Compensation (as defined in subparagraph 6(d)) to be deducted from his compensation for each pay period and paid into the Plan for his account. The designated percentage may not be less than 1% nor exceed 10%.

(c) **Changes in Payroll Authorization.** A participant may withdraw from the Plan as provided in paragraph 8. In addition, a participant may decrease the percentage rate of his payroll deduction authorization referred to in subparagraph 6(b) or suspend or resume payroll deductions during the relevant Option Period by delivering to the Company a new payroll deduction authorization in a form prepared by the Company. Such decrease, suspension or resumption will be effective as

(d) **"Eligible Compensation" Defined.** The term "Eligible Compensation" means regular straight-time earnings or base salary, except that such term shall not include payments for overtime, incentive compensation, bonuses or other special payments.

(e) **\$25,000 Limitation.** No employee shall be granted an option under the Plan which permits his rights to purchase Stock under the Plan and under all other employee stock purchase plans of the Company and its parent and subsidiary corporations to accrue at a rate which exceeds

\$25,000 of fair market value of such Stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time (within the meaning of Section 423) the next following Date of Exercise.

(f) **Leaves of Absence.** During a paid leave of absence approved by the Company and meeting the requirements of Treasury Regulation Paragraph 1.421-7(h)(2), a participant's elected payroll deductions shall continue. A participant may not contribute to the Plan during an unpaid leave of absence. If a participant takes an unpaid leave of absence that is approved by the Company, meets the requirements of Treasury Regulation Paragraph 1.421-7(h)(2), and begins within 90 days purchase Stock under the Plan on the Date of Exercise relating to such Option Period. If a participant takes a leave of absence that is not described in the first or third sentence of this subparagraph 6(f), then he shall be considered to have withdrawn from the Plan pursuant to the provisions of paragraph 8 hereof.

(g) **Continuing Election.** Subject to the limitation set forth in subparagraph 6(e), a participant (i) who has elected to participate in the Plan pursuant to subparagraph 6(b) as of a Date of Grant and (ii) who takes no action to change or revoke such election as of the next following Date of Grant and/or as of any subsequent Date of Grant prior to any such respective Date of Grant shall be deemed to have made the same election, including the same attendant payroll deducti

## 7. Exercise of Options.

(a) **General Statement.** Subject to the limitation set forth in subparagraph 6(e), each participant in the Plan automatically and without any act on his part shall be deemed to have exercised his option on each Date of Exercise to the extent of his unused payroll deductions under the Plan and to the extent the issuance of Stock to such participant upon such exercise is lawful.

(b) **"Option Price" Defined.** The term "Option Price" shall mean the per share price of Stock to be paid by each participant on each exercise of his option, which price shall be equal to 85% of the fair market value of the Stock on the Date of Exercise or on the Date of Grant, whichever amount is lesser. For all purposes under the Plan, the fair market value of a share of Stock on a particular date shall be equal to the closing price of the Stock on the New York Stock Exch

(c) **Delivery of Shares; Restrictions on Transfer.** As soon as practicable after each Date of Exercise, the Company shall deliver to a custodian selected by the Committee one or more certificates representing (or shall otherwise cause to be credited to the account of such custodian) the total number of whole shares of Stock respecting options exercised on such Date of Exercise in the aggregate (for both whole and fractional shares) of all of the participating eligible emp

## 8. Withdrawal from the Plan.

(a) **General Statement.** Any participant may withdraw in whole from the Plan at any time prior to the Date of Exercise relating to a particular Option Period. Partial withdrawals shall not be permitted. A participant who wishes to withdraw from the Plan must timely deliver to the Company a notice of withdrawal in a form prepared by the Company. The Company, promptly following the time when the notice of withdrawal is delivered, shall refund to the participant the amount

(b) **Eligibility Following Withdrawal.** A participant who withdraws from the Plan shall be eligible to participate again in the Plan upon expiration of the Option Period during which he withdrew (provided that he is otherwise eligible to participate in the Plan at such time).

