

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, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
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

(State or other jurisdiction  
of incorporation or organization)

74-2099724

(I.R.S. Employer  
Identification No.)

2929 Allen Parkway  
Houston, Texas 77019  
(Address of principal executive office)  
(Zip Code)

713-834-5000

(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 subject to the distribution of securities under a plan confirmed by a court. Yes  No

As of November 4, 1994, 6,301,056 shares of Class A common stock and 20,353,512 shares of Class B common stock were outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars)

ASSETS	September 30, 1994 (Unaudited)	December 31, 1993
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Current Assets:

Cash and cash equivalents, including restricted cash and cash equivalents of \$110,008 and \$102,439, respectively. . . . .	\$ 501,155	\$ 721,038
Accounts receivable, net. . . . .	439,820	342,864
Spare parts and supplies, net . . . . .	158,388	161,856
Prepayments and other . . . . .	87,655	79,404
Total current assets . . . . .	1,187,018	1,305,162

Property and Equipment:

Owned property and equipment:		
Flight equipment . . . . .	1,022,205	951,881
Other. . . . .	327,724	284,362
	1,349,929	1,236,243
Less: Accumulated depreciation. . . . .	153,690	69,022
	1,196,239	1,167,221

Purchase deposits for flight equipment. . . .	181,001	166,984
Capital leases:		
Flight equipment . . . . .	398,777	394,236
Other. . . . .	12,239	2,142
	411,016	396,378
Less: Accumulated amortization. . . . .	57,031	23,838
	353,985	372,540
Total property and equipment. . . . .	1,731,225	1,706,745
Other Assets:		
Routes, gates and slots, net. . . . .	1,628,745	1,672,759
Reorganization value in excess of amounts allocable to identifiable assets, net. . . .	322,545	335,565
Other assets, net . . . . .	118,421	86,301
Total other assets. . . . .	2,069,711	2,094,625
Total Assets. . . . .	\$4,987,954	\$5,106,532

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

CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except for share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 1994 (Unaudited)	December 31, 1993
Current Liabilities:		
Current maturities of long-term debt . . . . .	\$ 215,958	\$ 176,350
Current maturities of capital leases . . . . .	45,456	40,556
Accounts payable . . . . .	655,130	597,669
Air traffic liability . . . . .	673,279	590,994
Accrued payroll and pensions . . . . .	187,905	167,859
Accrued other liabilities . . . . .	328,631	370,226
Total current liabilities . . . . .	2,106,359	1,943,654
Long-Term Debt . . . . .	1,294,380	1,377,052
Capital Leases . . . . .	378,423	405,387
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes . . . . .	40,000	50,767
Deferred credit - operating leases . . . . .	239,332	288,556
Other . . . . .	224,212	251,719
Total deferred credits and other long-term liabilities . . . . .	503,544	591,042
Commitments and Contingencies		
Minority Interest . . . . .	25,047	21,935
Redeemable Preferred Stock (aggregate redemption value - \$54,543 and \$50,497, respectively) . . . . .	51,125	46,916
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 6,301,056 and 6,013,216 shares issued and outstanding . . . . .	63	60
Class B common stock - \$.01 par, 100,000,000 shares authorized; 20,353,512 and 19,509,352 shares issued and outstanding . . . . .	204	195
Additional paid-in capital . . . . .	779,000	764,274
Accumulated deficit . . . . .	(128,464)	(38,549)
Unearned portion of restricted stock issued for future service . . . . .	(16,293)	-
Additional minimum pension liability . . . . .	(5,434)	(5,434)
Total common stockholders' equity . . . . .	629,076	720,546
Total Liabilities and Stockholders' Equity .	\$4,987,954	\$5,106,532

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

CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands of dollars, except per share data)

	Three Months Ended September 30, 1994 (Unaudited)	Three Months Ended September 30, 1993 (Unaudited)
Operating Revenues:		
Passenger . . . . .	\$1,350,145	\$1,399,965
Cargo, mail and other . . . . .	163,539	164,218
	1,513,684	1,564,183
Operating Expenses:		
Wages, salaries and related costs . . .	393,942	390,650
Aircraft fuel . . . . .	196,202	205,156
Rentals and landing fees. . . . .	209,787	199,250
Commissions . . . . .	107,442	156,016
Depreciation and amortization . . . . .	65,239	61,394
Other . . . . .	458,284	460,707
	1,430,896	1,473,173
Operating Income . . . . .	82,788	91,010
Nonoperating Income (Expense):		
Interest expense. . . . .	(59,218)	(63,085)
Interest capitalized. . . . .	3,555	2,894
Interest income . . . . .	5,851	5,516
Gain (Loss) on disposition of property, equipment and other assets, net. . . .	(110)	4,181
Other, net. . . . .	(112)	(16,565)
	(50,034)	(67,059)
Income before Income Taxes and Minority Interest . . . . .		
	32,754	23,951
Income Tax Provision . . . . .	-	(11,341)
Income before Minority Interest. . . . .	32,754	12,610
Minority Interest. . . . .	(2,123)	(171)
Net Income . . . . .	30,631	12,439
Preferred Dividend Requirements and Accretion to Liquidation Value. . . . .		
	(1,443)	(1,303)
Income Applicable to Common Shares . . .	\$ 29,188	\$ 11,136
Primary and Fully Diluted Earnings per Common Share. . . . .		
	\$ 1.03	\$ 0.53

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

CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands of dollars, except per share data)

