

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 (I.R.S. Employer  
of incorporation or organization) Identification No.)

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

713-324-2950

(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of April 14, 2000, 11,217,849 shares of Class A common stock and 50,665,262 shares of Class B common stock were outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

Three Months  
Ended March 31,  
2000 1999  
(Unaudited)

Operating Revenue:		
Passenger . . . . .	\$2,137	\$1,920
Cargo and mail. . . . .	84	67
Other . . . . .	56	55
	2,277	2,042

Operating Expenses:

Wages, salaries and related costs . . . . .	665	616
Aircraft fuel . . . . .	343	150
Aircraft rentals . . . . .	206	184
Maintenance, materials and repairs . . . . .	159	143
Commissions . . . . .	133	143
Other rentals and landing fees . . . . .	129	114
Depreciation and amortization . . . . .	95	85
Other . . . . .	493	454
	2,223	1,889
Operating Income . . . . .	54	153
Nonoperating Income (Expense):		
Interest expense . . . . .	(63)	(53)
Interest income . . . . .	21	15
Interest capitalized . . . . .	12	13
Other, net . . . . .	(1)	13
	(31)	(12)

(continued on next page)

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

	Three Months Ended March 31,	
	2000	1999
	(Unaudited)	
Income before Income Taxes and Cumulative Effect of Accounting Changes . . . . .	\$ 23	\$ 141
Income Tax Provision . . . . .	(9)	(56)
Income before Cumulative Effect of Accounting Changes . . . . .	14	85
Cumulative Effect of Accounting Changes, net of income taxes of \$19 . . . . .	-	(33)
Net Income . . . . .	\$ 14	\$ 52
Earnings per Common Share:		
Income Before Cumulative Effect of Accounting Changes . . . . .	\$ 0.21	\$ 1.25
Cumulative Effect of Accounting Changes, net of tax . . . . .	-	(0.48)
Net Income . . . . .	\$ 0.21	\$ 0.77
Earnings per Common Share Assuming Dilution:		
Income Before Cumulative Effect of Accounting Changes . . . . .	\$ 0.21	\$ 1.13
Cumulative Effect of Accounting Changes, net of tax . . . . .	-	(0.42)
Net Income . . . . .	\$ 0.21	\$ 0.71

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

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

ASSETS	March 31, 2000 (Unaudited)	December 31, 1999
Current Assets:		
Cash and cash equivalents . . . . .	\$1,327	\$1,198
Short-term investments . . . . .	79	392
Accounts receivable, net . . . . .	607	506
Spare parts and supplies, net . . . . .	244	236
Deferred income taxes . . . . .	145	145
Prepayments and other . . . . .	186	129
Total current assets . . . . .	2,588	2,606
Property and Equipment:		
Owned property and equipment:		
Flight equipment . . . . .	3,713	3,593
Other . . . . .	859	814
	4,572	4,407
Less: Accumulated depreciation . . . . .	870	808
	3,702	3,599
Purchase deposits for flight equipment	418	366
Capital leases:		
Flight equipment . . . . .	284	300
Other . . . . .	88	88
	372	388
Less: Accumulated amortization . . . . .	173	180
	199	208
Total property and equipment . . . . .	4,319	4,173
Other Assets:		
Routes, gates and slots, net . . . . .	1,118	1,131
Investments . . . . .	104	71
Other assets, net . . . . .	250	242
Total other assets . . . . .	1,472	1,444
Total Assets . . . . .	\$8,379	\$8,223

