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

# FORM 10-Q/A-1

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

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 X No _____

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As of October 16, 1998, 11,418,632 shares of Class A common stock and 48,122,769 shares of Class B common stock were outstanding.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS are amended and restated in their entirety as follows:

The following discussion may contain forward-looking statements. In connection therewith, please see the risk factors set forth in the Company's 1998 10-K which identify important factors such as the Company's leverage and its liquidity, its history of operating losses, the cost of aircraft fuel, labor matters, certain tax matters, regional and global economic downturns, the significant ownership interest of Northwest Airlines in the Company and risks relating to the Company's strategic alliance with Northwest Airlines, year 2000 computer risk, 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 that are not necessarily seasonal, including the extent and nature of competition from other airlines, employee job actions (including at other airlines), fare sale activities, excise and similar taxes, changing levels of operations, fuel prices, foreign currency exchange rates, changes in regulations and aviation treaties and general economic conditions. Although the results in Asia of Continental Micronesia, Inc. ("CMI"), a wholly owned subsidiary of the Company, have declined in recent years, the Company successfully redeployed CMI capacity into the stronger U.S.

domestic markets and CMI's recent results have improved. In addition, the Company believes it is well positioned to respond to market conditions in the event of a sustained economic downturn for the following reasons: underdeveloped hubs with strong local traffic; a flexible fleet plan; a strong cash balance, a $225 million unused revolving credit facility and a well developed alliance network.

RESULTS OF OPERATIONS

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three months ended March 31, 1999 as compared to the corresponding period in 1998.

The Company recorded consolidated net income of $84 million for the first quarter of 1999 as compared to consolidated net income of $81 million for the three months ended March 31, 1998. Net income for the first quarter of 1999 included the cumulative effect of a change in accounting principle charge ($6 million, net of taxes) related to the write-off of pilot training costs.

Passenger revenue increased 10.9%, $186 million, during the first quarter ended March 31, 1999 as compared to the same period in 1998, which was principally due to a 13.8% increase in revenue passenger miles, partially offset by a 3.4% decrease in yield. The Company estimates that passenger revenue increased by $19 million due to a significant number of flight cancellations at one of its competitors. The decrease in yield was due to lower industry-wide fare levels and a 6.7% increase in average stage length.

Other operating revenue increased 23.6%, $17 million, primarily due to an increase in revenue related to the Company's frequent flyer program, OnePass.

Wages, salaries and related costs increased 23.9%, $119 million, during the quarter ended March 31, 1999 as compared to the same period in 1998, primarily due to a 10.0% increase in average full-time equivalent employees to support increased flying, increased on-time bonus payments and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft rentals increased 18.0%, $28 million, due to the delivery of new aircraft.

Aircraft fuel expense decreased 21.1%, $40 million, in the three months ended March 31, 1999 as compared to the same period in the prior year. The average price per gallon decreased 25.4% from 51.79 cents in the first quarter of 1998 to 38.62 cents in the first quarter of 1999. This reduction was partially offset by a 5.4% increase in the quantity of jet fuel used, principally reflecting increased capacity. See "Fuel Hedging" below.

Maintenance, materials and repairs decreased 6.5%, $10 million, during the quarter ended March 31, 1999 as compared to the same period in 1998 due to newer aircraft and the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Other rentals and landing fees increased 12.9%, $13 million, primarily due to higher facilities rent and landing fees resulting from increased operations.

Depreciation and amortization expense increased 25.0%, $17 million, in the first quarter of 1999 compared to the first quarter of 1998 due principally to the addition of new aircraft and related spare parts. These increases were partially offset by a $2 million reduction in the amortization of routes, gates and slots resulting from the recognition of previously unbenefited NOLs during 1998.

Other operating expense increased 15.8%, $63 million, in the three months ended March 31, 1999 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 32.5%, $13 million, due to an increase in long-term debt resulting from the purchase of new aircraft.

The Company's other nonoperating income (expense) in 1999 includes 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, 1999 | 1998 | Net Increase/ (Decrease) |
|---|---|---|---|
| Revenue passenger miles (millions) (1) | 13,737 | 12,072 | 13.8 % |
| Available seat miles (millions) (2) | 19,225 | 17,523 | 9.7 % |
| Passenger load factor (3) | 71.5% | 68.9% | 2.6 pts. |
| Breakeven passenger load factor (4) | 63.5% | 60.6% | 2.9 pts. |
| Passenger revenue per available seat mile (cents) | 9.13 | 9.12 | 0.1 % |
| Total revenue per available seat mile (cents) | 10.04 | 10.01 | 0.3 % |
| Operating cost per available seat mile (cents) | 9.21 | 9.14 | 0.8 % |
| Average yield per revenue passenger mile (cents) (5) | 12.78 | 13.23 | (3.4)% |
| Average fare per revenue passenger | $162.91 | $154.88 | 5.2 % |
| Revenue passengers (thousands) | 10,778 | 10,072 | 7.0 % |
| Average length of aircraft flight (miles) | 1,083 | 1,015 | 6.7 % |
| Average daily utilization of each aircraft (hours) (6) | 10:11 | 10:13 | (0.3)% |
| Actual aircraft in fleet at end of period (7) | 365 | 346 | 5.5 % |

Continental has entered into block-space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other. The table above excludes 699 million and 330 million available seat miles, and related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carrier, and includes 232 million and 22 million available seat miles, and related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental for the quarters ended March 31, 1999 and March 31, 1998, respectively.