	Reorganized Company	Reorganized Company Period from Reorganization (April 28, 1993 through September 30, 1993) (Unaudited)	Predecessor Company  Period from January 1, 1993 through April 27, 1993
Nine Months Ended September 30, 1994 (Unaudited)			
<b>Operating Revenues:</b>			
Passenger . . . . .	\$3,796,490	\$2,275,439	\$1,622,406
Cargo, mail and other . . . . .	464,220	266,317	234,752
	4,260,710	2,541,756	1,857,158
<b>Operating Expenses:</b>			
Wages, salaries and related costs . . . . .	1,143,749	653,641	501,901
Aircraft fuel . . . . .	544,200	347,162	271,935
Rentals and landing fees . . . . .	608,961	328,063	273,977
Commissions . . . . .	338,151	247,919	175,283
Depreciation and amortization . . . . .	190,371	98,953	76,795
Other . . . . .	1,409,233	779,064	670,405
	4,234,665	2,454,802	1,970,296
Operating Income (Loss) . . . . .	26,045	86,954	(113,138)
<b>Nonoperating Income (Expense):</b>			
Interest expense . . . . .	(183,022)	(101,120)	(52,023)
Interest capitalized . . . . .	10,244	4,558	1,759
Interest income . . . . .	16,733	9,050	-
Gain on disposition of property, equipment and other assets, net . . . . .	1,845	4,230	31,250
Reorganization items:			
Professional fees and other . . . . .	-	-	(823,086)
Interest income . . . . .	-	-	4,535
Other, net . . . . .	(5,798)	(15,789)	(25,742)
	(159,998)	(99,071)	(863,307)
Loss before Income Taxes, Minority Interest and Extraordinary Item . . . . .	(133,953)	(12,117)	(976,445)
Income Tax Benefit (Provision) . . . . .	47,150	398	(2,140)
Loss before Minority Interest and Extra- ordinary Item . . . . .	(86,803)	(11,719)	(978,585)
Minority Interest . . . . .	(3,112)	(283)	-
Loss before Extraordinary Item . . . . .	(89,915)	(12,002)	(978,585)
Extraordinary Item . . . . .	-	-	3,618,723
Net Income (Loss) . . . . .	(89,915)	(12,002)	2,640,138
Preferred Dividend Requirements and Accretion to Liquidation Value . . . . .	(4,209)	(2,163)	-
Income (Loss) Applicable to Common Shares . . . . .	\$ (94,124)	\$ (14,165)	\$2,640,138
Primary and Fully Diluted Loss per Common Share . . . . .	\$ (3.69)	\$ (0.81)	\$ N.M.*

\*N.M. - Not meaningful - Historical per share data for the Predecessor Company is not meaningful since the Company has been recapitalized and has adopted fresh start reporting as of April 27, 1993.

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

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

	Reorganized Company	Reorganized Company Period from Reorganization (April 28, 1993 through September 30, 1993) (Unaudited)	Predecessor Company  Period from January 1, 1993 through April 27, 1993
	Nine Months Ended September 30, 1994 (Unaudited)		
Net Cash Provided by Operating Activities. . .	\$ 69,266	\$ 94,322	\$ 73,629
Cash Flows from Investing Activities:			
Investment in America West . . . . .	(18,771)	-	-
Proceeds from disposition of property, equipment and other assets . . . .	2,480	153	36,123
Capital expenditures. . .	(123,081)	(179,168)	(67,425)
Net cash used by investing activities. . .	(139,372)	(179,015)	(31,302)
Cash Flows from Financing Activities:			
Proceeds from issuance of stock . . . . .	-	-	122,004
Proceeds from issuance of long-term debt, net .	30,395	45,937	308,536
Payments on long-term debt and capital lease obligations. . . . .	(180,172)	(69,965)	(106,296)
Net cash provided (used) by financing activities. . . . .	(149,777)	(24,028)	324,244
Net Increase (Decrease) in Cash and Cash Equivalents . . . . .	(219,883)	(108,721)	366,571
Cash and Cash Equivalents- Beginning of Period . . .	721,038	766,140	399,569
Cash and Cash Equivalents- End of Period . . . . .	\$501,155	\$657,419	\$766,140

(continued on next page)

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

	Reorganized Company	Reorganized Company Period from Reorganization (April 28, 1993 through September 30, 1993) (Unaudited)	Predecessor Company  Period from January 1, 1993 through April 27, 1993
	Nine Months Ended September 30, 1994 (Unaudited)		
Supplemental Cash Flow Information:			
Interest paid . . . . .	\$146,175	\$ 59,241	\$ 30,926
Financing Activities Not Affecting Cash:			
Reclassification of accrued rent to long-term debt due to renegotiated leases . . .	\$ 6,679	\$ 42,488	\$111,692
Capital lease obligations incurred . .	\$ 9,546	\$ 8,635	\$ -
Interest expense financed on renegotiated aircraft debt . . .	\$ 17,942	\$ 18,652	\$ 1,804
Property and equipment acquired through the issuance of debt . . . .	\$ 9,526	\$ -	\$ -
Financed flight equipment purchase deposits . . . . .	\$ 18,422	\$ -	\$ -