## 9. Termination of Employment.

(a) **General Statement.** Except as provided in subparagraph 9(b), if the employment of a participant terminates for any reason whatsoever, then his participation in the Plan automatically and without any act on his part shall terminate as of the date of the termination of his employment. The Company shall promptly refund to him the amount of his payroll deductions under the Plan which have not yet been otherwise returned to him or used upon exercise of options, and the

(b) **Termination by Retirement, Death or Disability after April 24, 2000.** If the employment of a participant terminates after April 24, 2000 due to (i) retirement that entitles the participant to an early or normal retirement benefit under any defined benefit pension plan of the Company or a Participating Company, (ii) death or (iii) permanent and total disability (within the meaning of Section 22(e)(3) of the Code), the participant, or (in the event of the participant's

(1) withdraw all of the accumulated unused payroll deductions and shares of Stock credited to the participant's account under the Plan (whether or not the Restriction Period with respect to such shares has expired); or

(2) exercise the participant's option for the purchase of Stock on the last day of the Option Period during which termination of employment occurs for the purchase of the number of full shares of Stock which the accumulated payroll deductions at the date of the participant's termination of employment will purchase at the applicable Option Price (subject to subparagraph 6(e)), with any excess cash in such account to be returned to the participant or such designated beneficiary.

The participant or, if applicable, such designated beneficiary, must make such election by giving written notice to the Committee in such manner as the Committee prescribes. In the event that no such written notice of election is timely received by the Committee, the participant or designated beneficiary will automatically be deemed to have elected as set forth in clause (2) above, and promptly after the exercise so described in clause (2) above, all shares of Stock in such participant's be distributed to the participant or such designated beneficiary.

(c) **Beneficiary Designation.** Each participant shall have the right to designate a beneficiary to exercise the rights specified in subparagraph 9(b) in the event of such participant's death. Any designation (or change in designation) of a beneficiary must be filed with the Committee in a time and manner designated by the Committee in order to be effective. Any such designation of a beneficiary may be revoked by the participant by filing a later valid designation or an instr Committee in a time and manner designated by the Committee. If no beneficiary is designated, the designated beneficiary will be deemed to be the participant's personal representative.

10. **Restriction Upon Assignment of Option.** An option granted under the Plan shall not be transferable otherwise than by will or the laws of descent and distribution. Subject to subparagraph 9(b), each option shall be exercisable, during his lifetime, only by the employee to whom granted. The Company shall not recognize and shall be under no duty to recognize any assignment or purported assignment by an employee of his option or of any rights under his option or under the

11. **No Rights of Stockholder Until Exercise of Option.** With respect to shares of Stock subject to an option, an optionee shall not be deemed

to be a stockholder, and he shall not have any of the rights or privileges of a stockholder, until such option has been exercised. With respect to an individual's Stock held by the custodian pursuant to subparagraph 7(c), the custodian shall, as soon as practicable, pay the individual any cash dividends attributable thereto and shall

**12. Changes in Stock; Adjustments.** Whenever any change is made in the Stock, by reason of a stock dividend or by reason of subdivision, stock split, reverse stock split, recapitalization, reorganization, combination, reclassification of shares or other similar change, appropriate action will be taken by the Committee to adjust accordingly the number of shares subject to the Plan, the maximum number of shares that may be subject to any option, and the number and Option Pr

If the Company shall not be the surviving corporation in any merger or consolidation (or survives only as a subsidiary of another entity), or if the Company is to be dissolved or liquidated, then, unless a surviving corporation assumes or substitutes new options (within the meaning of Section 424(a) of the Code) for all options then outstanding, (i) the Date of Exercise for all options then outstanding shall be accelerated to a date fixed by the Committee prior to the effective date o

**13. Use of Funds; No Interest Paid.** All funds received or held by the Company under the Plan shall be included in the general funds of the Company free of any trust or other restriction, and may be used for any corporate purpose. No interest shall be paid or credited to any participant.

**14. Term of the Plan.** The Plan shall be effective upon the date of its adoption by the Board, provided the Plan is approved by the stockholders of the Company within 12 months thereafter. Notwithstanding any provision in the Plan, no option granted under the Plan shall be exercisable prior to such stockholder approval, and, if the stockholders of the Company do not approve the Plan by the Date of Exercise of the first option granted hereunder, then the Plan shall automa

**15. Amendment or Termination of the Plan.** The Board in its discretion may terminate the Plan at any time with respect to any Stock for which options have not theretofore been granted. The Board and the Committee shall each have the right to alter or amend the Plan or any part thereof from time to time; provided, however, that no change in any option theretofore granted may be made that would impair the rights of the optionee without the consent of such optionee.

