

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1995

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.)

2929 Allen Parkway, Suite 2010

Houston, Texas 77019

(Address of principal executive offices)  
(Zip Code)

713-834-2950

(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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of October 13, 1995, 6,301,056 shares of Class A common stock and 21,276,963 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 of dollars, except per share data)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	1995	1994	1995	1994
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating Revenues:				
Passenger . . . . .	\$1,402	\$1,351	\$3,997	\$3,797
Cargo, mail and other . . . . .	113	163	405	464
	1,515	1,514	4,402	4,261
Operating Expenses:				
Wages, salaries and related costs . . . . .	356	394	1,079	1,144
Aircraft fuel . . . . .	171	196	508	544
Commissions . . . . .	126	107	376	338
Aircraft rentals . . . . .	122	107	370	316

Maintenance, materials and repairs . . . . .	119	109	317	374
Other rentals and landing fees . . . . .	87	103	271	293
Depreciation and amortization . . . . .	63	65	192	190
Other . . . . .	318	350	998	1,036
	1,362	1,431	4,111	4,235
Operating Income . . . . .	153	83	291	26
Nonoperating Income (Expense):				
Interest expense . . . . .	(52)	(59)	(162)	(183)
Interest capitalized . . . . .	1	3	5	10
Interest income . . . . .	9	6	22	17
Other, net . . . . .	2	-	110	(4)
	(40)	(50)	(25)	(160)
Income (Loss) Before Income Taxes and Minority Interest . . . . .				
	113	33	266	(134)
Income Tax Benefit (Provision) . . . . .	-	-	(78)	47
Income (Loss) Before Minority Interest . . . . .				
	113	33	188	(87)
Minority Interest . . . . .	(2)	(2)	(5)	(3)
Net Income (Loss) . . . . .	111	31	183	(90)
Preferred Dividend Requirements and Accretion to Liquidation Value . . . . .				
	(5)	(2)	(8)	(5)
Income (Loss) Applicable to Common Shares . . . . .	\$ 106	\$ 29	\$ 175	\$ (95)
Earnings (Loss) per Common and Common Equivalent Share . . . . .				
	\$ 3.09	\$ 1.03	\$ 5.87	\$(3.69)
Earnings (Loss) per Common Share Assuming Full Dilution . . . . .				
	\$ 2.68	\$ 1.03	\$ 5.35	\$(3.69)

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

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions of dollars)

ASSETS	September 30, 1995 (Unaudited)	December 31, 1994
Current Assets:		
Cash and cash equivalents, including restricted cash and cash equivalents of \$127 and \$119, respectively . . . . .	\$ 603	\$ 396
Accounts receivable, net . . . . .	417	376
Spare parts and supplies, net . . . . .	146	142
Prepayments and other . . . . .	75	76
Total current assets . . . . .	1,241	990
Property and Equipment:		
Owned property and equipment:		
Flight equipment . . . . .	1,059	1,004
Other . . . . .	278	282
	1,337	1,286
Less: Accumulated depreciation . . . . .	275	207
	1,062	1,079
Purchase deposits for flight equipment . . . . .	42	166
Capital leases:		
Flight equipment . . . . .	401	400
Other . . . . .	27	17
	428	417
Less: Accumulated amortization . . . . .	109	69
	319	348

Total property and equipment . . . . .	1,423	1,593
Other Assets:		
Routes, gates and slots, net . . . . .	1,545	1,591
Reorganization value in excess of amounts allocable to identifiable assets, net . . .	255	318
Investments . . . . .	159	17
Other assets, net . . . . .	69	92
Total other assets . . . . .	2,028	2,018
Total Assets . . . . .	\$4,692	\$4,601

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 1995 (Unaudited)	December 31, 1994
Current Liabilities:		
Debt and capital lease obligations in default.	\$ -	\$ 490
Current maturities of long-term debt . . . . .	196	126
Current maturities of capital leases . . . . .	53	26
Accounts payable . . . . .	604	630
Air traffic liability . . . . .	687	584
Accrued payroll and pensions . . . . .	176	179
Accrued other liabilities . . . . .	314	373
Total current liabilities . . . . .	2,030	2,408
Long-Term Debt . . . . .	1,384	1,038
Capital Leases . . . . .	331	164
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes . . . . .	97	28
Deferred credit - operating leases . . . . .	106	138
Accruals for aircraft retirements and excess facilities . . . . .	186	392
Other . . . . .	229	251
Total deferred credits and other long-term liabilities . . . . .	618	809
Commitments and Contingencies		
Minority Interest . . . . .	29	26
Redeemable Preferred Stock (aggregate redemption value - \$40 and \$56, respectively) . . . . .	40	53
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 6,301,056 shares issued and outstanding . . . . .	-	-
Class B common stock - \$.01 par, 100,000,000 shares authorized; 21,276,713 and 20,403,512 shares issued, respectively . . . . .	-	-
Additional paid-in capital . . . . .	732	778
Accumulated deficit . . . . .	(469)	(652)
Unvested portion of restricted stock . . . . .	(11)	(14)
Additional minimum pension liability . . . . .	(7)	(7)
Unrealized gain (loss) on marketable equity securities . . . . .	15	(2)
Treasury stock -30,000 shares		

at December 31, 1994. . . . .	-	-
Total common stockholders' equity. . . . .	260	103
Total Liabilities and Stockholders' Equity. . . . .	\$4,692	\$4,601

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

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

	Nine Months	
	Ended September 30, 1995	1994
	(Unaudited)	(Unaudited)
Net Cash Provided by Operating Activities . . .	\$283	\$ 69
Cash Flows from Investing Activities:		
Investment in America West . . . . .	-	(19)
Proceeds from disposition of property, equipment and other assets. . . . .	13	2
Capital expenditures, net of returned purchase deposits . . . . .	(63)	(189)
Purchase deposits refunded in connection with aircraft delivered . . . . .	97	67
Proceeds from System One transactions. . . . .	40	-
Net cash provided (used) by investing activities . . . . .	87	(139)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt, net.	8	30
Payments on long-term debt and capital lease obligations . . . . .	(168)	(180)
Proceeds from issuance of common stock . . . . .	11	-
Purchase of warrants . . . . .	(14)	-
Net cash used by financing activities . . . . .	(163)	(150)
Net Increase (Decrease) in Cash and Cash Equivalents . . . . .	207	(220)
Cash and Cash Equivalents-Beginning of Period .	396	721
Cash and Cash Equivalents-End of Period . . . . .	\$603	\$501
Supplemental Cash Flow Information:		
Interest paid. . . . .	\$136	\$146
Income taxes paid. . . . .	\$ 9	\$ -
Investing and Financing Activities Not Affecting Cash:		
Reclassification of accrued rent, capital leases and interest to long-term debt . . . . .	\$ 42	\$ 25
Capital lease obligations incurred . . . . .	\$ 9	\$ 10
Property and equipment acquired through the issuance of debt. . . . .	\$ 21	\$ 10
Financed purchase deposits for flight equipment . . . . .	\$ 5	\$ 18
Return of financed purchase deposits . . . . .	\$ 10	\$ -
Reclassification of accrued management fees to long-term debt . . . . .	\$ 21	\$ -
Investment in AMADEUS. . . . .	\$120	\$ -
Reduction of debt in connection with System One transactions . . . . .	\$ 42	\$ -
Issuance of debt in connection with purchase of Air Canada warrants. . . . .	\$ 42	\$ -
Issuance of convertible secured debentures in connection with the aircraft settlements .	\$165	\$ -
Conversion of preferred stock into long-term debt. . . . .	\$ 21	\$ -

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

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, 1994.

#### NOTE 1 - LIQUIDITY

The Company has retired from service 24 less-efficient widebody aircraft during 1995. In February 1995, the Company began paying market rentals, which are significantly less than contractual rentals on these aircraft, and began ceasing all rental payments as the aircraft were removed from service. In addition, in the first quarter of 1995, Continental reduced its rental payments on an additional 11 widebody aircraft leased at significantly above-market rates. These actions caused a significant number of defaults and cross defaults in various long-term debt, capital lease and operating lease agreements. The Company began negotiations in February 1995 with the lessors of (or lenders with respect to) these 35 widebody aircraft to amend the payment schedules and provide, effective February 1, 1995, alternative compensation, including, in certain cases, convertible secured debentures in lieu of current cash payments. The Company has reached resolutions covering all 35 widebody aircraft, thereby curing defaults under the related agreements and the resulting cross defaults. The last such resolution was achieved during the fourth quarter of 1995. In connection with these resolutions, Continental issued convertible secured debentures in an aggregate principal amount of \$165 million, including payment-in-kind interest of \$7 million as of September 30, 1995, entered into certain agreements including restructured leases and made certain payments to lessors and lenders. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments".

The Company had also been in default under the debt agreement relating to the financing of the Company's Los Angeles International Airport ("LAX") maintenance facility. On September 29, 1995, the Company consummated a restructuring of such indebtedness, which involved the issuance of approximately \$65 million in principal amount (including payment-in-kind interest of \$2 million) of unsecured indebtedness payable in installments between 1997 and 2000, in exchange for all of the indebtedness and accrued but unpaid interest thereon formerly secured by the Company's LAX maintenance facility and related equipment. This restructuring cured the defaults under the indebtedness and related cross defaults.

#### NOTE 2 - EARNINGS (LOSS) PER SHARE

The earnings (loss) per common share computations are based upon earnings (loss) applicable to common shares and the average number of shares of common stock, common stock equivalents (stock options, warrants and restricted stock) and potentially dilutive securities (convertible secured debentures) outstanding. The number of shares used in the primary earnings per share computations for the three and nine months ended September 30, 1995 was 35,366,465 and 32,257,088, respectively. The number of shares used in the fully diluted earnings per share computations for the three and nine months ended September 30, 1995 was 40,969,811 and 34,124,870, respectively. The number of shares used in the primary and fully diluted computations for both the three and nine months ended September 30, 1994 was 28,988,888 and 25,522,568, respectively. Preferred stock dividend requirements, including additional dividends on unpaid dividends, accretion to redemption value and the accelerated accretion on the redeemed Series A 8% Cumulative Preferred Stock ("Series A 8% Preferred") caused by the exchange thereof for debt of the Company on September 29, 1995 (see Note 4) decreased net income for this computation by approximately \$5 million and \$8 million for the three and nine months ended September 30, 1995, respectively.