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

CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Continental Airlines, Inc. (the "Company", the "Reorganized Company" or "Continental") is the successor to Continental Airlines Holdings, Inc. (together with its subsidiaries, "Holdings" or the "Predecessor Company") and Continental Airlines, Inc. On December 3, 1990, Continental and Holdings and all their wholly-owned domestic subsidiaries filed voluntary petitions to reorganize under Chapter 11 of the federal bankruptcy code. The Companies' consolidated Plan of Reorganization was confirmed on April 16, 1993 and became effective on April 27, 1993 (the "Reorganization"). On such date, Holdings merged with and into Continental. System One Information Management, Inc. ("System One"), which had been a subsidiary of Holdings, was reorganized as a subsidiary of Continental. Because consolidated Continental (as reorganized) includes System One and other businesses that had been consolidated with Holdings prior to April 27, 1993 (but not with pre-reorganization Continental), the discussion herein includes references to Holdings' consolidated financial statements for periods prior to April 27, 1993. On April 27, 1993, Continental adopted fresh start reporting in accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7 - "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"), which resulted in adjustments to the Company's common stockholders' equity and the carrying values of assets and liabilities. Accordingly, the Company's post-reorganization balance sheets and statements of operations have not been prepared on a basis of accounting consistent with the pre-reorganization balance sheet and statements of operations. For accounting purposes, the inception date for the Reorganized Company is deemed to be April 28, 1993. A vertical black line is shown in the consolidated financial statements to separate Continental from the Predecessor Company since the financial statements have not been prepared on a consistent basis of accounting.

The Company has prepared the consolidated financial statements included herein without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company as of September 30, 1994 and the results of its operations and its cash flows for the periods ended September 30, 1994 and April 27 and September 30, 1993. Certain reclassifications have been made to the prior year's financial statements to conform to the 1994 presentation. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1993.

NOTE 1 - EARNINGS (LOSS) PER SHARE

The earnings (loss) per common share computation is based upon the income (loss) applicable to common shares and the average number of shares of common stock and dilutive common stock equivalents (warrants, options and restricted stock) outstanding. The number of shares used in the computations for 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) and accretion to redemption value on preferred stock decreased net income for this computation by approximately \$1.4 million for the three months ended September 30, 1994 and increased the net loss for this computation by \$4.2 million for the nine months ended September 30, 1994.

NOTE 2 - PREFERRED AND COMMON STOCK

The Company had approximately \$7.4 million and \$3.4 million of dividends on its preferred stock in arrears as of September 30, 1994 and December 31, 1993, respectively.

In January 1994, Air Canada converted 287,840 shares of Class B Common Stock into an equal number of shares of Class A common stock to preserve its percentage of total voting power.

See Note 7 - "Other - Compensation Plans" for a discussion of certain plans pursuant to which additional shares of common stock may be issued.

NOTE 3 - PASSENGER REVENUES

In the third quarter of 1994, the Company recorded a \$23.4 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. In the third quarter of 1993, the Company recorded a \$75.0 million favorable adjustment resulting from the completion of the Company's periodic evaluation of its air traffic liability account.

#### NOTE 4 - NONOPERATING INCOME (EXPENSE)

In the third quarter of 1993, the Company recorded charges totaling approximately \$13.1 million related to Continental's termination of service to Australia and New Zealand.

#### NOTE 5 - INCOME TAXES

The income tax benefit for the nine months ended September 30, 1994 differs from the federal statutory rate principally due to state taxes and certain nondeductible expenses. A provision was not recorded for the three months ended September 30, 1994 due to net operating losses that have not previously been benefitted. The income tax benefit for the period April 28, 1993 through September 30, 1993 is based on the estimated annual effective tax rate which differs from the federal statutory rate of 35% principally due to state income taxes and certain nondeductible expenses. The provision for income taxes for the period January 1, 1993 through April 27, 1993 represents only state income taxes.

#### NOTE 6 - CONTINGENCIES

The Company has undertaken a number of actions, and is continuing to analyze and implement additional actions, intended to improve profitability. Certain of these actions may be expected to result in charges and write-offs, which may be material.

As announced on July 28, 1994, the Company reduced operations in Denver to 23 daily departures effective October 31, 1994. As a result of this reduction of operations in Denver, and the expected increase in costs associated with the pending opening of a new Denver airport, the Company is pursuing several alternatives which could reduce its exposure in Denver and is continuing to evaluate the financial impact of the reduction of its Denver operations.

On November 7, 1994, the Company announced its decision to close its Western U.S. scheduled maintenance facilities in Los Angeles and Denver, eliminating approximately 1,640 maintenance positions. Much of the Company's scheduled maintenance needs will be performed by outside suppliers who can support the Company's flight operations at locations more convenient to its primary routes in the Eastern, Central and Southern regions of the United States.

The Company is considering eliminating or removing from service certain jet and turboprop aircraft that management believes are not well suited to the Company's current route structure and, in connection herewith, the Company has announced that it plans to remove eight A300 aircraft from service effective January 10, 1995.

Until the Company completes its evaluation of alternatives with respect to each such action (and, in the case of Denver, until the cost of the new airport has been determined), the amounts of charges and write-offs that may be incurred cannot be determined.

#### NOTE 7 - OTHER

Compensation Plans. On March 4, 1994, the Board of Directors adopted the Continental Airlines 1994 Employee Stock Purchase Plan (the "Stock Purchase Plan") (to be effective July 1, 1994) and the Continental Airlines 1994 Incentive Equity Plan (the "Incentive Plan"), which plans were approved by the stockholders of the Company at the annual stockholders' meeting on June 30, 1994.

Under the Stock Purchase Plan, all full and part-time employees of the Company who are on the United States payroll may purchase shares of Class B Common Stock ("Class B") at 85% of the lower of fair market value on the first or last business day of a calendar quarter. A maximum of 4,000,000 shares of Class B are authorized for purchase.