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2000 (Unaudited)	December 31, 1999
Current Liabilities:		
Current maturities of long-term debt . . .	\$ 367	\$ 278
Current maturities of capital leases . . .	39	43
Accounts payable . . . . .	810	856
Air traffic liability . . . . .	1,301	1,042
Accrued payroll and pensions . . . . .	256	299
Accrued other liabilities . . . . .	270	257
Total current liabilities . . . . .	3,043	2,775
Long-Term Debt . . . . .	2,846	2,855
Capital Leases . . . . .	192	200
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes . . . . .	599	590
Accruals for aircraft retirements and excess facilities . . . . .	60	69
Other . . . . .	166	141
Total deferred credits and other long-term liabilities . . . . .	825	800
Commitments and Contingencies		
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 11,231,349 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 shares issued in 2000 and 1999, respectively . . . . .	1	1
Additional paid-in capital . . . . .	862	871
Retained earnings . . . . .	1,128	1,114
Accumulated other comprehensive income . . . . .	3	(1)
Treasury stock - 13,312,524 and 9,763,684 Class B shares in 2000 and 1999, respectively, at cost . . . . .	(521)	(392)
Total common stockholders' equity . . . . .	1,473	1,593
Total Liabilities and Stockholders' Equity . . . . .	\$8,379	\$8,223

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

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

	Three Months Ended March 31,	
	2000	1999
	(Unaudited)	
Net Cash Provided by Operating Activities . . . . .	\$ 116	\$ 126
Cash Flows from Investing Activities:		
Purchase deposits paid in connection		

with future aircraft deliveries. . . .	(101)	(260)
Purchase deposits refunded in connection with aircraft delivered . .	53	223
Capital expenditures. . . . .	(108)	(150)
Proceeds from sale of short-term investments. . . . .	313	-
Proceeds from sale of investments . . .	-	20
Other . . . . .	3	12
Net cash provided (used) by investing activities. . . . .	160	(155)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt, net. . . . .	110	168
Payments on long-term debt and capital lease obligations. . . . .	(121)	(112)
Purchase of Class B common stock. . . .	(144)	(39)
Other . . . . .	8	10
Net cash (used) provided by financing activities. . . . .	(147)	27
Net Increase (Decrease) in Cash and Cash Equivalents. . . . .	129	(2)
Cash and Cash Equivalents - Beginning of Period . . . . .	1,198	1,399
Cash and Cash Equivalents - End of Period. . . . .	\$1,327	\$1,397
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt. . . . .	\$ 78	\$ 237
Conversion of trust originated preferred securities. . . . .	\$ -	\$ 111

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 Ended March 31, 2000                      1999	
Numerator:		
Income before cumulative effect of accounting changes . . . . .	\$ 14	\$ 85
Cumulative effect of accounting		

changes, net of income taxes . . . . .	-	(33)
Numerator for basic earnings per share - income available to common stockholders . . . . .	14	52
Effect of dilutive securities:		
6-3/4% convertible subordinated notes . . . . .	-	2
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions . . . . .	\$ 14	\$ 54
Denominator:		
Denominator for basic earnings per share - weighted-average shares . . . . .	63.4	68.5
Effect of dilutive securities:		
Employee stock options . . . . .	0.8	1.3
Preferred Securities of Trust . . . . .	-	0.3
6-3/4% convertible subordinated notes . . . . .	-	7.6
Dilutive potential common shares . . . . .	0.8	9.2
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions . . . . .	64.2	77.7

NOTE 2 - COMPREHENSIVE INCOME

The Company includes unrealized gains or 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 first quarter of 2000 and 1999, total comprehensive income amounted to \$18 million and \$80 million, respectively. The significant difference between net income and total comprehensive income during the first quarter of 1999 was primarily attributable to the \$25 million increase in fair value (net of applicable income taxes and hedge ineffectiveness) related to petroleum swap contracts held by the Company as of March 31, 1999.

NOTE 3 - CUMULATIVE EFFECT OF ACCOUNTING CHANGES

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 ended March 31, 1999 by \$5 million (\$7 million pre-tax). 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.

NOTE 4 - AIRCRAFT PURCHASE COMMITMENTS

As shown in the following table, Continental's aircraft fleet consisted of 364 jets, 67 regional jets and 83 turboprop aircraft at March 31, 2000. Continental's purchase commitments as of March 31, 2000 are also shown below.