#### NOTE 3 - CONVERTIBLE SECURED DEBENTURES

As of September 30, 1995, Continental had issued approximately \$139 million (including payment-in-kind interest of \$6 million) of its Series A 6% Convertible Secured Debentures ("Series A Debentures") and \$26 million (including payment-in-kind interest of \$1 million) of its Series B 8% Convertible Secured Debentures ("Series B Debentures") in connection with the settlements entered into with certain widebody aircraft lessors and lenders. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments". Principal payments under the Series A Debentures are due in ten equal

semiannual installments beginning August 1, 1997. Principal payments under the Series B Debentures are due in thirteen equal quarterly installments beginning February 1, 1997. The Series A Debentures provide for interest to be paid in additional Series A Debentures from February 1, 1995 through January 31, 1997, and the Series B Debentures provide for interest to be paid in additional Series B Debentures from February 1, 1995 through January 31, 1996. The Series A and Series B Debentures may be converted by their respective holders at any time on or after August 1, 1996, if not previously redeemed by the Company, into shares of Continental's Class B Common Stock ("Class B") at an initial price of \$26 per share. The Series A Debentures may be called for redemption at any time by Continental at par, and the Series B Debentures may be called for redemption at any time by Continental with a 15% redemption premium.

#### NOTE 4 - PREFERRED AND COMMON STOCK

Redeemable Preferred Stock. In June 1995, Continental issued two new series of preferred stock in exchange for its previously existing preferred stock. Effective June 30, 1995 and in exchange for the 171,000 shares of 8% Cumulative Preferred Stock outstanding as of June 30, 1995 and all of the accrued and unpaid dividends accumulated thereon as of such date, the Company issued 202,784 shares of its new Series A 8% Preferred. On September 29, 1995, Continental issued a secured promissory note (the "Redemption Loan") with a principal amount of approximately \$21 million to an affiliate of General Electric Capital Corporation ("GE Capital") in exchange for its 202,784 shares of Series A 8% Preferred, together with accumulated dividends thereon (representing all of the outstanding Series A 8% Preferred). The Redemption Loan bears interest at 8.0% per annum from September 29, 1995 through March 31, 1996 and 9.86% per annum thereafter.

Effective June 30, 1995 and in exchange for the 300,000 shares of 12% Cumulative Preferred Stock outstanding as of June 30, 1995 and all of the accrued and unpaid dividends accumulated thereon as of such date, the Company issued 386,358 shares of its new Series A 12% Cumulative Preferred Stock ("Series A 12% Preferred") to an affiliate of Air Canada. Holders of Series A 12% Preferred are entitled to receive, when and if declared by the Board of Directors, cumulative dividends payable quarterly in additional shares of such preferred stock for dividends accumulating through December 31, 1996, and thereafter in cash at an annual rate of \$12 per share. To the extent net income, as defined, for any calendar quarter is less than the amount of dividends due on all outstanding shares of Series A 12% Preferred for such quarter, the Board may declare dividends payable in additional shares of Series A 12% Preferred in lieu of cash. At any time, the Company may redeem, in whole or in part, on a pro rata basis among the stockholders, any outstanding shares of Series A 12% Preferred, and all outstanding shares are mandatorily redeemable on April 27, 2003 out of legally available funds. The redemption price is \$100 per share plus accrued unpaid dividends. The Series A 12% Preferred is not convertible into shares of common stock and has no voting rights, except under limited circumstances.

#### NOTE 5 - PASSENGER REVENUES

In the third quarter of 1994, the Company recorded a \$23 million favorable adjustment as a result of a change in the Company's estimate of awards expected to be redeemed for travel on Continental under its frequent flyer program.

#### NOTE 6 - INCOME TAXES

A provision for income taxes was recorded in the second quarter of 1995 related to the System One Information Management, Inc. ("System One") transactions. See Note 9. No provision for income taxes was recorded for the three months ended September 30, 1995 and no additional provision was recorded for the nine months ended September 30, 1995 since the Company had incurred net operating losses for which a tax benefit had not previously been recorded. However, the Company recorded a current provision in the amount of \$9 million for alternative minimum taxes for the nine months ended September 30, 1995. This provision was fully offset by a deferred tax benefit related to alternative minimum tax credit carryforwards.

The income tax benefit for the nine months ended September 30, 1994 differs from the federal statutory rate principally due to an increase in the deferred tax valuation allowance related to a portion of the Company's net operating losses that may not be realizable, state taxes and certain nondeductible expenses. A provision was not recorded for the three months ended September 30, 1994 since the Company had incurred net operating losses for which a tax benefit had not previously been recorded.

#### NOTE 7 - NONRECURRING CHARGES

During the fourth quarter of 1994, the Company recorded a nonrecurring charge of approximately \$447 million associated primarily with (i) the planned early retirement of certain aircraft and (ii) closed or underutilized facilities and other assets. Approximately \$324 million of the nonrecurring charge represented an actual cash outlay to be incurred over terms of from one to 15 years and approximately \$123 million represented a noncash charge associated with a write-down of certain assets (principally inventory and flight equipment to expected net realizable value).

Approximately \$218 million of the anticipated cash outlay was associated with the planned early retirement during 1995 of 24 widebody jet aircraft (21 Airbus A300s and three Boeing 747s), 23 narrowbody Boeing 727 jet aircraft and five Dash 7 turboprop aircraft. The majority of these aircraft had remaining lease obligations beyond the planned retirement dates for such aircraft. As a result of agreements with affected lessors, \$165 million (including payment in kind interest through September 30, 1995) of Series A and Series B Debentures were issued to certain lessors and lenders to satisfy the remaining obligations related to these retired aircraft. This amount, together with other costs incurred related to the retirement of these aircraft, reduced the accruals for aircraft retirements and excess facilities in the accompanying consolidated balance sheet by approximately \$198 million during the nine months ended September 30, 1995.

Approximately \$106 million of the anticipated cash outlay was associated with the closure of the LAX maintenance facility and underutilized airport facilities (primarily associated with the new Denver International Airport ("DIA")). As of September 30, 1995, approximately \$8 million of the anticipated cash outlay had been incurred.

#### NOTE 8 - COMMITMENTS AND CONTINGENCIES

A group of former bondholders appealed to have the United States District Court for the District of Delaware (the "District Court") declare invalid the Company's April 1993 Plan of Reorganization provisions relating to the allocation for payment of unsecured creditors and the provisions releasing certain current and former officers and directors of the Company and its former parent from the claims of creditors. If the bondholders had successfully imposed liability upon such officers and directors, the Company could have been required to indemnify such individuals. The Company opposed the appeal on the merits and sought dismissal of certain of the claims as moot due to the substantial consummation of the Plan of Reorganization. On March 16, 1995, the District Court dismissed the appeal in part on grounds of mootness and denied it in part on the merits. Plaintiffs appealed to the Third Circuit Court of Appeals (the "Third Circuit"), and on July 7, 1995, the Company settled this litigation by paying \$400,000 for the benefit of bondholders. On August 15, 1995, the Third Circuit dismissed the appeal.

On December 3, 1990, the Company owned 77 aircraft and 81 spare engines (in four collateral pools) securing debt evidenced by equipment trust certificates. The trustees for the four collateral pools moved in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for "adequate protection" payments under Sections 361 and 363 of the federal bankruptcy code for the Company's retention and use of the aircraft and engines after December 3, 1990, including postpetition claims for the alleged decline in market value of the aircraft and engines after December 3, 1990 and claims for deterioration in the condition of the aircraft and engines in the same period. The Bankruptcy Court rejected the adequate protection claims that alleged market value decline. Prior to April 16, 1993, the Company settled all of the adequate protection claims of the trustees, except for a claim of approximately \$117 million for alleged market value decline of 29 aircraft and 81 spare engines in the fourth collateral pool. On April 16, 1993, the Bankruptcy Court rejected the market value decline claims of the trustees for the fourth collateral pool in their entirety and incorporated those findings into its order confirming the Plan of Reorganization. The trustees for the fourth collateral pool appealed from these orders, but failed to obtain a stay pending appeal. The Company opposed these appeals on the merits and sought dismissal of the appeals on the grounds they were made moot by the substantial consummation of the Plan of Reorganization. The District Court dismissed the appeals as moot, and the trustees appealed to the Third Circuit seeking review of the District Court's mootness determination and the Bankruptcy Court's finding on the merits. The Third Circuit heard oral arguments from the parties in September 1995. Such appeal is still pending. The Company does not believe that the foregoing matter will have a material adverse effect on the Company.

The Company, the City and County of Denver (the "City") and certain other parties entered into an agreement (the "DIA Settlement") that was approved by the Denver City Council on April 10, 1995 and relates to gates and

operational space at DIA. The DIA Settlement provides for the release of certain claims and the settlement of certain litigation filed by the City against the Company and reduces (i) the full term of the lease to five years, subject to certain rights of renewal granted to the Company, (ii) the number of gates leased from 20 to 10, and (iii) the amount of leased operational and other space by approximately 70%. The reduced number of gates and operational space exceed the Company's current needs at the airport. The Company is finalizing the sublease of four gates and certain operational space to another carrier, and is negotiating a sublease of one additional gate and certain operational space with a different carrier. The Company will attempt to sublease additional facilities and operational space as well. To the extent the Company is able to sublease additional gates and operational space, its costs under the lease will be reduced.