Under the Incentive Plan, key officers and employees of the Company and its subsidiaries may be selected by the Human Resources Committee of the Board of Directors (the "Committee") to receive any or all of the following: stock options, restricted stock, long-term incentive awards and annual incentive awards. Subject to adjustment, as provided for in the Incentive Plan, the number of shares of common stock that may be issued under the Incentive Plan will not in the aggregate exceed 2,300,000 shares of Class B, which may be originally issued or treasury shares or a combination thereof. On March 4, 1994, the Board of Directors approved the grant of options to employees to purchase approximately 1,900,000 shares of Class B with an exercise price of \$21.375 per share. On July 1, 1994, each outside director of Continental received an option to purchase 1,500 shares of Class B with an exercise price of \$13.25 per share.

In addition, the Incentive Plan permits awards of restricted stock to participants, subject to one or more restrictions, including a restriction period and a purchase price, if any, to be paid by the participant, as determined by the Committee. The number of shares of common stock that may be granted or sold as restricted stock under the Incentive Plan may not in the aggregate exceed 300,000 shares of Class B. As of September 30, 1994, 132,000 shares of restricted stock had been granted with no cost to the participants.

In addition, the Board of Directors approved (a) a broad-based employee compensation program including: (i) a profit sharing program under which 15% of the Company's pre-tax earnings (before unusual or nonrecurring items) will be distributed each year to all employees on a pro rata basis according to base salary, and (ii) a one-time grant of approximately one million shares of restricted stock for substantially all employees at or below the Continental Manager or equivalent position (the restricted stock vests over a four-year period, has no exercise price and will result in the recognition of approximately \$16.1 million of compensation expense which is being amortized over the vesting period) and (b) an executive cash bonus plan based upon Company share price performance within a specified range over a period of years.

America West Airlines, Inc. ("America West"). As a limited partner in AmWest Partners, L.P. ("AmWest"), Continental participated in the acquisition by AmWest of 31.4% of the equity of reorganized America West in connection with America West's emergence from bankruptcy effective August 25, 1994. Continental contributed approximately \$18.8 million of a total of approximately \$113 million used by AmWest. As a result of the transaction, Continental owns approximately 5.7% of the equity of reorganized America West. Continental also entered into a series of agreements with America West, such as agreements related to code sharing and ground handling, which are expected to create substantial benefits for both airlines.

Each investor participating in the acquisition did so on individual terms; Continental and certain affiliates of Fidelity Management Trust Company invested at the same per share price, but at a higher price (approximately \$9.25 per share as compared to approximately \$6.75 per share) than the price being paid by Air Partners, II, L.P. ("AP II") and TPG Partners, L.P., partnerships controlled by Mr. David Bonderman, Chairman of the Board of Continental. However, as between Continental and AP II, Continental is entitled to receive a 10% per year return on its investment before AP II receives any return and to receive its invested capital back before AP II does.

Foreign Carrier Alliance. In May 1994, Continental entered into a strategic alliance with Alitalia Airlines to expand travel between the United States and Italy, including a code sharing agreement. The agreement has been approved by both the Italian and United States governments.

Litigation. On July 19, 1994, the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") approved a comprehensive settlement resolving claims filed by the Air Line Pilots Association ("ALPA") and former Eastern Air Lines, Inc. ("Eastern") pilots which asserted that, among other things, a de facto operational merger between Continental and Eastern occurred and therefore the pilot seniority lists of Continental and Eastern should be integrated. Under the settlement, each pilot may elect to participate by receiving (i) an allowed general unsecured claim with a face value of approximately \$100,000 against the debtor estates of Continental and Holdings (the payment of which will be primarily in the form of Continental Class B Common Stock which was issued for the benefit of creditors pursuant to the provisions of Continental's Revised Second Amended Joint Plan of Reorganization) and limited pass travel privileges or (ii) a future hiring preference at Continental, half of the allowed general unsecured claim and limited pass travel privileges. The second option is available only to the 225 most senior pilots so electing. Individual pilots who have filed claims and elect not to participate may continue to pursue their claims. However, the agreement settles all remaining claims between Continental and ALPA.

On August 18, 1994, a dissident group of Eastern pilots, known as the "LPP Claimants," sought leave from the Bankruptcy Court to file an untimely appeal from the Order approving the Settlement. That request was denied on September 9, 1994, and the dissidents have appealed that denial to the United States District Court. Briefing on that appeal was concluded on November 10, 1994. The Company believes that the likelihood that the LPP Claimants will be successful is extremely remote.

Continental Express, Inc. In May 1994, the Company's turboprop commuter airline subsidiary, Continental Express, Inc. ("Express"), terminated substantially all of its unprofitable Denver operations, which were taken over by GP Express Airlines, Inc. ("GP Express"), an unaffiliated commuter airline operator. Express has implemented cost reduction programs, including substantial workforce

reductions. Continental is considering a possible private placement by Express of less than 20% of the common stock of Express. The Express shares offered in the private placement would not be registered under the Securities Act and would not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The Company is also considering a possible future distribution by Continental to its stockholders of all or part of the stock of Express held by Continental.