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(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 and 1998. During the first three months of 1999, the Company took delivery of 13 aircraft and removed 11 aircraft from service.

LIQUIDITY AND CAPITAL COMMITMENTS

In February 1999, the Company completed an offering of $806 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 22 aircraft scheduled to be delivered from March 1999 through September 1999.

In March of 1999, the Company completed a $160 million Credit Facility, with a maturity date of March 2001, to finance pre-delivery deposits for certain new Boeing aircraft to be delivered between March 1999 and March 2002.

On April 15, 1999, the Company announced a $500 million increase in the size of its stock repurchase program, bringing the total size of the program to $800 million.  As of April 15, 1999, the Company had repurchased 5,632,100 shares of Class B common stock for $266 million under this program.

Also on April 15, 1999, the Company exercised its right and called for redemption on May 25, 1999, all $230 million of its 6-3/4% Convertible Subordinated Notes due 2006.  The notes are convertible into shares of Class B common stock at a conversion price of $30.195 per share.  The $230 million of notes, unless earlier converted, will be redeemed for 104.725 percent of their principal amount plus accrued interest to the date of redemption.

As of March 31, 1999 and December 31, 1998, the Company had $1.4 billion in cash and cash equivalents (excluding restricted cash of $11 million).  Net cash provided by operating activities increased $26 million during the three months ended March 31, 1999 compared to the same period in the prior year primarily due to an improvement in operating income.  Net cash used by investing activities decreased $231 million for the three months ended March 31, 1999 compared to the same period in the prior year, primarily as a result of the purchase of short-term investments in the first quarter of 1998.  Net cash provided by financing activities for the three months ended March 31, 1999 compared to the same period in the prior year increased $98 million primarily due to an increase in proceeds from the issuance of long-term debt partially offset by an increase in payments on long-term debt and capital lease obligations.

Deferred Tax Assets.  The Company had, as of December 31, 1998, deferred tax assets aggregating $803 million, including $372 million of NOLs and a valuation allowance of $263 million.  To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would further reduce routes, gates and slots.

As a result of NOLs, the Company will not pay United States federal income taxes (other than alternative minimum tax) until it has recorded approximately an additional $1.1 billion of taxable income following December 31, 1998.  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").  Based on information currently available, 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.  As of April 15, 1999, Continental had agreed to acquire a total of 111 Boeing jet aircraft through 2005.  The Company anticipates taking delivery of 61 Boeing jet aircraft in 1999 (13 of which were delivered during the first quarter of 1999 and financed through enhanced equipment trust certificates, with the Company purchasing nine of those aircraft and leasing the other four).  Continental also has options for an additional 105 Boeing aircraft (exercisable subject to certain conditions).  The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately $5.2 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 April 15, 1999, Continental had approximately $787 million in financing arranged for such future Boeing deliveries.  In addition, Continental has commitments or letters of intent for backstop financing for approximately one-third of the anticipated remaining acquisition cost of such Boeing deliveries.  In addition, at April 15, 1999, Continental has firm commitments to purchase 32 spare engines related to the new Boeing aircraft for approximately $167 million which will be deliverable through December 2004.

As of April 15, 1999, Express had firm commitments to acquire 34 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and 25 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, with options for an additional 125 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 19 ERJ-145 (three of which were delivered in the first quarter of 1999) and six ERJ-135 regional jets in 1999 and the remainder of its firm orders through the third quarter of 2001. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 aircraft that are not financed by a third party and leased to Continental.

Additional 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.

Continental expects its cash outlays for 1999 capital expenditures, exclusive of fleet plan requirements, to aggregate $254 million, primarily relating to mainframe, software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment. Continental's capital expenditures during the three months ended March 31, 1999 aggregated $55 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.

Year 2000.

The Year 2000 issue arises as a result of computer programs having been written using two digits (rather than four) to define the applicable year, among other problems. Any information technology ("IT") systems that have time-sensitive software might recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations and system failures. The problem also extends to many "non-IT" systems; that is, operating and control systems that rely on embedded chip systems. In addition, the Company is at risk from Year 2000 failures on the part of third party-suppliers and governmental agencies with which the Company interacts.

The Company uses a significant number of computer software programs and embedded operating systems that are essential to its operations. For this reason, the Company implemented a Year 2000 project in late 1996 so that the Company's computer systems would function properly in the year 2000 and thereafter. The Company's Year 2000 project involves the review of a number of internal and third-party systems. Each system is subjected to the project's five phases which consist of systems inventory, evaluation and analysis, modification implementation, user testing and integration compliance. The systems are currently in various stages of completion. The Company anticipates completing its review or modification implementation of systems in June 1999 and believes that, with modifications to its existing software and systems and/or conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems.