**16. Securities Laws.** The Company shall not be obligated to issue any Stock pursuant to any option granted under the Plan at any time when the offer, issuance or sale of shares covered by such option has not been registered under the Securities Act of 1933, as amended, or does not comply with such other state, federal or foreign laws, rules or regulations, or the requirements of any stock exchange upon which the Stock may then be listed, as the Company or the Committee de pinion of legal counsel for the Company, there is no exemption from the requirements of such laws, rules, regulations or requirements available for the offer, issuance and sale of such shares. Further, all Stock acquired pursuant to the Plan shall be subject to the Company's policies concerning compliance with securities laws and regulations, as such policies may be amended from time to time. The terms and conditions of options granted hereunder to, and the purchase of shares by, persons subject to Section e Act of 1934, as amended (the "Exchange Act"), shall comply with any applicable provisions of Rule 16b-3. As to such persons, this Plan shall be deemed to contain, and such options shall contain, and the shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required from time to time by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

**17. No Restriction on Corporate Action.** Nothing contained in the Plan shall be construed to prevent the Company or any subsidiary from taking any corporate action that is deemed by the Company or such subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any option granted under the Plan. No employee, beneficiary or other person shall have any claim against the Company or any subsidiary as a result of

**18. Miscellaneous Provisions.**

(a) **Parent and Subsidiary Corporations.** For all purposes of the Plan, a corporation shall be considered to be a parent or subsidiary corporation of the Company only if such corporation is a parent or subsidiary corporation of the Company within the meaning of Sections 424(e) or (f) of the Code.

(b) **Number and Gender.** Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender.

(c) **Headings.** The headings and subheadings in the Plan are included solely for convenience, and if there is any conflict between such headings or subheadings and the text of the Plan, the text shall control.

(d) **Not a Contract of Employment; No Acquired Rights.** The adoption and maintenance of the Plan shall not be deemed to be a contract between the Company or any Participating Company and any person or to be consideration for the employment of any person. Participation in the Plan at any given time shall not be deemed to create the right to participate in the Plan, or any other arrangement permitting an employee of the Company or any Participating Company to purchase St

(e) **Compliance with Applicable Laws.** The Company's obligation to offer, issue, sell or deliver Stock under the Plan is at all times subject to all approvals of and compliance with any governmental authorities (whether domestic or foreign) required in connection with the authorization, offer, issuance, sale or delivery of Stock as well as all federal, state, local and foreign laws. Without limiting the scope of the preceding sentence, and notwithstanding any other pro

(f) **Severability.** If any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

(g) **Governing Law.** All provisions of the Plan shall be construed in accordance with the laws of Texas except to the extent preempted by federal law.

Supplemental Agreement No. 17

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 May 16, 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]

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 to revise 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 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. 17.

1.2 Remove and replace, in its entirety, page 14-1 of Article "ARTICLE 14. Contractual Notices and Requests", with the "ARTICLE 14. Contractual Notices and Requests" attached hereto, to reflect the changes to the contractual notification addresses and names.

1.3 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 1951-3R9, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R10, "Option Aircraft - Model 737-824 Aircraft", attached hereto, to reflect the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.2 Remove and replace, in its entirety, Letter Agreement 1951-9R7, "Option Aircraft - Model 737-724 Aircraft" with Letter Agreement 1951-9R8, "Option Aircraft - Model 737-724 Aircraft", attached hereto, to reflect the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.3 Remove and replace, in its entirety, Letter Agreement 1951-12, "Option Aircraft - Model 737-924 Aircraft" with Letter Agreement 1951-12R1, "Option Aircraft - Model 737-924 Aircraft", attached hereto, to reflect changes to 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.

THE BOEING COMPANY Continental Airlines, Inc.