Aircraft Type	Total Aircraft	Owned	Leased	Orders	Options
777-200	14	4	10	2	9
767-400ER	-	-	-	26	-
767-200ER	-	-	-	10	11
757-200	40	12	28	1	-
737-900	-	-	-	15	15
737-800	42	12	30	26	43
737-700	36	12	24	-	32
737-500	66	15	51	-	-
737-300	65	14	51	-	-
DC10-30	27	6	21	-	-
727-200	5	2	3	-	-
MD-80	69	17	52	-	-
	364	94	270	80	110
ERJ-145	58	-	58	91	50
ERJ-135	9	-	9	41	25
	67	-	67	132	75
ATR-72	2	2	-	-	-
ATR-42-500	4	-	4	-	-
ATR-42-320	31	4	27	-	-
EMB-120	21	11	10	-	-
Beech 1900-D	25	-	25	-	-
	83	17	66	-	-
Total	514	111	403		

The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000 (two of which were delivered during the first quarter 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 of 18 Embraer ERJ-145 ("ERJ-145") regional jets (two of which were delivered in the first quarter of 2000) and 12 Embraer ERJ-135 ("ERJ-135") regional jets (three of which were delivered in the first quarter of 2000) in 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 aircraft. Two of these aircraft were delivered in February 2000 and the remaining aircraft are scheduled for delivery from June 2000 to December 2000.

As of March 31, 2000, the estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$4.2 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 March 31, 2000, Continental had approximately \$865 million in financing arranged for such future Boeing deliveries. In addition, Continental has commitments or letters of intent for backstop financing for approximately 22% of the anticipated remaining acquisition cost of such Boeing deliveries. In addition, at March 31, 2000, Continental had firm commitments to purchase 32 spare engines related to the new Boeing aircraft for approximately \$211 million which will be deliverable through March 2005. However, further financing will be needed to satisfy the Company's capital commitments for other aircraft and

aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to continue to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of March 31, 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 - OTHER

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"). In September 1999, Express and the IAM began collective bargaining negotiations to amend the Express flight attendants' contract (which became amendable in November 1999). The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

The Company 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 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 three months ended March 31, 1999.

#### NOTE 6 - SUBSEQUENT EVENTS

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 carrying amount of the slots could be deemed to be impaired. The Company will perform an evaluation in the second quarter in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). The assessment could result in the recording of an impairment charge for the amount that the carrying value of the slots exceeds the fair value of the slots, the acceleration of amortization over the remaining useful life, or some combination thereof. At March 31, 2000, the net book value of slots at O'Hare and LaGuardia was \$51 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 was recently awarded slot exemptions to permit it to provide extensive service at LaGuardia using regional jets.

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

The following discussion may contain forward-looking statements.



In connection therewith, please see the risk factors set forth in the Company's 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.

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 quarter of 2000. In addition, industry capacity and growth in the transatlantic markets (including block space arrangements where Continental is obligated to purchase capacity at a fixed price) have resulted in lower yields and revenue per available seat mile in those markets, which trend is expected to continue. Continental will continue to critically review its growth plans in light of industry conditions and will adjust or redeploy resources, including aircraft capacity, as necessary. In addition, 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, a \$225 million unused revolving credit facility and a well developed alliance network.

#### RESULTS OF OPERATIONS

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three months ended March 31, 2000 as compared to the corresponding period in 1999.

The Company recorded consolidated net income of \$14 million for the first quarter of 2000 as compared to consolidated net income of \$52 million for the three months ended March 31, 1999. Net income for the first quarter 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 11.3%, \$217 million, during the quarter ended March 31, 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 factor for domestic markets.

Cargo and mail revenue increased 25.4%, \$17 million, in the first quarter of 2000 compared to the first quarter of 1999 primarily due to increased international volumes resulting from new markets.