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

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

	Three Months Ended September 30,		Net Increase/ (Decrease)
	1994	1993	
Revenue passengers (thousands) . . .	11,629	10,294	12.97 %
Revenue passenger miles (millions) (a) . . . . .	11,616	11,679	(0.54)%
Available seat miles (millions) (b).	17,259	17,572	(1.78)%
Passenger load factor (c) . . . . .	67.3%	66.5%	0.80 pts.
Breakeven passenger load factor (d).	64.7%	63.6%	1.10 pts.
Passenger revenue per available seat mile (cents) (e) . . . . .	7.38	7.49	(1.47)%
Operating cost per available seat mile (cents) (f) . . . . .	7.56	7.64	(1.05)%
Average yield per revenue passenger mile (cents) (g) . . . .	10.97	11.27	(2.66)%
Average fare per revenue passenger .	\$109.57	\$127.84	(14.29)%
Average length of aircraft flight (miles) . . . . .	707	877	(19.38)%
Average daily utilization of each aircraft (h) . . . . .	10:10	9:54	2.69 %

	Nine Months Ended September 30,		Net Increase/ (Decrease)
	1994	1993	
Revenue passengers (thousands) . . .	31,493	28,942	8.81 %
Revenue passenger miles (millions) (a) . . . . .	31,154	32,481	(4.09)%
Available seat miles (millions) (b).	48,632	51,248	(5.10)%
Passenger load factor (c) . . . . .	64.1%	63.4%	0.70 pts.
Breakeven passenger load factor (d).	65.1%	66.1%	(1.00)pts.
Passenger revenue per available seat mile (cents) (e) . . . . .	7.36	7.14	3.08 %
Operating cost per available seat mile (cents) (f) . . . . .	7.92	7.94	(0.25)%
Average yield per revenue passenger mile (cents) (g) . . . .	11.49	11.27	1.95 %
Average fare per revenue passenger .	\$113.64	\$126.50	(10.17)%
Average length of aircraft flight (miles) . . . . .	728	876	(16.89)%
Average daily utilization of each aircraft (h) . . . . .	9:56	9:50	1.02 %

- (a) "Revenue passenger miles" means the number of scheduled miles flown by revenue passengers.
- (b) "Available seat miles" means the number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
- (c) "Passenger load factor" means revenue passenger miles divided by available seat miles.
- (d) "Breakeven passenger load factor" means the percentage of seats which must be occupied by revenue passengers in order for the airline to breakeven on an income before income taxes basis, excluding nonrecurring, nonoperating gains/losses and other special items.
- (e) "Passenger revenue per available seat mile" means passenger revenue divided by available seat miles.
- (f) "Cost per available seat mile" means the total of operating expenses divided by available seat miles.
- (g) "Average yield per revenue passenger mile" means the average revenue received for each mile a revenue passenger is carried.
- (h) "Average daily utilization of each aircraft" means the average block hours flown per day in revenue service per aircraft.

The Company has undertaken a number of actions, and is continuing to analyze and implement additional actions, intended to improve profitability. Certain of these actions may be expected to result in charges and write-offs, which may be material. See Note 6 of Notes to Consolidated Financial Statements.

Management has implemented strategies to improve the performance of Express, which has experienced substantial losses in recent years. In May 1994, Express terminated substantially all of its unprofitable Denver operations, which were taken over by GP Express. The Company reached an agreement with GP Express for GP Express to lease and/or sublease from the Company 15 Beechcraft 1900 aircraft currently serving seven markets from Denver. The agreement contemplates that GP Express will continue service in the Denver market under the name Continental Express pursuant to a code sharing agreement with the Company. Express has implemented cost reduction programs, including substantial work force reductions.

During the third quarter of 1994, the Company significantly improved the operating reliability of its low fare, short haul "Continental Lite" operations over results for the second quarter. However, Continental Lite as a whole was not profitable in the third quarter, and management is continuing to implement changes intended to achieve sustained profitability. There can be no assurance as to when or whether such profitability will be achieved.

#### 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 month periods ended September 30, 1994 as compared to the three and nine month periods ended September 30, 1993. A discussion with respect to the three months ended September 30, 1994 and 1993 has been provided only for material changes that are not consistent with the discussion of the nine month periods. The Company's results of operations for the three and nine month periods ended September 30, 1994 have not been prepared on a basis of accounting consistent with its results of operations for periods prior to April 28, 1993, due to the implementation of fresh start reporting upon the Company's emergence from bankruptcy.

The Company recorded consolidated net losses of \$89.9 million for the nine months ended September 30, 1994 as compared to consolidated net income of \$2.6 billion for the nine months ended September 30, 1993. The Company's net income in 1993 included \$3.0 billion in fresh start adjustments primarily related to the discharge of prepetition debt obligations.

The Company recorded consolidated net income of \$30.6 million and \$12.4 million for the three months ended September 30, 1994 and 1993, respectively. Consolidated operating income totaled \$82.8 million for the three months ended September 30, 1994 as compared to consolidated operating income of \$91.0 million for the three months ended September 30, 1993. The operations of Continental's subsidiary, Continental Micronesia, Inc. ("CMI"), contributed significantly to Continental's consolidated operating results for the third quarter of 1994. CMI's operating results have been favorably impacted by improved economic conditions in Japan and recovery from an August 1993 earthquake in Guam.

Passenger revenues for the three and nine months ended September 30, 1994, include a \$23.4 million favorable adjustment as a result of the Company's estimate of awards expected to be redeemed for travel on Continental under its frequent flyer program. Passenger revenues for the three and nine months ended September 30, 1993, include a \$75.0 million favorable adjustment resulting from the completion of the Company's periodic evaluation of its air traffic liability account.

Passenger revenues decreased 2.6% for the first nine months of 1994 as compared to the same period in 1993 due primarily to a 5.1% decrease in available seat miles and a 4.1% decrease in Continental's jet revenue passenger miles. Such decrease was partially offset by a 2.0% increase in jet yields. Revenues in the first nine months of 1994 were negatively impacted by the unusually poor weather in the eastern United States in the first quarter of 1994 and a decrease in available seat miles due to Continental's acceleration of its fleet refurbishment program.