Another air carrier filed a complaint with the Department of Transportation ("DOT") alleging that the DIA Settlement had increased its rates and charges at DIA and such carrier had not approved the changes to the rates and charges. DOT dismissed the air carrier's complaint. The DIA Settlement may still be challenged by certain parties, including by other air carriers, and the Company cannot predict what the outcome of any such challenge would be. If the DIA Settlement were successfully challenged, the Company believes it has defenses against the City, as well as claims against the City that would justify rescission of the lease or, if rescission were not awarded by the court, a substantial reduction in the Company's obligations thereunder. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments". A successful challenge to the DIA Settlement could reduce or eliminate the Company's estimated savings at DIA.

On February 9, 1995, Delta Air Lines, Inc. imposed dollar limits on the base commissions it would pay to travel agents on domestic airline tickets. Shortly thereafter, other airlines, including the Company, imposed similar dollar limits on their respective commissions. In February and March of 1995, the Company and six other major United States airlines were sued in a number of putative class actions, which have been consolidated as *In re Airline Travel Agents Antitrust Litigation* in the United States District Court for the District of Minnesota (the "Court"), in which various travel agents allege that the Company and the other defendants combined and conspired in unreasonable restraint of trade and commerce in violation of applicable antitrust laws. The plaintiffs also allege that the defendant airlines unlawfully fixed, lowered, maintained and stabilized the commissions paid to United States travel agents. Plaintiffs seek injunctive relief, treble damages, attorneys' fees and related costs. On August 23, 1995, the Court denied plaintiff's motion for a preliminary injunction and denied defendants' motion for summary judgment. On September 12, 1995, defendants filed a motion to certify an interlocutory appeal to the Eighth Circuit Court of Appeals regarding the standard of review for summary judgment to be applied by the Court in a conspiracy case under the antitrust laws. Such motion was denied on September 27, 1995. The Company is in the process of preparing for further discovery in this litigation. The Company does not believe that the foregoing matter will have a material adverse effect on the Company.

On May 2, 1995, GATX Third Aircraft Corporation ("GATX") filed an action in the Superior Court of California for the County of San Francisco against Continental and several unnamed "Doe" defendants with respect to one A300 aircraft (the "GATX litigation"). GATX alleged that Continental had breached the terms of an aircraft lease between GATX and Continental. GATX sought the return of the aircraft and engines, damages of \$436,000 for unpaid rent, damages of \$20 million (less the fair market value of the aircraft) in liquidation of its claims for future rent, costs and interest. The Company settled such litigation in October 1995 in a manner consistent with other lease restructurings effected by the Company. The settlement did not have a material adverse effect on the Company.

On July 7, 1995, The Nippon Credit Bank, Ltd. ("Nippon") filed a suit against Continental in the United States District Court in Los Angeles, California with respect to a Boeing 747 aircraft leased by Continental. Nippon alleged that events of default existed under the lease based on a delay by Continental in making rent payments from March through June of 1995 and Continental's decision to cease flying the aircraft. Nippon claimed approximately \$37 million in liquidated damages. Because Continental had made all rent payments due under the lease (including interest at a rate specified in the lease) and believed it was in compliance with all requirements of the lease, Continental denied the existence of any event of default under the lease. Continental agreed to purchase Nippon's loan and settle this litigation in November 1995. The settlement will not have a material adverse effect on the Company.

In conjunction with the issuance of the Series A and Series B Debentures, the Company has issued five contingent promissory notes aggregating



\$57 million to the holders of the debentures. Such notes will be automatically discharged once the debentures are either paid in full, converted to common stock or otherwise satisfied. Inasmuch as the Company believes it will pay the debentures in full, it does not anticipate that any payments will be made under the notes. Consequently, the notes have not been reflected as debt in the accompanying consolidated balance sheet.

In August 1993, the United States increased taxes on domestic fuel, including aircraft fuel, by 4.3 cents per gallon. Airlines were exempt from this tax increase until October 1, 1995, and pending legislation in Congress would continue the exemption through February 28, 1997. There can be no assurance that the continuation of this exemption will be enacted, or if enacted, the terms on which and the period for which the exemption will be effective. Continental has begun making its regular semi-monthly deposits based on the increased fuel tax. If ultimately implemented, the fuel tax would increase the annual operating expenses of Continental and Continental Express, Inc. ("Express"), the Company's wholly owned commuter subsidiary, by approximately \$36 million based on projected domestic fuel consumption levels during 1996. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments".

#### NOTE 9 - OTHER

Continental CRS Interests, Inc. ("Continental CRS"). Continental and its subsidiary, System One, entered into a series of transactions on April 27, 1995 whereby a substantial portion of System One's assets (including the travel agent subscriber base and travel-related information management products and services software), as well as certain liabilities of System One, were transferred to a newly formed limited liability company, System One Information Management, L.L.C. ("LLC"). LLC is owned equally by Continental CRS (which was formerly named System One and remains a wholly owned subsidiary of Continental), Electronic Data Systems Corporation ("EDS") and AMADEUS, a European computerized reservation system ("CRS"). Substantially all of System One's remaining assets (including the CRS software) and liabilities were transferred to AMADEUS. In addition to the one-third interest in LLC, Continental CRS received cash proceeds of \$40 million and an equity interest in AMADEUS valued at \$120 million, and outstanding indebtedness of \$42 million of System One owed to EDS was extinguished. System One's revenues, included in cargo, mail and other revenue, and related net earnings are not material to the consolidated financial statements of Continental. In connection with these transactions, the Company recorded a pretax gain of \$108 million, which amount was included in Other Nonoperating Income (Expense) in the accompanying consolidated statement of operations for the nine months ended September 30, 1995. The related tax provision totaled \$78 million (which differs from the federal statutory rate due to certain nondeductible expenses), for a net gain of \$30 million.

Pilot Contracts. The Company and its pilots (excluding Express pilots) entered into a collective bargaining agreement with the Independent Association of Continental Pilots ("IACP") that was ratified by the pilots and becomes amendable in July 1997. The new agreement provides for a \$20 million cash payment by the Company (which was accrued in the second quarter of 1995 and paid in the fourth quarter of 1995), a 2.5% longevity wage increase on July 1, 1995, a \$10 million cash payment on April 1, 1996, a 13.5% wage increase on July 1, 1996 and a 5.0% wage increase on June 30, 1997. Under the agreement the pilots agreed to forego their participation in employee profit sharing for 1995 and 1996.

Express and its pilots have entered into a collective bargaining agreement with the IACP that was ratified by Express pilots and becomes amendable on October 1, 1997. The new agreement provides for an approximately \$2 million cash payment by Express (half of which was paid upon ratification and half of which is payable on January 1, 1996), 2.5% wage increases on July 1, 1996 and June 30, 1997, profitability bonuses and participation in Continental's on-time performance bonus plan.

#### NOTE 10 - RELATED PARTY TRANSACTIONS

On July 27, 1995 and August 10, 1995, Air Partners purchased from the Company an aggregate of 154,113 and 328,660 shares of Class B common stock, respectively, at purchase prices of \$15.86 per share (with respect to a total of 355,330 shares) and \$13.40 per share (with respect to a total of 127,443 shares). Of the total, 158,320 shares were purchased pursuant to the exercise of antidilution rights granted to Air Partners under the Certificate of Incorporation and the remaining 324,453 shares were purchased pursuant to the exercise of antidilution rights granted to Air Canada under the Certificate of Incorporation (which rights were purchased by Air Partners immediately prior to their exercise on August 10, 1995).

On September 29, 1995, Continental purchased from Air Canada warrants to purchase an aggregate of 1,367,880 shares of Continental's Class A Common Stock ("Class A") and 4,849,755 shares of Class B for an aggregate purchase price of approximately \$56 million (including a waiver fee of \$5 million paid to a major creditor of the Company), of which Continental paid approximately \$14 million in cash and a \$42 million unsecured one-year note (the "Air Canada Warrant Repurchase"). The \$5 million waiver fee has been included in Other Nonoperating Income (Expense) in the accompanying consolidated statement of operations for the three and nine months ended September 30, 1995. The note bears 8.0% interest from September 29, 1995 through December 31, 1995, 10.0% interest from January 1, 1996 through March 31, 1996, 12.0% interest from April 1, 1996 through June 30, 1996 and 14.0% interest from July 1, 1996 through September 30, 1996. The 6,217,635 warrants purchased had exercise prices of \$15.00 per share (as to 3,706,667 shares) and \$30.00 per share (as to 2,510,968 shares).

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

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

	Three Months Ended September 30, 1995      1994		Net Increase/ (Decrease)
Revenue passengers (thousands) . . . .	9,695	11,629	(16.6)%
Revenue passenger miles (millions) (a) . . . . .	10,757	11,616	(7.4)%
Available seat miles (millions) (b) . .	15,312	17,259	(11.3)%
Block hours (thousands) (c) . . . . .	275	295	(6.8)%
Passenger load factor (d) . . . . .	70.3%	67.3%	3.0 pts.
Breakeven passenger load factor (e) . .	62.7%	63.0%	(0.3) pts.
Passenger revenue per available seat mile (cents) (f) . . . . .	8.61	7.38	16.7 %
Operating cost per available seat mile (cents) (g) . . . . .	8.44	7.56	11.6 %
Operating cost per block hour . . . . .	\$4,690	\$4,419	6.1 %
Average yield per revenue passenger mile (cents) (h) . . . . .	12.26	10.97	11.8 %
Average fare per revenue passenger . .	\$136.04	\$109.57	24.2 %
Average length of aircraft flight (miles) . . . . .	858	707	21.4 %
Average daily utilization of each aircraft (hours) (i) . . . . .	9:45	10:10	(4.1)%
Actual aircraft in fleet at end of period . . . . .	311	321	(3.1)%
	Nine Months Ended September 30, 1995      1994		Net Increase/ (Decrease)
Revenue passengers (thousands) . . . .	28,597	31,493	(9.2)%
Revenue passenger miles (millions) (a) . . . . .	30,577	31,154	(1.9)%
Available seat miles (millions) (b) . .	46,496	48,632	(4.4)%
Block hours (thousands) (c) . . . . .	826	851	(2.9)%
Passenger load factor (d) . . . . .	65.8%	64.1%	1.7 pts.
Breakeven passenger load factor (e) . .	61.1%	63.2%	(2.1) pts.
Passenger revenue per available seat mile (cents) (f) . . . . .	8.12	7.36	10.3 %
Operating cost per available seat mile (cents) (g) . . . . .	8.27	7.92	4.4 %
Operating cost per block hour . . . . .	\$4,653	\$4,521	2.9 %
Average yield per revenue passenger mile (cents) (h) . . . . .	12.34	11.49	7.4 %
Average fare per revenue passenger . .	\$131.98	\$113.64	16.1 %
Average length of aircraft flight (miles) . . . . .	831	728	14.1 %
Average daily utilization of each aircraft (hours) (i) . . . . .	9:35	9:56	(3.5)%
Actual aircraft in fleet at end of period . . . . .	311	321	(3.1)%

(a) The number of scheduled miles flown by revenue passengers.  
(b) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.