Wages, salaries and related costs increased 8.0%, \$49 million, during the quarter ended March 31, 2000 as compared to the same period in 1999, primarily due to a 5.7% 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 128.7%, \$193 million, in the three months ended March 31, 2000 as compared to the same period in the prior year. The average jet fuel price per gallon increased 120.4% from 38.62 cents in the first quarter of 1999 to 85.13 cents in the first quarter of 2000. In addition, the quantity of jet fuel used increased 1.6%, principally reflecting increased capacity offset significantly by the increased fuel efficiency of the Company's younger fleet.

Aircraft rentals increased 12.0%, \$22 million, due to the delivery of new aircraft.

Maintenance, materials and repairs increased 11.2%, \$16 million, during the quarter ended March 31, 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. This increase is partially offset by a reduction in maintenance on newer aircraft.

Commissions expense decreased 7.0%, \$10 million, during 2000 as compared to 1999 due to lower rates resulting from international commission caps and a lower volume of commissionable sales, partially offset by increased passenger revenue.

Other rentals and landing fees increased 13.2%, \$15 million, primarily due to higher facilities rent and landing fees resulting from increased operations.

Depreciation and amortization expense increased 11.8%, \$10 million, in the first quarter of 2000 compared to the first quarter of 1999 due principally to the addition of new aircraft and related spare parts.

Other operating expense increased 8.6%, \$39 million, in the three months ended March 31, 2000 as compared to the same period in the prior year, as a result of increases in passenger and aircraft servicing expense, reservations and sales expense and other miscellaneous expense, resulting primarily from an increase in enplanements and revenue passenger miles.

Interest expense increased 18.9%, \$10 million, due to an increase in long-term debt resulting from the purchase of new aircraft, partially offset by interest savings of \$4 million 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.

Interest income increased 40.0%, \$6 million, due to higher average balances of cash, cash equivalents and short-term investments and due to higher rates.

The Company's other nonoperating income (expense) in 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 \$6 million, principally the Brazilian Real.  
 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 March 31, 2000	1999	Net Increase/ (Decrease)
Revenue passenger miles (millions) (1) . . . . .	15,005	13,737	9.2 %
Available seat miles (millions) (2) . . . . .	20,951	19,225	9.0 %
Passenger load factor (3) . . . . .	71.6%	71.5%	0.1 pts.
Breakeven passenger load factor (4) . . . . .	69.2%	63.4%	5.8 pts.
Passenger revenue per available seat mile (cents) . . . . .	9.33	9.29	0.4 %
Total revenue per available seat mile (cents) . . . . .	10.13	10.02	1.1 %
Operating cost per available seat mile (cents) . . . . .	9.78	9.17	6.7 %
Average yield per revenue passenger mile (cents) (5) . . . . .	13.03	13.00	0.2 %
Average fare per revenue passenger . . . . .	\$174.49	\$165.75	5.3 %
Revenue passengers (thousands) . . . . .	11,201	10,778	3.9 %
Average length of aircraft			

flight (miles) . . . . .	1,131	1,083	4.4 %
Average daily utilization of each aircraft (hours) (6) . . . . .	10:34	10:11	3.8 %
Actual aircraft in fleet at end of period (7) . . . . .	364	365	(0.3)%

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. The table above excludes 622 million and 699 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 264 million and 232 million available seat miles, and related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental for the three months ended March 31, 2000 and March 31, 1999, respectively.

- (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 CMI in 1999.

#### LIQUIDITY AND CAPITAL COMMITMENTS

As of March 31, 2000 and December 31, 1999, the Company had \$1.3 billion and \$1.2 billion in cash and cash equivalents, respectively. Net cash provided by operating activities decreased \$10 million during the three months ended March 31, 2000 compared to the same period in the prior year primarily due to a decrease in operating income and changes in working capital. Net cash provided by investing activities increased \$315 million for the three months ended March 31, 2000 compared to the same period in the prior year, primarily as a result of proceeds from the sale of short-term investments received in the first quarter of 2000. Net cash used by financing activities for the three months ended March 31, 2000 compared to the same period in the prior year increased \$174 million primarily due to an increase in the purchase of Class B common stock and a decrease in proceeds from the issuance of long-term debt.