Cargo, mail and other revenues in the first nine months of 1994 decreased 7.4% as compared to the first nine months of 1993 primarily as a result of Continental's termination of service to Australia and New Zealand in October 1993, poor weather in the eastern United States during the first quarter of 1994 and a decrease in other revenue. Cargo, mail and other revenues remained relatively constant in the third quarter of 1994 as compared to the same period in 1993.

Wages, salaries and related costs in the first nine months of 1994 decreased 1.0% as compared to the same period in 1993 due to a decrease in the number of full-time equivalent employees partially offset by higher wage rates. In July 1992, the Company implemented an average 10% wage reduction, which reduction was restored in equal increments in December 1992, April 1993 and April 1994, with the final restoration occurring in July 1994. The number of full-time equivalent employees decreased from approximately 40,650 as of September 30, 1993 to approximately 38,800 as of September 30, 1994. As a percentage of total operating costs, the Company's labor costs were 27.0% for the first nine months of 1994 as compared to approximately 26.1% for the first nine months of 1993.

Fuel expense decreased 12.1% in the first nine months of 1994 as compared to the same period in 1993. The quantity of jet fuel used decreased from 1,012.6 million gallons in the first nine months of 1993 to 1,003.8 million gallons in the first nine months of 1994, and the average price per gallon decreased from 59.94 cents to 52.74 cents. Fuel costs were 12.9% and 14.0% of total operating expenses in the first nine months of 1994 and 1993, respectively.

Rentals and landing fees increased 1.1% in the first nine months of 1994 as compared to the same period in 1993 and increased 5.3% in the third quarter of 1994 as compared to the same period in 1993. Rent expense increased primarily as a result of settlements reached in April 1993 with certain aircraft debt holders (which resulted in the transfer to the debt holders and subsequent leaseback of certain aircraft) and the delivery of new Boeing 737 and 757 aircraft during 1994. Such increase was partially offset by retirements of leased aircraft and the amortization of deferred credits recorded in connection with the Company's adjustment of operating leases to fair market value as of April 27, 1993.

Commissions expense decreased 20.1% in the first nine months of 1994 and 31.1% in the three months ended September 30, 1994 as compared to the same periods in 1993 primarily due to a decrease in commissionable sales.

Depreciation and amortization expense increased 8.3% between the periods due primarily to the amortization of intangibles (including Reorganization Value in Excess of Amounts Allocable to Identifiable Assets) beginning April 28, 1993. Such increase was partially offset by a decrease in depreciation expense due to

a reduction in the number of owned aircraft as a result of settlements reached in early 1993 with certain aircraft debt holders (which resulted in the transfer to the debt holders and subsequent leaseback of certain aircraft). In addition, depreciation and amortization expense increased 6.3% in the third quarter of 1994 as compared to the same period in 1993 due primarily to an increase in aircraft operated under capital leases (aircraft previously leased under operating leases) and the amortization of incremental capitalized costs associated with aircraft.

Other operating expenses decreased 2.8% in the first nine months of 1994 as compared to the same period in 1993 primarily as a result of a decrease in passenger services and maintenance, material and repair expenses partially offset by an increase in other miscellaneous expenses. Charges totaling approximately \$5.5 million were recorded in the first quarter of 1994 relating to the redeployment of assets.

The Company's interest expense increased 19.5% for the first nine months of 1994 as compared to the same period in 1993 (from \$153.1 million to \$183.0 million) due primarily to a net increase in debt on which the Company was required to accrue interest. As a result of its Chapter 11 filings, through April 1993, the Company was not obligated to pay, and accordingly ceased accruing contractual interest on its unsecured and undersecured obligations. Interest expense decreased 6.1% in the third quarter of 1994 as compared to the same period in 1993 due to the early repayment of debt.

Capitalized interest increased \$3.9 million in the first nine months of 1994 as compared to the same period in 1993 due primarily to an increase in the average balance of purchase deposits for flight equipment during the first nine months of 1994 as compared to the same period in 1993.

Interest income increased 23.2% in the first nine months of 1994 as compared to the same period in 1993 primarily due to an increase in the average balance of cash and cash equivalents. Interest income increased 6.1% in the third quarter of 1994 compared to the same period in 1993 due to an increase in the average interest rate. Interest income earned on the Company's investments during the period prior to April 28, 1993 was classified as a reorganization item in accordance with SOP 90-7.

For the nine months ended September 30, 1994 and 1993, the Company recorded gains relating primarily to Continental's disposition of property, equipment and other assets of \$1.8 million and \$35.5 million, respectively. In 1993, the Company recorded a gain of \$34.9 million related to System One's sale to Electronic Data Systems Corporation of substantially all of the assets of its Airline Services Division.

Reorganization items-professional fees and other in the first nine months of 1993 included professional fees of \$58.6 million and accruals for rejected aircraft agreements and other miscellaneous adjustments of \$187.2 million. In addition, in the second quarter of 1993, fresh start adjustments totaling \$719.1 million were recorded relating to the adjustment of assets and liabilities to fair market value as well as other miscellaneous fresh start adjustments of approximately \$76.8 million. These fresh start adjustments were partially offset by the write-off of deferred gains on sale/leaseback transactions of \$218.6 million.

The Company's other nonoperating income (expense) in the first nine months of 1994 primarily included foreign exchange and other losses of \$9.0 million (primarily related to Japanese yen-denominated transactions) and charges totaling approximately \$2.3 million relating to the closing of certain stations. Other nonoperating income (expense) in the first nine months of 1993 included foreign exchange losses (primarily related to Japanese yen, German mark and British pound-denominated transactions) of \$11.4 million, charges totaling approximately \$13.1 million related to the Company's termination of services to Australia and New Zealand and other expenses (primarily related to the abandonment of and relocation to airport facilities).