- (c) The number of hours an aircraft is operated in revenue service from gate-to-gate.
- (d) Revenue passenger miles divided by available seat miles.
- (e) 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.
- (f) Passenger revenues divided by available seat miles.
- (g) Operating expenses divided by available seat miles.
- (h) The average revenue received for each mile a revenue passenger is carried.
- (i) The average block hours flown per day in revenue service per aircraft.

## RESULTS OF OPERATIONS

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three and nine months ended September 30, 1995 as compared to the corresponding periods ended September 30, 1994.

Due to greater demand for air travel during the summer months, revenues in the airline industry in the third quarter of the year tend to be significantly greater than revenues in the first quarter of the year and moderately greater than revenues in the second and fourth quarters of the year for the majority of air carriers. The Company's results of operations have typically reflected this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal, including the general state of the United States and Japanese economies and fare actions taken by the Company and its competitors.

### Comparison of Three Months Ended September 30, 1995 to Three Months Ended September 30, 1994

The Company recorded consolidated net income of \$111 million for the three months ended September 30, 1995 as compared to consolidated net income of \$31 million for the three months ended September 30, 1994. In the third quarter of 1994, the Company recorded a \$23 million favorable adjustment as a result of a change in the Company's estimate of awards expected to be redeemed under its frequent flyer program.

Implementation of the Company's route realignment and capacity rationalization initiatives reduced Continental's capacity in the third quarter of 1995 by 11.3%, while traffic in this period declined only 7.4%, producing a 3.0 percentage point increase in load factor to 70.3%. This higher load factor, combined with an 11.8% increase in average yield per revenue passenger mile, contributed to a 3.8% increase in passenger revenues to \$1.4 billion despite the decreased capacity.

Cargo, mail and other revenues decreased 30.7%, \$50 million, in the three months ended September 30, 1995 as compared to the same period in the prior year, principally as a result of the System One transactions, which were effective April 27, 1995. See Note 9.

Wages, salaries and related costs decreased 9.6%, \$38 million, during the quarter ended September 30, 1995 as compared to the same period in 1994, primarily due to a reduction in the number of full-time equivalent employees from approximately 38,400 as of September 30, 1994 to approximately 32,400 as of September 30, 1995. Such decrease was partially offset by accruals for employee profit sharing and other incentive programs, including the payment of bonuses for on-time airline performance. In addition, wage rates were impacted by a longevity pay increase for substantially all employee groups, effective July 1, 1995.

Aircraft fuel expense decreased 12.8%, \$25 million, in the three months ended September 30, 1995 compared to the same period in 1994. The quantity of jet fuel used dropped 14.3% from 353.3 million gallons in the third quarter of 1994 to 302.8 million gallons in the third quarter of 1995, principally reflecting capacity reductions and increased stage lengths. Such decrease was partially offset by a 1.7% increase in the average price per gallon from 54.0 cents in 1994 to 54.9 cents in 1995.

Commissions expense increased 17.8%, \$19 million, in the quarter ended September 30, 1995 as compared to the same period in the prior year, primarily due to increased passenger revenues and higher average effective commission rates associated with the Company's targeted travel agency initiatives and the elimination of noncommissionable Continental Lite fares.

Aircraft rentals increased 14.0%, \$15 million, for the three months ended September 30, 1995 compared to the same period in 1994, primarily as a result of the delivery of new Boeing 737 and 757 aircraft during late 1994

and throughout 1995. Such increase was partially offset by retirements and groundings of certain leased aircraft.

Maintenance, materials and repairs costs increased 9.2%, \$10 million, during the quarter ended September 30, 1995 as compared to the same period in 1994, principally due to the volume and timing of engine overhauls as part of the Company's ongoing maintenance program, partially offset by the replacement of older aircraft with new aircraft.

Other rentals and landing fees decreased 15.5%, \$16 million, for the three months ended September 30, 1995 compared to the same period in 1994, principally due to reduced facility rentals and landing fees resulting from downsizing operations.

Other operating expense decreased 9.1%, \$32 million, in the three months ended September 30, 1995 as compared to the same period in the prior year, primarily as a result of the System One transactions (which were effective April 27, 1995) coupled with decreases in advertising expense, aircraft servicing expense and other miscellaneous expense.

Interest expense decreased 11.9%, \$7 million, during the three months ended September 30, 1995 as compared to the same period in 1994, primarily due to (i) the reduced accretion of deferred credits recorded in connection with the Company's adjustment of operating leases to fair market value as of April 27, 1993 and (ii) principal reductions of long-term debt and capital lease obligations. Such decrease was partially offset by accrued interest on the Series A and Series B Debentures. See Note 3.

Interest income increased 50.0%, \$3 million, in the third quarter of 1995 compared to the same period in the prior year, principally due to an increase in the average interest rate earned on investments coupled with an increase in the average balance of cash and cash equivalents.

The Company's other nonoperating income (expense) in the quarter ended September 30, 1995 included a \$5 million pretax charge (14 cents and 12 cents per primary and fully diluted share, respectively) related to the Air Canada Warrant Repurchase. See Note 10.

No provision for income taxes was recorded for the three months ended September 30, 1995 or the three months ended September 30, 1994 as a result of the utilization of net operating loss carryforwards ("NOLs") for which a tax benefit had not previously been recorded.

#### Comparison of Nine Months Ended September 30, 1995 to Nine Months Ended September 30, 1994

The Company recorded consolidated net income of \$183 million for the nine months ended September 30, 1995 as compared to a consolidated net loss of \$90 million for the nine months ended September 30, 1994. The Company's net income in the nine months ended September 30, 1995 included a \$30 million net gain on the System One transactions. See Note 9. In the third quarter of 1994, the Company recorded a \$23 million favorable adjustment as a result of a change in the Company's estimate of awards expected to be redeemed under its frequent flyer program.

Implementation of the Company's route realignment and capacity rationalization initiatives reduced Continental's capacity in the first nine months of 1995 by 4.4%, while traffic in this period declined only 1.9%, producing a 1.7 percentage point increase in load factor to 65.8%. This higher load factor, combined with a 7.4% increase in average yield per revenue passenger mile, contributed to a 5.3% increase in passenger revenues to \$4 billion despite the decreased capacity.

Cargo, mail and other revenues decreased 12.7%, \$59 million, in the first nine months of 1995 compared to the same period in the prior year, principally as a result of the System One transactions, which were effective April 27, 1995. See Note 9.

Wages, salaries and related costs decreased 5.7%, \$65 million, during the first nine months of 1995 compared to the same period in 1994, primarily due to a reduction in the number of full-time equivalent employees from approximately 38,400 as of September 30, 1994 to approximately 32,400 as of September 30, 1995. Such decrease was partially offset by accruals for a \$20 million cash payment to the pilots upon ratification of a new collective bargaining agreement (see Note 9) and employee profit sharing and other incentive programs, including the payment of bonuses for on-time airline performance. In addition, wage rates were impacted by a longevity pay increase for substantially all employee groups, effective July 1, 1995, and wage restorations resulting from an average 10.0% wage reduction implemented by the Company in July 1992, which reduction was restored in equal increments in December 1992, April 1993, April 1994 and July 1994.

Aircraft fuel expense decreased 6.6%, \$36 million, in the first nine months of 1995 compared to the same period in 1994. The quantity of jet fuel used dropped 8.8% from 1.004 billion gallons in 1994 to 915.3 million gallons in 1995, principally reflecting capacity reductions and increased stage lengths. Such decrease was partially offset by a 2.5% increase in the average price per gallon from 52.7 cents in 1994 to 54.0 cents in 1995.

Commissions expense increased 11.2%, \$38 million, in the first nine months of 1995 as compared to the first nine months of 1994, primarily due to increased passenger revenues and higher average effective commission rates associated with the Company's targeted travel agency initiatives and the elimination of noncommissionable Continental Lite fares.

Aircraft rentals increased 17.1%, \$54 million, for the first nine months of 1995 compared to the same period in 1994, primarily as a result of the delivery of new Boeing 737 and 757 aircraft during late 1994 and throughout 1995. Such increase was partially offset by retirements and groundings of certain leased aircraft.

Maintenance, materials and repairs costs decreased 15.2%, \$57 million, during the first nine months of 1995 compared to the same period in 1994, principally due to the replacement of older aircraft with new aircraft and the volume and timing of overhauls as part of the Company's ongoing maintenance program, partially offset by the shift of scheduled maintenance work to outside suppliers.

Other rentals and landing fees decreased 7.5%, \$22 million, for the nine months ended September 30, 1995 compared to the same period in 1994, principally due to reduced facility rentals and landing fees resulting from downsizing operations.

Interest expense decreased 11.5%, \$21 million, during the first nine months of 1995 compared to the same period in 1994, primarily due to (i) the reduced accretion of deferred credits recorded in connection with the Company's adjustment of operating leases to fair market value as of April 27, 1993 and (ii) principal reductions of long-term debt and capital lease obligations. Such decrease was partially offset by accrued interest on the Series A and Series B Debentures. See Note 3.