By: /s/ H. 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-GOC-015 [CONFIDENTIAL MATERIAL OMITTED SA 2

**AND FILED SEPARATELY WITH THE**

**SECURITIES AND EXCHANGE COMMISSION**

**PURSUANT TO A REQUEST FOR CONFIDENTIAL**

**TREATMENT]**

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6-1162-DMH-624 [CONFIDENTIAL MATERIAL OMITTED SA 8

**AND FILED SEPARATELY WITH THE**

**SECURITIES AND EXCHANGE COMMISSION**

**PURSUANT TO A REQUEST FOR CONFIDENTIAL**

**TREATMENT]**

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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**

**PURSUANT TO A REQUEST FOR CONFIDENTIAL**

**TREATMENT]**

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Supplemental Agreement No. 17 May 16, 2000

ARTICLE 14. Contractual Notices and Requests.

All notices and requests relating to this Agreement will be in English, and may be transmitted by any customary means of written communication addressed as follows:

Buyer: Continental Airlines, Inc.

1600 Smith Street HQSFN

Houston, Texas 77002

Attention: Sr. V.P. Finance

Boeing: Boeing Commercial Airplane Group

P.O. Box 3707

Seattle, Washington 98124-2207

U.S.A.

Attention: Vice President - Contracts

Mail Stop 21-34

or to such other address as specified elsewhere herein or as otherwise directed in writing by either party. The effective date of any such notice or request will be the date on which it is received by the addressee.

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

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

1951-3R10

May 16, 2000

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Letter Agreement No. 1951-3R10 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 1951-3R9 dated March 17, 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 will pay a deposit to Boeing of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for each Option Aircraft (the Option Deposit) on 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 A

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

4. Option Exercise.

To exercise its option to purchase the Option Aircraft, Buyer shall give written notice thereof to Boeing on or before the first business day of the month in each Option Exercise Date shown below:

Option Aircraft Option Exercise Date

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

5. Contract Terms.

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

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

6. Cancellation of Option to Purchase.

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

- (i) purchase of the Aircraft under the Agreement for any reason not attributable to the cancelling party;
- (ii) payment by Buyer of the Option Deposit with respect to such Option Aircraft pursuant to paragraph 3 herein; or
- (iii) exercise of the option to purchase such Option Aircraft pursuant to the terms hereof.

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

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

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

7. Applicability.

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

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

Very truly yours,

THE BOEING COMPANY

By /s/ H. H. Hart

Its Attorney In Fact

ACCEPTED AND AGREED TO this

Date: May 16, 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, Revision E, dated September 15, 1995, as amended and revised pursuant to the Agreement.

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

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

(2) Changes mutually agreed upon.

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

1.3 Effect of Changes. Changes to the Detail Specification pursuant to the provisions of the clauses above shall include the effects of such changes upon Option Aircraft weight, balance, design and performance.

2. Price Description.

2.1 Price Adjustments.

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

2.1.2 Special Features. The price for special features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the Option Aircraft Supplemental Agreement [**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.

1951-9R8

May 16, 2000

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Option Aircraft - Model 737-724 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-724 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-9R7 dated March 17, 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 737-724 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 will pay a deposit to Boeing of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for each Option Aircraft (the Option Deposit) on 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 Ai

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

4. Option Exercise.

To exercise its option to purchase the Option Aircraft, Buyer shall give written notice thereof to Boeing on or before the first business day of the month in each Option Exercise Date shown below:

Option Aircraft Option Exercise Date

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

5. Contract Terms.

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

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

6. Cancellation of Option to Purchase.

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

- (i) purchase of the Aircraft under the Agreement for any reason not attributable to the cancelling party;
- (ii) payment by Buyer of the Option Deposit with respect to such Option Aircraft pursuant to paragraph 3 herein; or
- (iii) exercise of the option to purchase such Option Aircraft pursuant to the terms hereof.

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

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

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

#### 7. Applicability.

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

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

Very truly yours,

THE BOEING COMPANY

By /s/ H. H. Hart

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: May 16, 2000

CONTINENTAL AIRLINES, INC.,

By /s/ Gerald Laderman

Its Senior Vice President - Finance

Attachment

Model 737-724 Aircraft

#### 1. Option Aircraft Description and Changes.

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

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

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

(2) Changes mutually agreed upon.