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 aircraft. Two of these aircraft were delivered in February 2000, and the remaining aircraft are scheduled for delivery from June 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 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 \$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 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 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 approximately \$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 three months ended March 31, 2000 aggregated \$52 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 September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000. The Company is also in the process of formulating a plan to bring employees to industry standard benefits over a multi-year period.

In March 2000, Continental Airlines' flight attendants ratified a 54-month collective bargaining agreement between the Company and the IAM. The Company estimates that increased costs associated with the collective bargaining agreement will be approximately \$50 million in 2000. In September 1999, Express and the IAM began collective bargaining negotiations to amend the Express flight attendants' contract (which became amendable in November 1999). The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

**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 carrying amount of the slots could be deemed to be impaired. The Company will perform an evaluation in the second quarter in accordance with SFAS 121. The assessment could result in the recording of an impairment charge for the amount that the carrying value of the slots exceeds the fair value of the slots, the acceleration of amortization over the remaining useful life, or some combination thereof. At March 31, 2000, the net book value of slots at O'Hare and LaGuardia was \$51 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, 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 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.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On March 1, 2000, Continental was served with a federal grand jury subpoena calling for Continental's production of documents relating to de-icing operations at the Dallas/Fort Worth Airport since 1992. Continental cannot currently determine either the full scope of the grand jury's investigation or Continental's role therein. Continental intends to cooperate with the government's investigation.

ITEM 2. CHANGES IN SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits:

- 10.1 Supplemental Agreement No. 15, including side letter, to Boeing Purchase Agreement No. 1951, dated January 13, 2000.
- 10.2 Supplemental Agreement No. 16, including side letters, to Boeing Purchase Agreement No. 1951, dated March 17, 2000.
- 27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

- (i) Report dated January 18, 2000 with respect to Item 5. Other Events. No financial statements were filed with the report, which included a Press Release related to the Company's fourth quarter results.
- (ii) Report dated February 8, 2000 with respect to Item 5. Other Events. No financial statements were filed with the report, which related to amendments to: the Rights Agreement between the

Company and Harris Trust and Savings Bank, the Northwest Airlines/Air Partners Voting Trust Agreement between the Company and Northwest Airlines Corporation, the Governance Agreement among the Company, Northwest Airlines Corporation and Northwest Airlines Holding Corporation and the Supplemental Agreement among the Company, Northwest Airlines Corporation and Northwest Airlines Holding Corporation.

- (iii) Report dated March 15, 2000 reporting Item 7. "Financial Statements and Exhibits". No financial statements were filed with the report, which included an Exhibit Index related to the Continental 2000-1 offering of pass through certificates.
- (iv) Report dated March 27, 2000 with respect to Item 5. Other Events. No financial statements were filed with the report, which related to the amendment and restatement of the Company's Incentive Plan 2000 and the adoption of the Continental Airlines, Inc. Officer Retention and Incentive Award Program under such plan.

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: April 20, 2000 by: /s/ Lawrence W. Kellner  
Lawrence W. Kellner  
Executive Vice President and  
Chief Financial Officer  
(On behalf of Registrant)

Date: April 20, 2000 /s/ Chris Kenny  
Chris Kenny  
Staff Vice President and Controller  
(Principal Accounting Officer)

INDEX TO EXHIBITS  
OF  
CONTINENTAL AIRLINES, INC.

- 10.1 Supplemental Agreement No. 15, including side letter, to Boeing Purchase Agreement No. 1951, dated January 13, 2000. (1)
- 10.2 Supplemental Agreement No. 16, including side letters, to Boeing Purchase Agreement No. 1951, dated March 17, 2000. (1)
- 27.1 Financial Data Schedule.