Interest capitalized decreased 50.0%, \$5 million, in the first nine months of 1995 compared to the same period in 1994, primarily due to a decrease in the average balance of purchase deposits for flight equipment.

Interest income increased 29.4%, \$5 million, in the first nine months of 1995 compared to the same period in 1994, principally due to an increase in the average interest rate earned on investments, partially offset by a decrease in the average balance of cash and cash equivalents.

The Company's other nonoperating income (expense) in the first nine months of 1995 included a pretax gain of \$108 million from the System One transactions and a \$5 million pretax charge (14 cents and 12 cents per primary and fully diluted share, respectively) related to the Air Canada Warrant Repurchase.

The tax provision related to the System One transactions totaled \$78 million (which differs from the federal statutory rate due to certain nondeductible expenses), for a net gain of \$30 million. See Note 4 and Note 9. Other nonoperating income (expense) in the first nine months of 1994 included foreign exchange and other losses of \$9 million (related to the Japanese yen) and charges totaling approximately \$2 million relating to the closing of certain airport stations.

#### LIQUIDITY AND CAPITAL COMMITMENTS

As part of the Company's Go Forward Plan, in January 1995 the Company commenced a series of initiatives designed to improve liquidity in 1995 and 1996. The major liquidity elements of this plan included (i) rescheduling principal amortization under the Company's loan agreements with its primary secured lenders (representing approximately \$599 million of the Company's outstanding long-term debt at December 31, 1994), (ii) restructuring the Company's commitments to purchase new Boeing aircraft and related engines, (iii) deferring or reducing cash requirements associated with certain existing aircraft, (iv) reducing the Company's lease commitments at DIA and (v) evaluating the potential disposition of non-core assets. As discussed below, by implementing the liquidity elements of the Go Forward Plan, the Company expects to improve its liquidity by approximately \$250 million in 1995 and approximately \$275 million in 1996.

On March 31, 1995, the Company signed agreements with The Boeing Company ("Boeing") and certain engine manufacturers to defer substantially all

aircraft deliveries that had been scheduled for 1996 and 1997. Five Boeing 767 aircraft that had been scheduled for delivery to Continental in 1995 were sold to a third party. They will be replaced by five Boeing 767 aircraft of which Continental will take delivery starting in 1998. Options to purchase additional aircraft were canceled. Furthermore, on March 30, 1995 Continental amended its principal secured loan agreements with GE Capital and General Electric Company ("GE") (collectively, the "Lenders") to defer 1995 and 1996 principal payments and amended certain of its operating lease agreements with the Lenders to defer 1995 rental obligations. In connection with the Lender's loan and lease agreement amendments, Continental agreed, among other things, to obtain concessions from certain aircraft lessors, all of which have subsequently been obtained.

The Company has retired from service 24 less-efficient widebody aircraft during 1995. In February 1995, the Company began paying market rentals, which are significantly less than contractual rentals on these aircraft, and began ceasing all rental payments as the aircraft were removed from service. In addition, in the first quarter of 1995, Continental reduced its rental payments on an additional 11 widebody aircraft leased at significantly above-market rates. These actions caused a significant number of defaults and cross defaults in various long-term debt, capital lease and operating lease agreements. The Company began negotiations in February 1995 with the lessors of (or lenders with respect to) these 35 widebody aircraft to amend the payment schedules and provide, effective February 1, 1995, alternative compensation, including, in certain cases, convertible secured debentures in lieu of current cash payments. The Company has reached resolutions covering all 35 widebody aircraft, thereby curing defaults under the related agreements and the resulting cross defaults. The last such resolution was achieved during the fourth quarter of 1995. In connection with these resolutions, Continental issued convertible secured debentures in an aggregate principal amount of \$165 million, including payment-in-kind interest of \$7 million as of September 30, 1995, entered into certain agreements including restructured leases and made certain payments to lessors and lenders.

The Company had been in default under its lease of facilities at DIA. On April 10, 1995, the Denver City Council approved an agreement among the City and County of Denver (the "City"), the Company and certain signatory airlines amending the Company's lease by reducing the Company's lease term to five years, reducing to ten the number of gates (and reducing associated space) leased by the Company and making certain changes in the rates and charges under the lease. The agreement cured the default, and also provided for the release of certain claims and the settlement of certain litigation filed by the City against the Company. See Note 8.

The Company had also been in default under the debt agreement relating to the financing of the Company's LAX maintenance facility. On September 29, 1995, the Company consummated a restructuring of such indebtedness, which involved the issuance of approximately \$65 million in principal amount (including payment-in-kind interest of \$2 million) of unsecured indebtedness payable in installments between 1997 and 2000, in exchange for all of the indebtedness and accrued but unpaid interest thereon formerly secured by the Company's LAX maintenance facility and related equipment. This restructuring cured the defaults under the indebtedness and related cross defaults.

As a result of the Federal Aviation Administration Airworthiness Directive, which forced the partial grounding of the Company's ATR commuter fleet in late 1994 and early 1995, the Company withheld January and February lease payments totaling \$7 million on those ATR aircraft leased by the manufacturer. The Company has settled its claims with ATR and is in the process of implementing the terms of the settlement.

As part of its plan to dispose of non-core assets, Continental entered into a series of transactions with respect to System One on April 27, 1995. See Note 9.

On September 29, 1995, Continental purchased from Air Canada warrants to purchase approximately 6.2 million shares of Continental's common stock. See Note 10. Also, on September 29, 1995, Continental issued a secured promissory note with a principal amount of approximately \$21 million to an affiliate of GE Capital in exchange for its 202,784 shares of Series A 8% Preferred, together with accumulated dividends thereon. See Note 4.

The Company had, as of December 31, 1994, deferred tax assets aggregating approximately \$1.6 billion, including approximately \$1.1 billion of NOLs. The Company recorded a valuation allowance of \$844 million against such assets as of December 31, 1994. Realization of a substantial portion of the Company's remaining NOLs will require the completion by April 27, 1998 of transactions resulting in recognition of built-in gains for federal

income tax purposes. Although the Company has consummated one such transaction (see Note 9) and currently intends to consummate one or more additional transactions, in the event the Company were to determine in the future that not all such transactions will be completed, an adjustment to the deferred tax liability of up to approximately \$116 million would be charged to income in the period such determination was made.

As a result of NOLs, the Company does not currently expect to pay United States federal income taxes (other than alternative minimum tax) prior to 1998. Additionally, for financial reporting purposes in 1995, the Company has utilized NOLs for which a tax benefit had not previously been recorded to offset tax expense. As of December 31, 1994 the Company had approximately \$385 million of such unbenefitted NOLs. To the extent the Company's aggregate taxable income after December 31, 1994 for financial statement purposes exceeds such amount, it will record a tax expense for financial statement purposes. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize NOLs if it experiences a more than 50% ownership change over a three-year period. No assurance can be given that future transactions, whether within or outside the control of the Company, would not cause a change in ownership, thereby substantially restricting the use of NOLs in future periods for both federal income tax and financial reporting purposes.

Continental has firm commitments to take delivery of an additional four new 737 and two new 757 aircraft through early 1996 and 43 new jet aircraft during the years 1998 through 2002. Although there may be delays of scheduled aircraft deliveries in 1995 and 1996 as a result of a strike by Boeing machinists, the Company does not believe that any such delays will have a material adverse effect on the Company. The estimated aggregate cost of these aircraft is approximately \$2.8 billion. In December 1994, Express contracted with Beech for the purchase and financing of 25 Beech 1900-D aircraft at an estimated aggregate cost of \$104 million, excluding price escalations. Deliveries of the Beech aircraft are scheduled in 1995 and 1996. As of November 3, 1995, six Beech 1900-D aircraft had been delivered. In connection with the rescheduling of jet aircraft deliveries, \$72 million of purchase deposits was refunded to the Company in the first nine months of 1995. The Company currently anticipates that the firm financing commitments available to it with respect to its acquisition of new Boeing and Beech aircraft will be sufficient to fund all deliveries scheduled during the years 1995 and 1996. Furthermore, the Company currently anticipates that it will have remaining financing commitments from aircraft manufacturers of approximately \$575 million for jet aircraft deliveries beyond 1996.

Continental expects its cash outlays for 1995 and 1996 capital expenditures, exclusive of aircraft acquisitions, to aggregate approximately \$85 million and \$120 million, respectively, in each case 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. As of September 30, 1995, approximately \$49 million of 1995 total expected capital expenditures, exclusive of aircraft acquisitions, had been incurred.

As of September 30, 1995, the Company had \$603 million in cash and cash equivalents, compared to \$396 million as of December 31, 1994. Net cash provided by operating activities increased \$214 million during the nine months ended September 30, 1995 compared to the same period in the prior year principally due to earnings improvement. In addition, net cash provided by investing activities increased \$226 million primarily as a result of cash proceeds received from the System One transactions in 1995 and an increase in purchase deposits refunded in 1995 due to canceled aircraft options, delivery deferrals or delivery of aircraft, as well as higher capital expenditures during 1994 relating to purchase deposits on jet and turboprop aircraft and expenditures relating to the Company's discontinued Continental Lite operations. Net cash used by financing activities for the nine months ended September 30, 1995 compared to the same period in the prior year increased \$13 million primarily due to the purchase of Air Canada's outstanding stock warrants in 1995.

Continental does not have general lines of credit, and substantially all of its assets, including the stock of its subsidiaries, are encumbered.

Approximately \$127 million and \$119 million of cash and cash equivalents at September 30, 1995 and December 31, 1994, respectively, were held in restricted arrangements relating primarily to workers' compensation claims and in accordance with the terms of certain other agreements. Continental and Continental Micronesia, Inc. ("CMI"), a 91% owned subsidiary, have secured borrowings from the Lenders which as of September 30, 1995 aggregated \$659 million. CMI's secured loans contain significant financial covenants, including requirements to maintain a minimum cash balance and

consolidated net worth, restrictions on unsecured borrowings and mandatory prepayments on the sale of most assets. These financial covenants limit the ability of CMI to pay dividends to Continental. As of September 30, 1995, CMI had a minimum cash balance requirement of \$28 million. In addition, certain of Continental's secured loans require the Company to, among other things, maintain a minimum monthly operating cash flow and cumulative operating cash flow, a minimum monthly cash balance and a minimum ratio of operating cash flow to fixed charges. Continental also is prohibited generally from paying cash dividends in respect of its capital stock, from purchasing or prepaying indebtedness and from incurring additional secured indebtedness.