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

1.3 Effect of Changes. Changes to the Detail Specification pursuant to the provisions of the clauses above shall include the effects of such changes upon Option Aircraft weight, balance, design and performance.

#### 2. Price Description.

##### 2.1 Price Adjustments.

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

2.1.2 Special Features. The price for special features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the Option Aircraft Supplemental Agreement [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 Agreement.

1951-12R1

May 16, 2000

Continental Airlines, Inc.

1600 Smith Street

Houston, TX 77002

Subject: Option Aircraft - Model 737-924 Aircraft

Reference: Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-900 aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-12 dated May 21, 1998.

Boeing agrees to manufacture and sell to Buyer up to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** additional Model 737-900 aircraft as **Option Aircraft**, on the same terms and conditions set forth in the Agreement, subject to the terms and conditions set forth below. The delivery months, number of aircraft, Advance Payment Base Price per aircraft and advance payment schedule are listed in the tter Agreement (the Attachment).

#### 1. Aircraft Description and Changes

1.1 Aircraft Description: The Option Aircraft are described by the Detail Specification listed in the Attachment.

1.2 Changes: The Detail Specification will be revised to include:

- (i) Changes applicable to the basic Model 737 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the supplemental agreement to purchase the Option Aircraft;
- (ii) Changes required to obtain required regulatory certificates; and
- (iii) Changes mutually agreed upon.

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

2.1 The pricing elements of the Option Aircraft are listed in the Attachment.

#### 2.2 Price Adjustments.

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

#### 3. Payment.

3.1 Buyer will pay a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (Deposit), on the date of this Letter Agreement. If Buyer exercises an option, the Deposit applicable to such aircraft will be credited against the first advance payment due for such aircraft. If Buyer does not exercise an option, Boeing will retain the Deposit.

3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment will be payable for the Option Aircraft. The remainder of the Aircraft Price for the Option Aircraft will be paid at the time of delivery.

#### 4. Option Exercise.

4.1 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]

4.2 If Boeing must make production decisions which are dependent on Buyer exercising an option earlier than the Option Exercise Date, Boeing may accelerate the Option Exercise Date subject to Buyer's agreement. If Boeing and Buyer fail to agree to a revised Option Exercise Date, either party may terminate the option and Boeing will refund to Buyer, without interest, any Deposit and advance payments received by Boeing with respect to the terminated Aircraft.

5. Contract Terms.

Boeing and Buyer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft, including the terms and conditions contained in this Letter Agreement, in a supplemental agreement to the Agreement, and other terms and conditions as may be agreed upon. In the event the parties have not entered into a supplemental agreement within 30 days following option exercise, either party may terminate the purchase of such Option Aircraft by giving written notice to the other

8. 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.

Very truly yours,

THE BOEING COMPANY

By /s/ H. H. Hart

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: May 16,2000

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President - Finance

Attachment

**Attachment to  
Letter Agreement 1951-12 Option Aircraft Delivery,  
Description, Price and Advance Payments**

Airframe Model/MTGW: 737-900 164,000 Detail Specification: D6-39127 Rev. Orig.

Engine Model: CFM56-7B26 Price Base Year: Jul-97

Airframe Base Price:

Optional Features: Airframe and Engine Escalation Data:

Sub-Total of Airframe and Features: Base Year Index (ECI):

Engine Price (Per Aircraft): Base Year Index (ICI):

Aircraft Basic Price (excluding BFE/SPE):

Buyer Furnished Equipment (BFE) Estimate:

Seller Purchased Equipment (SPE) Estimate:

Refundable Deposit per Aircraft at Proposal Acceptance:

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

<ARTICLE> 5

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<OTHER-SE>		1,552
<TOTAL-LIABILITY-AND-EQUITY>		8,501
<SALES>		4,848
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<INTEREST-EXPENSE>		127
<INCOME-PRETAX>		273
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<INCOME-CONTINUING>		167
<DISCONTINUED>		0
<EXTRAORDINARY>		4
<CHANGES>		0
<NET-INCOME>		163
<EPS-BASIC>		2.61
<EPS-DILUTED>		2.57