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

Supplemental Agreement No. 15

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 January 13, 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, Boeing and Buyer have mutually agreed to the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT];

WHEREAS, Boeing and Buyer have mutually agreed to [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. 15.

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:

Add new Letter Agreement 6-1162-DMH-1035 [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/ D. M. Hurt

By: /s/ Brian Davis

Its: Attorney-In-Fact

Its: Vice President

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A-4	Aircraft Configuration - Model 737-524 .	SA 3
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1951-8R2	Escalation Sharing - New Generation Aircraft. . . . .	SA 4
1951-9R6	Option Aircraft-Model 737-724 Aircraft. .	SA 13
1951-11R1	Escalation Sharing-Current Generation Aircraft. . . . .	SA 4
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6-1162-MMF-309R1	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]	SA 1
6-1162-MMF-311R3	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]	SA 5
6-1162-MMF-312R1	Special Purchase Agreement Provisions. . . . .	SA 1
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6-1162-GOC-015	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]	SA 2
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6-1162-DMH-365	Performance Guarantees - Model 737-924 Aircraft. . . . .	SA 5
6-1162-DMH-624	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]	SA 8
6-1162-DMH-680	Delivery Delay Resolution Program	SA 9
6-1162-DMH-1020	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]	SA 14
6-1162-DMH-1035	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION]	SA 15

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Supplemental Agreement No. 5 . . . . .	May 21, 1998
Supplemental Agreement No. 6 . . . . .	July 30, 1998

Supplemental Agreement No. 7 . . . . . November 12,1998  
Supplemental Agreement No. 8 . . . . . December 7,1998  
Supplemental Agreement No. 9 . . . . . February 18,1999  
Supplemental Agreement No. 10. . . . . March 19,1999  
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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]

January 13, 2000  
6-1162-DMH-1035

Continental Airlines, Inc.  
1600 Smith Street  
Houston, TX 77002

Subject: Letter Agreement 6-1162-DMH-1035 to  
Purchase Agreement No. 1951 - [CONFIDENTIAL  
MATERIAL OMITTED AND FILED SEPARATELY WITH  
THE SECURITIES AND EXCHANGE COMMISSION  
PURSUANT TO A REQUEST FOR CONFIDENTIAL  
TREATMENT]

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated as of July 23, 1996 as previously amended (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

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

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

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

Very truly yours,

THE BOEING COMPANY

By: /s/ David M. Hurt  
Its: Attorney-In-Fact

ACCEPTED AND AGREED TO

as of this date: January 13, 2000

CONTINENTAL AIRLINES, INC.

By: \_\_\_\_/s/ Brian Davis \_\_\_\_\_

Its: Vice President

Supplemental Agreement No. 16

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 March 17, 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, Boeing and Buyer have mutually agreed to the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; 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, 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 on a [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. 16.

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 1951-3R8, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R9, "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 1951-9R6, "Option Aircraft - Model 737-724 Aircraft" with Letter Agreement 1951-9R7, "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 Add new Letter Agreement 6-1162-DMH-1054 [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/ D. M. Hurt                      By:     /s/ Brian Davis

Its: Attorney-In-Fact                      Its: Vice President

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1951-8R2	Escalation Sharing - New Generation Aircraft . . . . .	SA 4
1951-9R7	Option Aircraft-Model 737-724 Aircraft . . . . .	SA 16
1951-11R1	Escalation Sharing-Current Generation Aircraft . . . . .	SA 4
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6-1162-MMF-308R3	Disclosure of Confidential . . . . . Information	SA 5
6-1162-MMF-309R1	[CONFIDENTIAL MATERIAL OMITTED AND. . . FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 1
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6-1162-MMF-378R1	Performance Guarantees - Model 737-524 Aircraft. . . . .	SA 3
6-1162-GOC-015	[CONFIDENTIAL MATERIAL OMITTED AND. . . FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 2
6-1162-GOC-131R2	Special Matters . . . . .	SA 5
6-1162-DMH-365	Performance Guarantees - Model 737-924 Aircraft. . . . .	SA 5