The Company has entered into petroleum option contracts to protect against a sharp increase in jet fuel prices and CMI has entered into an average rate option contract to hedge a portion of its yen-denominated ticket sales against a significant depreciation in the value of the yen versus the U.S. dollar. The petroleum option contracts generally cover the Company's forecasted jet fuel needs for the next three to six months and the average rate option contract covers a portion of CMI's yen-denominated ticket sales through December 31, 1995. At September 30, 1995, the Company had petroleum option contracts outstanding with an aggregate contract value of approximately \$160 million and CMI had an average rate option contract outstanding with a contract value of approximately \$185 million. At September 30, 1995, the fair value of the option contracts was immaterial as the strike price under these contracts exceeded the spot rate. The Company and CMI are exposed to credit loss in the event of nonperformance by the counterparties on the option contracts; however, management does not anticipate nonperformance by these counterparties. The amount of such exposure is generally the unrealized gains, if any, on such option contracts.

The Company intends to conduct financing efforts, the proceeds of which are intended to be used for the redemption or repurchase of the Series A Debentures and the Series B Debentures, the prepayment of a note issued to Air Canada in connection with the Air Canada Warrant Repurchase and the payment of certain other obligations. There can be no assurance that the Company will consummate any such financing.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

See Note 8 of Notes to Consolidated Financial Statements.

### ITEM 2. CHANGES IN SECURITIES.

The Company retired all of the shares of its Series A 8% Cumulative Preferred Stock on September 29, 1995.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

See Note 1 of Notes to Consolidated Financial Statements.

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

None.

### ITEM 5. OTHER INFORMATION.

None.

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

#### (a) Exhibits:

- 3.1 By-Laws of Continental, as amended to date.
- 4.1 Certificate of Elimination with respect to the Certificate of Designations of Series A 8% Cumulative Preferred Stock.
- 10.1 First Amendment to Continental Airlines, Inc. 1994 Incentive Equity Plan.
- 11.1 Statement Regarding Computation of Per Share Earnings.
- 27.1 Financial Data Schedule.

#### (b) Reports on Form 8-K:



None.

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: November 9, 1995

by: /s/ Lawrence W. Kellner

Lawrence W. Kellner  
Senior Vice President and  
Chief Financial Officer  
(On behalf of Registrant)

Date: November 9, 1995

/s/ Michael P. Bonds

Michael P. Bonds  
Staff Vice President and Controller  
(Principal Accounting Officer)

BY-LAWS  
OF  
CONTINENTAL AIRLINES, INC.

Including all amendments through November 2, 1995

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BY-LAWS

OF

CONTINENTAL AIRLINES, INC.

Incorporated under the Laws of the State of Delaware

ARTICLE I

Stockholders

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

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

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

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

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

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

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

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

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

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

Section 1.7 Presiding Officer and Secretary. At every meeting of stockholders the Chairman of the Board, or any Vice Chairman of the Board, or the Chief Executive Officer, as designated by the Board of Directors, or, if none be present, or in the absence of any such designation, the appointee of the meeting, shall preside. The Secretary, or in his or her absence an Assistant Secretary, or if none be present, the appointee of the presiding officer of the meeting, shall act as secretary of the meeting.

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

Section 1.9 List of Stockholders. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

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

stockholders.

Section 1.10 Notice of Stockholder Business and Nominations.

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

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

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

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

(C) General. (1) Only persons who are nominated in accordance with

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

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

(3) Notwithstanding the foregoing provisions of this Section 1.10, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.10. Nothing in this Section 1.10 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 1.11 Inspectors of Elections; Opening and Closing the Polls. The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act, at the meeting of stockholders, the Chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by the General Corporation Law of the State of Delaware (the "GCL").

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

## ARTICLE II Directors

Section 2.1 Powers and Duties of Directors. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not directed or required to be exercised or done by the stockholders by the Restated Certificate of Incorporation, by these By-Laws, or by law. Except as otherwise permitted by or consistent with Foreign Ownership Restrictions (as defined in the Restated Certificate of Incorporation), at no time shall more than one-third of the Directors in office be Aliens (as defined in the Restated Certificate of Incorporation). The Board of Directors shall have the principal role in the formulation of short and long-term strategic, financial, and organizational goals of the Corporation and shall oversee and supervise the performance of corporate management in carrying out the directives of the Board of Directors. The Board shall adopt the Annual Capital Expenditure Budget and the Annual Financial Plan, both as defined in Section 3.3, for each fiscal year not later than the last day of the preceding fiscal year or at such later time as shall be determined by the Board by resolution adopted by the affirmative vote of that number of Directors as is required pursuant to Article Fifth, Section 2(b) of the Restated Certificate of Incorporation to approve an amendment of Articles II and III of these By-Laws.

Section 2.2 Election; Term; Vacancies. The Directors shall hold office until the next annual election and until their successors are elected and qualified. No Independent Director (as defined in the Restated Certificate of Incorporation) shall be nominated by the Board of Directors or by the Corporation to serve on the Board of Directors unless such Independent Director shall be satisfactory to Air Partners. The Directors shall be elected annually by the stockholders in the manner specified by the Restated Certificate of Incorporation and these By-Laws, except that if there be a vacancy in the Board of Directors by reason of death, resignation or otherwise, such vacancy may also be filled for the unexpired term by a majority affirmative vote of the Board of Directors; provided, that in the case of any AC Director or AP Director (as defined in Section 3.3) the vacancy shall be filled for the unexpired term by the remaining AC Directors or AP Directors, as the case may be, by a majority affirmative vote of such Directors; provided further, that in the event of a vacancy by reason of death, resignation or otherwise of a Director elected by the

holders of Class C Common Stock or Class D Common Stock, such vacancy shall be filled for the unexpired term by the holders of Class C Common Stock or Class D Common Stock, as the case may be, voting separately as a class by a majority affirmative vote thereof.

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

Section 2.4 Removal. Any Director may be removed at any time, with or without cause, by vote at a meeting or written consent of the holders of stock entitled to vote on the election of such Director pursuant to the Restated Certificate of Incorporation; provided, that until the Third Annual Meeting, Creditors Designees (as those terms are defined in the Restated Certificate of Incorporation) may only be removed for cause.

Section 2.5 Meetings.

(A) Annual Meeting. Immediately after each annual meeting of stockholders, the duly elected Directors shall hold an inaugural meeting for the purpose of organization, election of officers, development of an annual calendar (the "Board Calendar"), and the transaction of other business, at such place as shall be fixed by the person presiding at the meeting of stockholders at which such Directors are elected. The Board Calendar shall specify, to the extent practicable, at which meeting the Board of Directors will carry out various duties and reviews, and shall include all topics the Board of Directors deems relevant to the management of the Corporation, including, without limitation, strategic planning, capital allocation, long-range goals, performance appraisal, and personnel planning. The Board Calendar will be distributed to all Directors promptly after its approval by the Board of Directors. The place and time of the inaugural meeting of the Board may also be fixed by written consent of the Directors.

(B) Regular Meetings. Regular meetings of the Board of Directors shall be held on such dates and at such times and places as shall be designated from time to time by the Board of Directors; provided, that the Board shall hold at least four (4) regular meetings in each year; provided further, that regular meetings of the Board of Directors can be waived at the request of the Chief Executive Officer if at least a majority of the Directors agree in writing to such waiver at least seven days before the date of the meeting to be so waived except that in any event the Board shall hold at least four (4) regular meetings in each year prior to the Third Annual Meeting (as defined in the Restated Certificate of Incorporation). The Secretary shall forward to each Director, at least five days before any such regular meeting, a notice of the time and place of the meeting, together with the reports and recommendations of any committee of the Board of Directors required to deliver periodic reports and the agenda for the meeting prepared by the Chief Executive Officer or in lieu thereof a notice of waiver if the regular meeting has been waived.

(C) Special Meetings. Special meetings of the Directors may be called by the Chairman of the Board, any Vice Chairman, the Chief Executive Officer or a majority of the Directors, at such time and place as shall be specified in the notice or waiver thereof. Notice of each special meeting, including the time and place of the meeting and the agenda therefor, shall be given by the Secretary or by the person calling the meeting to each Director by causing the same to be delivered personally or by facsimile transmission not later than the close of business on the second day next preceding the day of the meeting.

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

Section 2.6 Quorum and Voting. Two-thirds of the total number of Directors (excluding those who must recuse themselves under the terms of the Restated Certificate of Incorporation or these By-Laws, or by law)("Recused Directors") shall constitute a quorum for the transaction of business, but, if there be less than a quorum at any meeting of the Board of Directors, a majority of the Directors present may adjourn the meeting from time to time, and no further notice thereof need be given other than announcement at the meeting which shall be so adjourned. Except as otherwise provided by law, by the Restated Certificate of Incorporation, or by these By-Laws, the affirmative vote of a majority of the Directors present at a meeting (excluding Recused Directors) at which a quorum is present shall be the act of the Board of Directors.