In 1993, the Company recorded an extraordinary gain of approximately \$3.6 billion resulting from the extinguishment of prepetition obligations, including the write-off of a deferred credit related to Eastern of approximately \$1.1 billion.

#### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1994, the Company had approximately \$501.2 million in cash and cash equivalents as compared to \$721.0 million as of December 31, 1993. This decrease was a result of approximately \$149.8 million of net cash used by financing activities and \$139.4 million of net cash used by investing activities offset by \$69.3 million of net cash provided by operating activities. Approximately \$110.0 million and \$102.4 million of cash and cash equivalents at September 30, 1994 and December 31, 1993, respectively, were held in restricted arrangements relating primarily to payments for workers' compensation claims and in accordance with the terms of certain security agreements.

Continental currently does not have general lines of credit or significant unencumbered assets, and its access to additional sources of liquidity, in particular debt financing, remains limited. In addition, Continental's principal note agreements require mandatory prepayments in the event of most asset sales. Continental's ability to improve its liquidity will depend, in part, upon its ability to achieve improved financial results.

As of September 30, 1994, Continental has substantial capital commitments, including firm commitments for substantial numbers of new aircraft (to be used to replace existing aircraft) with a cost of approximately \$3.2 billion; in connection with such firm order aircraft, the Company has financing commitments, subject to conditions, of over \$1.5 billion. The Company also has options to acquire additional aircraft. As of September 30, 1994, the Company had acquired, under operating leases, 18 of the 737 aircraft and six of the 757 aircraft on firm order. In January 1994, Continental exercised its options with respect to two additional 737 aircraft. In March 1994, the Company entered into a separate agreement to acquire under long-term leases ten new 737 aircraft. The first of these aircraft is scheduled to be delivered in the last quarter of 1994 and the remainder in 1995.

The Company intends to seek additional financing for the aircraft deliveries (which may include public debt financing and/or private financing) in the future when and as appropriate. The Company has filed a shelf registration relating to the potential offering of secured and unsecured debt securities, including convertible debt securities.

In addition to traditional sources of liquidity, the Company is evaluating the desirability of disposing of one or more non-core assets or operations.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 7 - "Other - Litigation" of Notes to Consolidated Financial Statements.

ITEM 2. CHANGES IN SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits:

- 10.1 Third Revised Investment Agreement dated April 21, 1994 between America West Airlines, Inc. and AmWest Partners, L.P. - incorporated by reference to Exhibit 1 to the August 25, 1994 Schedule 13D.
- 10.2 Management Compensation Agreement between the Company and Daniel Garton - filed herewith.
- 10.3 Management Compensation Agreement between the Company and John Luth - filed herewith.
- 10.4 First Amendment to 1994 Employee Stock Purchase Plan - filed herewith.
- 10.5 Prospectus relating to 1994 Restricted Stock Grant, in replacement of Exhibit 4.3 to the Company's Registration Statement No. 33-81326 - filed herewith.
- 11.1 Statement Regarding Computation of Per Share Earnings - filed herewith.
- 27.1 Financial Data Schedule - filed herewith.

(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 14, 1994

by: /s/ Daniel P. Garton  
Daniel P. Garton  
Senior Vice President and  
Chief Financial Officer  
(On behalf of Registrant)

Date: November 14, 1994

by: /s/ Janice E. Bryant  
Janice E. Bryant  
Vice President and Controller  
(On behalf of Registrant)

CONTINENTAL AIRLINES, INC.  
INDEX TO EXHIBITS

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- 11.1 Statement Regarding Computation of Per Share Earnings - filed herewith.
- 27.1 Financial Data Schedule - filed herewith.

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT dated as of May 20, 1993 is entered into by and between CONTINENTAL AIRLINES, INC. (the "Company"), a Delaware corporation, and DANIEL P. GARTON, (the "Executive"). The Company and the Executive are referred to herein individually as a "Party" and collectively as the "Parties".

The Company wishes to assure itself of the continued services of the Executive, and the Executive is willing to continue employment with the Company on a full-time basis, and upon the other terms and conditions hereinafter provided.

In consideration of the mutual covenants contained herein, the Parties agree as follows:

1. Employment - The Company agrees to employ the Executive, and the Executive agrees to remain in the employ of the Company under the terms and conditions herein provided.
2. Position - During his employment hereunder, the Executive agrees to serve the Company and the Company shall employ the Executive in such capacity or capacities as may be specified from time to time by the Board of Directors of the Company, subject to the provisions of Section 5(a)(ii) hereof and that such Executive shall not be required to work at a location other than one within the contiguous 48 states of the United States of America.
3. Term - The Executive's employment shall be one at will, to-wit: either the Executive or the Company shall have the right to terminate it at any time, with or without cause, and without any liability or obligation of either Party to the other except as may be expressly specified in this Agreement.
4. Compensation - The Company will pay the Executive a base salary at an initial annual rate of \$350,000, payable in substantially equal semi-monthly installments. During his employment with the Company, the Executive's salary shall be reviewed periodically in accordance with Company policy and such review may result in an increase in said salary which such amount shall be substituted for the specified amount set forth in this Section.