6-1162-DMH-624 [CONFIDENTIAL MATERIAL OMITTED AND. . SA 8  
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 AND. . SA 14  
FILED SEPARATELY WITH THE SECURITIES  
AND EXCHANGE COMMISSION PURSUANT TO  
A REQUEST FOR CONFIDENTIAL TREATMENT]

6-1162-DMH-1035 [CONFIDENTIAL MATERIAL OMITTED AND. . SA 15  
FILED SEPARATELY WITH THE SECURITIES  
AND EXCHANGE COMMISSION PURSUANT TO  
A REQUEST FOR CONFIDENTIAL TREATMENT]

6-1162-DMH-1054 [CONFIDENTIAL MATERIAL OMITTED AND. . SA 16  
FILED SEPARATELY WITH THE SECURITIES  
AND EXCHANGE COMMISSION PURSUANT TO  
A REQUEST FOR CONFIDENTIAL TREATMENT]

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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]

1951-3R9  
March 17, 2000

Continental Airlines, Inc.  
1600 Smith Street  
Houston, Texas 77002

Subject: Letter Agreement No. 1951-3R9 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 1951-3R8 dated December 13, 1999.

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 of Delivery	Number of Option Aircraft
-------------------------------	------------------------------

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

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

3. Option Aircraft Deposit.

In consideration of Boeing's grant to Buyer of options to purchase the Option Aircraft as set forth herein, 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 Aircraft will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in Article 5 of the Agreement.

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

4. Option Exercise.

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

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

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

5. Contract Terms.

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

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

6. Cancellation of Option to Purchase.

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

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

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

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

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

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

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

7. Applicability.

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

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

Very truly yours,

THE BOEING COMPANY

By /s/ D. M. Hurt

Its Attorney In Fact

ACCEPTED AND AGREED TO this

Date: March 17, 2000

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

Model 737-824 Aircraft

1. Option Aircraft Description and Changes.

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

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

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

(2) Changes mutually agreed upon.

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

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

2. Price Description.

2.1 Price Adjustments.

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

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

1951-9R7  
March 17, 2000

Continental Airlines, Inc.  
1600 Smith Street  
Houston, Texas 77002

Subject: Letter Agreement No. 1951-9R7 to  
Purchase Agreement No. 1951 - Option Aircraft -  
Model 737-724 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-724 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-9R6 dated October 13, 1999.

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 of Delivery	Number of Option Aircraft
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[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 Aircraft will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in Article 5 of the Agreement.

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

4. Option Exercise.

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

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

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

5. Contract Terms.

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

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

6. Cancellation of Option to Purchase.

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

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

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

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

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

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

Boeing shall promptly refund to Buyer, without interest, any

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

7. Applicability.

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

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

Very truly yours,

THE BOEING COMPANY

By /s/ D. M. Hurt

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: March 17, 2000

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment  
Model 737-724 Aircraft

1. Option Aircraft Description and Changes.

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

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

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

(2) Changes mutually agreed upon.

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

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

2. Price Description.

2.1 Price Adjustments.

2.1.1 Base Price Adjustments. The base aircraft

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

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

March 17, 2000  
6-1162-DMH-1054

Continental Airlines, Inc.  
1600 Smith Street  
Houston, TX 77002

Subject: Letter Agreement 6-1162-DMH-1054 to Purchase Agreement No. 1951 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated as of July 23, 1996 as previously amended (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

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

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

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/ D. M. Hurt\_\_\_\_\_  
Its: Attorney-In-Fact

ACCEPTED AND AGREED TO

as of this date: March 17, 2000

CONTINENTAL AIRLINES, INC.

By:\_\_\_/s/ Brian Davis\_\_\_\_\_  
Its: Vice President

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