Section 2.7 Written Consent of Directors in Lieu of a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all

members of the Board or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

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

### ARTICLE III

#### Committees of the Board of Directors

Section 3.1 Creation. The Board of Directors, by resolution or resolutions passed by a majority of the Board of Directors (except as otherwise provided in the Restated Certificate of Incorporation), may designate one or more committees, each to consist of such number of Directors of the Corporation as shall be specified in such resolution; provided, that for so long as there shall be any AC Directors (as defined in Section 3.3) or AP Directors (as defined in Section 3.3) any such committee shall include (if so requested by any AP Director or AC Director, as the case may be), to the extent consistent with applicable laws and regulations, such number of AC Directors or AP Directors as shall not be greater than the number of Directors equal to the same percentage of the Directors comprising such committee as the percentage of the total number of AP Directors or AC Directors, as the case may be, on the Entire Board (as defined in the Restated Certificate of Incorporation); provided further, that for so long as there shall be any AC Directors or AP Directors, any executive or other similar committee of the Board with full power to take all actions which may lawfully be taken by the Board, and any nominating committee of the Board, shall consist, to the extent consistent with applicable laws and regulations, only of a Director that is an officer of the Corporation (or his or her designee), an AP Director and an AC Director. Each such committee shall have and may exercise such powers and duties as shall be delegated to it by the Board, except that no such committee shall have the power to (a) elect Directors, (b) alter, amend or repeal these By-Laws or any resolution or resolutions of the Board relating to such committee, (c) appoint any member of such committee, (d) declare any dividend or make any other distribution to the stockholders of the Corporation, or (e) take any other actions which may lawfully be taken only by the full Board of Directors. In the event that the Board creates an audit or similar committee prior to the Third Annual Meeting, at least one Creditors Designee (as defined in the Restated Certificate of Incorporation) shall serve on such committee until the Third Annual Meeting.

Section 3.2 Committee Procedure. Each committee of the Board of Directors shall meet at the times stated by the Board in the resolution or resolutions establishing such committee or on notice to all members given by any member of such committee. The Board by resolution or resolutions shall establish the rules of procedure to be followed by each committee, which shall include a requirement that such committee keep regular minutes of its proceedings and deliver to the Secretary the same and other reports and recommendations to be delivered to the Board of Directors in sufficient time to be distributed to the Board of Directors in connection with the regular meeting of the Board of Directors to which the committee is scheduled to report, as indicated on the Board Calendar. The affirmative vote of a majority of the members of any such committee shall constitute the act of such committee.

#### Section 3.3 Certain Definitions.

(A) Annual Capital Expenditure Budget. When used in these By-Laws, the term "Annual Capital Expenditure Budget" shall mean a detailed annual capital expenditure budget, which shall be approved by the Board of Directors not later than the last day of the preceding fiscal year (or at such later time determined by the Board pursuant to Section 2.1) and shall be recommended to the Board by the appropriate committee thereof not later than thirty (30) days prior to the end of such preceding fiscal year.

(B) Annual Financial Plan. When used in these By-Laws, the term "Annual Financial Plan" shall mean a detailed annual financial plan, which shall be approved by the Board of Directors not later than the last day of the preceding fiscal year (or at such later time determined by the Board pursuant to Section 2.1) and shall be recommended to the Board by the appropriate committee thereof not later than thirty (30) days prior to the end of such preceding fiscal year.

(C) AC Director. When used in these By-Laws, the term "AC Director" shall mean a Director designated or elected by Air Canada (as defined in the Restated Certificate of Incorporation) under the Shareholders Agreement (as defined in the Restated Certificate of Incorporation), elected by the holders of Class C Common Stock or elected by Directors to fill a vacancy created by the departure of any of the foregoing Directors.

(D) AP Director. When used in these By-Laws, the term "AP Director" shall mean a Director designated or elected by Air Partners (as defined in the Restated Certificate of Incorporation) under the Shareholders Agreement (as defined in the Restated Certificate of Incorporation), elected by the holders of Class D Common Stock or elected by Directors to fill a vacancy



created by the departure of any of the foregoing Directors.

#### ARTICLE IV

##### Officers, Agents and Employees

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

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

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

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

Section 4.5 Vice Chairman. Each Vice Chairman of the Board, in the absence of the Chairman of the Board, shall have all powers herein conferred upon the Chairman of the Board. In addition, each Vice Chairman shall have such other powers and duties as may be delegated to him or her by the Board of Directors.

Section 4.6 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and, in the absence of the Chairman of the Board and the Vice Chairman of the Board (or if there be none), he or she shall preside at all meetings of the Board of Directors. The Chief Executive Officer shall prepare an agenda for each annual and regular meeting of the Board of Directors, which agenda shall include those topics scheduled to be addressed pursuant to the Board Calendar. He or she shall have general charge of the business affairs of the Corporation. He or she may employ and discharge employees and agents of the Corporation, except such as shall be appointed by the Board of Directors, and he or she may delegate these powers. The Chief Executive Officer may vote the stock or other securities of any other domestic or foreign corporation of any type or kind which may at any time be owned by the Corporation, may execute any stockholders' or other consents in respect thereof and may in his or her discretion delegate such powers by executing proxies, or otherwise, on behalf of the Corporation. The Board of Directors by resolution from time to time may confer like powers upon any other person.

Section 4.7 President. The President shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 4.8 Chief Operating Officer. The Chief Operating Officer of the Company shall have general charge of the operating affairs of the Corporation, and shall have such other powers and duties as the Chief Executive Officer or the Board of Directors shall delegate to him or her from time to time.

Section 4.9 Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 4.10 Treasurer. The Treasurer shall have charge of all funds and securities of the Corporation, may endorse the same for deposit or collection when necessary and deposit the same to the credit of the Corporation in such banks or depositories as the Board of Directors may authorize. He or she may endorse all commercial documents requiring

endorsements for or on behalf of the Corporation and may sign all receipts and vouchers for payments made to the Corporation. He or she shall have all such further powers and duties as generally are incident to the position of Treasurer or as may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

Section 4.11 Secretary. The Secretary shall distribute all materials to be distributed in connection with regular and special meetings of the Board of Directors, record all the proceedings of the meetings of the stockholders and Directors in a book to be kept for that purpose and shall also record therein all action taken by written consent of the Directors, and committees of the Board of Directors in lieu of a meeting. He or she shall attend to the giving and serving of all notices of the Corporation. He or she shall have custody of the seal of the Corporation and shall attest the same by his or her signature whenever required. He or she shall have charge of the stock ledger and such other books and papers as the Board of Directors may direct, but he or she may delegate responsibility for maintaining the stock ledger to any transfer agent appointed by the Board of Directors. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may be assigned to him or her by the Board of Directors or the Chief Executive Officer.

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

Section 4.13 Assistant Secretaries. In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Secretary shall also perform such other duties as the Secretary or the Board of Directors may assign to him or her.

Section 4.14 Delegation of Duties. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any Director.

Section 4.15 Loans to Officers and Employees; Guaranty of Obligations of Officers and Employees. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or any subsidiary, including any officer or employee who is a Director of the Corporation or any subsidiary, whenever, in the judgment of the Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation.

#### ARTICLE V Indemnification

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

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

in effect. The right to indemnification conferred on such persons by this Article V shall be a contract right.

Unless otherwise determined by the Board of Directors, the Corporation shall indemnify to the full extent permitted by the laws of the State of Delaware as from time to time in effect any person who was or is a party or is threatened to be made a party to, or otherwise requires representation by counsel in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (whether or not an action by or in the right of the Corporation), by reason of the fact that he or she is or was an employee (other than an officer) or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity.

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

#### ARTICLE VI Common Stock

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

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

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

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

If no record date is fixed by the Board of Directors, (a) the record date for determining stockholders entitled to notice of or to vote at a

meeting of stockholders shall be at the close of business on the day next preceding the date on which notice is given, or, if notice is waived by all stockholders entitled to vote at the meeting, at the close of business on the day next preceding the day on which the meeting is held and (b) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

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

#### ARTICLE VII

##### Ownership by Aliens

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

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

Section 7.3 Recording of Shares. If at any time there exist shares of Voting Stock that are Alien Stock but that are not registered in the Foreign Stock Record, the Beneficial Owner thereof may request, in writing, the Corporation to register ownership of such shares on the Foreign Stock Record and the Corporation shall comply with such request, subject to the limitation set forth in Section 7.2. The order in which Alien Stock shall be registered on the Foreign Stock Record shall be chronological, based on the date the Corporation received a written request to so register such shares of Alien Stock; provided, that for so long as Air Canada is an Alien, shares of Voting Stock held by Air Canada which were acquired pursuant to the Investment Agreement, dated as of November 9, 1992, as amended, among the Corporation, Air Canada and Air Partners (the "Investment Agreement"), or pursuant to Air Canada's rights under the Shareholders Agreement, or upon conversion or exchange of such securities, or as a dividend or distribution in respect of such securities (collectively, "AC Original Equity Securities") shall be registered on the Foreign Ownership Record prior to, and to the exclusion of, any other shares of Alien Stock whether or not any such other shares of Alien Stock are registered on the Foreign Stock Record at the time that Air Canada requests that shares of AC Original Equity Securities be so registered; provided further, that for so long as any transferee of Air Partners is an Alien, shares of Voting Stock held by such transferee which were originally acquired by Air Partners pursuant to the Investment Agreement or upon conversion or exchange of such securities, or as a dividend or distribution in respect of such securities (collectively "AP Original Equity Securities") shall be registered on the Foreign Ownership Record prior to, and to the exclusion of, any other shares of Alien Stock (other than shares of AC Original Equity Securities) whether or not any such other shares of Alien Stock are registered on the Foreign Stock Record at the time that any such transferee of Air Partners requests that shares of AP Original Equity Securities be so registered. If at any time the Corporation shall find that the combined voting power of Voting Stock then registered in the Foreign Stock Record exceeds the Maximum Percentage, there shall be removed from the Foreign Stock Record the registration of such number of shares so registered as is sufficient to reduce the combined voting power of the shares so registered to an amount not in excess of the Maximum Percentage. The order in which such shares shall be removed shall be reverse chronological order based upon the date the Corporation received a written request to so register such shares of Alien Stock; provided, that for so long as Air Canada is an Alien, shares of AC Original Equity Securities shall not be removed from the Foreign Ownership Record (regardless of the date on which such shares were registered thereon) until all other outstanding shares of Alien Stock have been so removed; provided further, that for so long as any transferee of Air Partners is an Alien, shares of AP Original Equity Securities owned by such transferee shall not be removed

from the Foreign Ownership Record (regardless of the date on which such shares were registered thereon) until all other outstanding shares of Alien Stock (other than shares of AC Original Equity Securities) have been so removed.