The Company has also initiated communications and on-site visits with its significant suppliers, vendors and governmental agencies with which its systems interface and exchange data or upon which its business depends. The Company is coordinating efforts with these parties to minimize the extent to which its business may be vulnerable to their failure to remediate their own Year 2000 problems. The Company's business is dependent upon certain domestic and foreign governmental organizations or entities such as the Federal Aviation Administration ("FAA") that provide essential aviation industry infrastructure. There can be no assurance that the systems of such third parties on which the Company's business relies (including those of the FAA) will be modified on a timely basis. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its equipment or systems or those operated by other parties to operate properly beyond 1999. Although the Company currently has day-to-day operational contingency plans, management is in the process of updating these plans for possible Year 2000-specific operational requirements. To facilitate the completion of these plans, the Company has hired an outside consultant. The Company anticipates completing the revision of current contingency plans and the creation of additional contingency plans by September 1999. In addition, the Company will continue to monitor third-party (including governmental) readiness and will modify its contingency plans accordingly. While the Company does not currently expect any significant modification of its operations in response to the Year 2000 issue, in a worst-case scenario the Company could be required to alter its operations significantly.

The total cost of the Company's Year 2000 project (excluding internal payroll) is currently estimated at $16-18 million and has been and will be funded through cash from operations. As of March 31, 1999, the Company had incurred and expensed approximately $16 million relating to its Year 2000 project. The cost of the Year 2000 project is limited by the substantial outsourcing of the Company's systems and the significant implementation of new systems following the Company's emergence from bankruptcy. The costs of the Company's Year 2000 project and the date on which the Company believes it will be completed are based on management's best estimates and include assumptions regarding third-party modification plans. However, in particular due to the potential impact of third-party modification plans, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated.

Bond Financings. In July 1996, the Company announced plans to expand its gates and related facilities into Terminal B at Bush Intercontinental Airport, as well as planned improvements at Terminal C and the construction of a new automated people mover system linking Terminal B and Terminal C. In April 1997 and January 1999, the City of Houston completed the offering of $190 million and $46 million, respectively, aggregate principal amount of tax-exempt special facilities revenue bonds (the "IAH Bonds"). The IAH Bonds are unconditionally guaranteed by Continental. In connection therewith, the Company has entered into long-term leases (or amendments to existing leases) with the City of Houston providing for the Company to make rental payments sufficient to service the related tax-exempt bonds, which have a term no longer than 30 years. The majority of the Company's expansion project is expected to be completed during the summer of 1999.

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 as revenue, interest rates and rental rates reach industry standards.

On January 5, 1999, the Company's mechanics ratified an initial three-year collective bargaining agreement between the Company and the IBT. The contract becomes amendable in January 2002.

In March 1999, a tentative initial agreement was reached between Express and its mechanics, which are represented by the IBT. The tentative agreement was not ratified by the represented employees, and the Company anticipates that Express will resume negotiations concerning an initial agreement.

The International Association of Machinists is currently seeking to represent the Company and Express's approximately 8,000 fleet service employees. The National Mediation Board has determined that a sufficient showing of interest exists to proceed with an election. Ballots for the election will be sent to all eligible employees on April 30, 1999. Returns will be counted on June 4, 1999. The Company does not expect this organizing effort to have a material adverse impact on the Company or its relations with its airport service employees.

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. At December 31, 1998, the fair value of the Company's petroleum swap contracts, which hedged anticipated fuel purchases through March 31, 1999, was approximately $6 million (loss). During the first quarter, the Company had entered into petroleum swap contracts to hedge jet fuel prices for approximately 50% of its anticipated fuel requirements through September 30, 1999, the fair value of which was approximately $34 million at March 31, 1999. As of April 22, 1999, the fair value of the petroleum swap contracts was approximately $44 million. The fair value has been recorded in other assets with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness.

Other.

Management believes that the Company's costs are likely to be affected in the future by (i) higher aircraft ownership costs as new aircraft are delivered, (ii) higher wages, salaries and related costs as the Company compensates its employees comparable to industry average, (iii) changes in the costs of materials and services (in particular, the cost of fuel, which can fluctuate significantly in response to global market conditions), (iv) changes in governmental regulations and taxes affecting air transportation and the costs charged for airport access, including new security requirements, (v) changes in the Company's fleet and related capacity and (vi) the Company's continuing efforts to reduce costs throughout its operations, including reduced maintenance costs for new aircraft, reduced distribution expense from using Continental's electronic ticket product and the internet for bookings, and reduced interest expense.

## 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 30, 1999 by: /s/ Lawrence W. Kellner
Lawrence W. Kellner
Executive Vice President and
Chief Financial Officer
(On behalf of Registrant)

Date: April 30, 1999 /s/ Michael P. Bonds
Michael P. Bonds
Vice President and Controller
(Chief Accounting Officer)