#### ARTICLE VIII

##### General Provisions

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

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

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

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

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

#### ARTICLE IX

##### Restated Certificate of Incorporation to Govern

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

CERTIFICATE OF ELIMINATION  
OF  
SERIES A 8% CUMULATIVE PREFERRED STOCK OF  
CONTINENTAL AIRLINES, INC.

Pursuant to Section 151(g) of the General Corporation Law  
of the State of Delaware

Continental Airlines, Inc., a Delaware corporation (the "Company"), certifies that pursuant to the authority contained in its Restated Certificate of Incorporation, and in accordance with the provisions of Section 151(g) of the General Corporation Law of the State of Delaware, its Board of Directors has adopted the following resolutions to the effect that all outstanding shares of the Company's Series A 8% Cumulative Preferred Stock, \$.01 par value each (the "Series A 8% Cumulative Preferred Stock"), be acquired by the Company, and that upon such acquisition, no shares of the Series A 8% Cumulative Preferred Stock shall be issued or reissued by the Company:

RESOLVED, that all shares of Series A 8% Cumulative Preferred Stock acquired by the Company pursuant to such exchange be retired.

RESOLVED, that upon the retirement of all outstanding shares of the Series A 8% Cumulative Preferred Stock, the Company shall not issue any additional shares of Series A 8% Cumulative Preferred Stock, and that the Company file with the Secretary of State of the State of Delaware a certificate to the foregoing effect, which certificate, pursuant to Section 151(g) of the Delaware General Corporation Law, shall have the effect of eliminating from the Company's Restated Certificate of Incorporation the certificate of designation with respect to the Series A 8% Cumulative Preferred Stock and shall return the retired shares of Series A 8% Cumulative Preferred Stock to the status of authorized but unissued shares of Preferred Stock of the Company.

The Company further certifies that all outstanding shares of the Series A 8% Cumulative Preferred Stock have been repurchased by the Company, that no shares of the Series A 8% Cumulative Preferred Stock are outstanding as of the date hereof, and that no shares of the Series A 8% Cumulative Preferred Stock will be issued or reissued from and after the date hereof.

IN WITNESS WHEREOF, the undersigned officer of the Company subscribes to this Certificate of Elimination of Series A 8% Cumulative Preferred Stock and affirms that the statements made herein are true under penalties of perjury as of the 2nd day of October, 1995.

CONTINENTAL AIRLINES, INC.

By: /s/ Jeffery A. Smisek  
Name: Jeffery A. Smisek  
Title: Secretary

FIRST AMENDMENT TO  
CONTINENTAL AIRLINES, INC.  
1994 INCENTIVE EQUITY PLAN

The Board of Directors (the "Board") of Continental Airlines, Inc. (the "Company") adopted the Continental Airlines, Inc. 1994 Incentive Equity Plan (the "Plan") on March 4, 1994, subject to approval by the stockholders of the Company, which was obtained at the annual meeting held June 30, 1994. Subject to applicable provisions of Paragraph 15 of the Plan, the Board retained the right to amend the Plan. The Board has determined by resolutions adopted on April 27, 1995 that the Plan be amended as follows. Capitalized terms not otherwise defined in this First Amendment to the Plan have the meanings ascribed thereto in the Plan.

The Plan is hereby amended as follows:

1. The first sentence of Paragraph 3 is hereby amended so as to read in its entirety as follows:

"Subject to adjustment as provided in Paragraph 10 and in accordance with and subject to Rule 16b-3 under the Exchange Act and applicable judicial and administrative interpretations thereof, the shares of Common Stock covered by all Awards granted under this Plan will not exceed in the aggregate 3,000,000 shares, of which number (a) no more than 300,000 shares will be granted or sold as Restricted Stock, (b) Stock Options with respect to no more than 400,000 shares will be granted to any Participant during any calendar year, and (c) no more than 200,000 shares will be delivered in payment of Annual Incentive Awards (for all Participants in the aggregate) in respect of any given year."

2. The first sentence of Paragraph 4(k) is hereby amended so as to read in its entirety as follows:

"In the discretion of the Administrator, a percentage (determined by the Administrator and set forth in the written agreement or notification evidencing each grant of a Stock Option) of the aggregate shares of Common Stock obtained from exercises of a Stock Option (which percentage may be satisfied out of particular exercises as determined by the Administrator and set forth in the written agreement or notification evidencing each grant of a Stock Option) shall not be transferable prior to the earliest to occur of: the termination of the relevant Stock Option term (or such shorter period as may be determined by the Administrator and set forth in the written agreement or notification evidencing the grant of the Stock Option); the Participant's retirement, death or Disability; or termination of the Participant's employment with the Company and its subsidiaries."

3. The term "Committee" is hereby replaced by the term "Administrator" throughout the Plan, except as follows:

(i) Paragraph 2(f) is hereby amended so as to read in its entirety as follows:

"Committee" means the Human Resources Committee of the Board, which at all times will consist of not less than two directors (all of whom are Outside Directors) appointed by the Board, each of whom will be a "disinterested person" within the meaning of Rule 16b-3 and an "outside director" within the meaning of Section 162(m) of the Code. The action of a majority of the members of the Committee (but not less than two members) will be the act of the Committee. "Administrator" means (i) in the context of Awards made to, or the administration (or interpretation of any provision) of the Plan as it relates to, any Participant who is subject to Section 16 of the Exchange Act (or any successor section to the same or similar effect) ("Section 16"), the Committee, (ii) in the context of Awards made to, or the administration (or interpretation of any provision) of the Plan as it relates to, any Participant who is not subject to Section 16, the Chief Executive Officer of the Company and (iii) to the extent administration of the Plan has been assumed by the Board pursuant to a resolution of the Board, the Board.";

(ii) Paragraph 2(y): the clause "or the Committee" is hereby deleted;

(iii) Paragraph 14(a) is hereby amended so as to read in its entirety as follows:

"This Plan shall be administered by the Administrator.";

(iv) The second sentence of Paragraph 14(b) is hereby amended so as to read in its entirety as follows:

"Neither the Board, the Committee, the Chief Executive Officer nor any member of the Board or the Committee will, in connection with the administration of the Plan as the Administrator, be liable for any such action or determination taken or made in good faith."; and

(v) Paragraph 16(b): the term "Committee" is hereby replaced by the term "Board".

4. The last sentence of Paragraph 2(y), and Schedule A to the Plan, are hereby deleted.

5. There is hereby inserted at the end of clause (i) of the first sentence of Paragraph 11 of the following clause:

", unless otherwise provided in the written agreement evidencing an Award," and

there is hereby inserted in clause (1) of the first sentence of Paragraph 11, immediately after the words "Qualifying Event" and before the parenthetical reference, the following clause:

"or, if the written agreement evidencing an Award so provides, for a period of 30 calendar days commencing upon the date of such Change in Control".

6. Paragraph 2(d) is hereby amended to read in its entirety as follows:

"Change in Control" means the occurrence of one of the events described in subclause (a), (b), (c) or (d) of clause (i) of the first sentence of Paragraph 11."

The foregoing amendments to the Plan are effective April 27, 1995; provided, however, that any such amendment that without approval by the stockholders of the Company would result in the Plan no longer satisfying the requirements of Rule 16b-3 shall only be effective upon approval thereof by the stockholders of the Company within one year following April 27, 1995.



CONTINENTAL AIRLINES, INC.  
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS  
(In thousands of dollars, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
Primary:				
Weighted average shares outstanding. . . . .	26,050,652	25,522,568	25,777,710	25,522,568
Dilutive effect of outstanding stock options, warrants and restricted stock grants (as determined by the application of the modified treasury stock method). . . . .	9,315,813	3,466,320	6,479,378	-
Weighted average number of common shares out- standing, as adjusted. .	35,366,465	28,988,888	32,257,088	25,522,568
Income (loss) applicable to common shares . . . .	\$ 105,876	\$ 29,188	\$ 174,642	\$ (94,124)
Add interest expense associated with the assumed reduction of borrowings, net of federal income tax effect . . . . .	3,273	588	14,673	-
Income (loss), as adjusted . . . . .	\$ 109,149	\$ 29,776	\$ 189,315	\$ (94,124)
Per share amount. . . . .	\$ 3.09	\$ 1.03	\$ 5.87	\$ (3.69)

CONTINENTAL AIRLINES, INC.  
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS  
(In thousands of dollars, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
Fully diluted:				
Weighted average shares outstanding. . . . .	26,050,652	25,522,568	25,777,710	25,522,568
Dilutive effect of outstanding stock options, warrants, and restricted stock grants (as determined by the application of the modified treasury stock method). . . . .	9,315,813	3,466,320	6,458,853	-
Dilutive effect of convertible debentures .	5,603,346	-	1,888,307	-
Weighted average number of common shares out- standing, as adjusted. .	40,969,811	28,988,888	34,124,870	25,522,568

Income (loss) applicable to common shares . . . .	\$ 105,876	\$ 29,188	\$ 174,642	\$ (94,124)
Add interest expense associated with the assumed reduction of borrowings, net of federal income tax effect . . . . .	2,067	564	6,093	-
Add interest expense associated with the assumed conversion of convertible debentures .	1,849	-	1,849	-
Income (loss), as adjusted . . . . .	\$ 109,792	\$ 29,752	\$ 182,584	\$ (94,124)
Per share amount. . . . .	\$ 2.68	\$ 1.03	\$ 5.35	\$ (3.69)

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		603
	0	
	417	
	0	
	146	
1241		1423
	384	
	4692	
2030		0
		0
40		
	0	
	260	
4692		4402
	4402	0
	0	
	4111	
	0	
	162	
	266	
	78	
183		
	0	
	0	
		0
	183	
	5.87	
	5.35	