### 5. Termination of Employment

(a) A "Termination of Employment" shall be defined as any one of the following: (i) the termination of the Executive's employment by the Company for any reason other than (A) willful misconduct or gross neglect of duty by the Executive, (B) retirement under the ordinary retirement program of the Company, (C) disability of the Executive resulting in compensated absence from his duties to the Company on a full-time basis for over 180 days or (D) death of the Executive; (ii) the termination of the Executive's employment by the Executive after providing the Company with ten business days' prior written notice that the executive is terminating employment because of (A) a material reduction in the responsibilities or title of the Executive or the corporate amenities to which he was entitled immediately prior thereto or (B) a reduction of the Executive's cash compensation by more than 10% below the highest annual salary from time to time in effect for the Executive; provided, however, that no Termination of Employment shall occur pursuant to the preceding clause (ii) if the circumstances described in the preceding clauses (ii)(A) and (ii) (B) are corrected prior to the expiration of ten business days from the date the Executive provided notice to the Company of his intent to terminate employment.

(b) Upon a Termination of Employment, or upon the expiration of long term disability insurance benefits (prior to the Executive's regular retirement date) while Executive remains disabled, the Company will pay the Executive, (subject to the provisions of Section 9 hereof) as severance pay or liquidated damages, or both, a lump sum amount equal to (i) 200% of his then current Annual Compensation from the Company; plus, (ii) that amount due to such Executive under his previous Employment Agreement due to 1992 pay reduction in excess of ten percent of Executive's stated compensation under such previous Employment Agreement; plus, (iii) that cumulated amount of pay reductions permitted by Section 5(f) hereof in excess of 10% of the Executive's annual base salary set forth in Section 4 of this Agreement, from the date of this Agreement until the date of Termination of Employment. "Annual Compensation" shall mean: Annualized rate of pay as set forth in Section 4 hereof plus a Deemed Annual Bonus. "Deemed Annual Bonus" shall be 25% of the amount set forth in Section 4 hereof.

(c) Executive shall be under no obligation to mitigate damage to the Company hereunder and no future earnings by Executive from any source shall be payable to the Company or be subject to offset pursuant to this Agreement.

(d) For a period of two and one-half years following Termination of Employment, the Executive shall continue in the Company's group insurance programs, including long-term disability insurance (or be provided substantially comparable benefits), provided he has not accepted other employment that provides comparable benefits. The Executive's entitlement to benefit continuation pursuant to the Consolidated Omnibus Budget Reconciliation Act shall commence at the end of such period.

(e) For two and one-half years following Termination of Employment, and provided all annual pass cards in the possession of the Executive have been surrendered to the Company, the Executive and his eligible family members shall be entitled to pass privileges on Continental Airlines of the same type and priority as the Executive received prior to the Termination of Employment, subject to any changes in policy generally applicable to officers of Continental Airlines still in the employ thereof. Passes shall be issued upon individual requests directly to the Continental Airlines pass bureau.

(f) The Company shall be entitled to continue pay reductions in effect on the date of this Agreement for so long as, and to the extent that, such pay reductions are in effect for the Company's work force in general. Such continuation of previous pay reductions shall not constitute a violation of Section 5(a)(ii)(B) hereof.

6. Indemnification - The Company shall indemnify the Executive against all losses, including legal fees and expenses, arising from claims against the Executive in connection with the Executive's good-faith execution of his employment hereunder, to the fullest extent permitted by the Corporation Code of the State of Delaware.

7. Tax Indemnity - The Company shall indemnify Executive on a fully grossed-up after-tax basis against any tax liability (including, without limitation, excise taxes incurred pursuant to IRC Section 4999) resulting from the payment of severance or the provision of other benefits following Termination of Employment pursuant to this Agreement, to the extent that Executive's tax payments are at a higher percentage of total income than they would have been absent such payment of severance or provision of benefits.

8. Life Insurance - The Company shall maintain life insurance for the Executive in the amount of the severance payable to Executive pursuant to Section 5 hereof. In the absence of such life insurance, the Company shall pay Executive's beneficiary or beneficiaries an amount equal to such severance in the event of the death of Executive while employed by the Company. The Company shall hold the Executive harmless from any tax liability accruing to Executive as a result of the purchase of such insurance, and likewise shall hold Executive's estate, heirs and assigns harmless from any tax liability accruing because of the failure to maintain such insurance.

9. Post-Termination Obligations - All payments and benefits due to the Executive hereunder shall be subject to the Executive's compliance with the following provisions during the applicability of this Agreement and for one full year after the expiration of termination hereof:

(a) The Executive shall, upon reasonable notice, furnish such information and proper assistance to the Company and its affiliates as may reasonably be required in connection with any litigation in which it or any of its affiliates is, or may become, a party.

(b) The Executive will not discuss with any other employee of the Company or its affiliates the formation or operations of any business intended to compete with the Company or its affiliates, or the possible future employment of such other employee by any business.

(c) Any public statements made by the Executive concerning the Company or its affiliates, officers, directors or employees shall be submitted for approval in writing from the Company's public relations and legal departments.

If the Executive fails to comply with the above obligations, the Company may cease extending benefits to the Executive and may recover by appropriate action instituted in any court of competent jurisdiction any severance payments theretofore paid to the Executive.

10. Consolidation, Merger, Sale of Assets - This Agreement shall be binding upon and inure to the benefit of the Executive and the Company and its successors and assigns, including without limitation any corporation with or into which the company may be consolidated, merged or to which the Company sells or transfers all or substantially all of its assets.

11. Notices - Written notices required or furnished under this Agreement shall be sent to the following addresses:

to the Company: Continental Airlines, Inc.  
2929 Allen Parkway, Suite 2010  
Houston, Texas 77019  
Attention: Corporate Secretary

to the Executive: 3100 Cumberland Court  
Colleyville, Texas 76034

Notices shall be effective on the first business day following receipt thereof. Notices sent by mail shall be deemed received on the date of delivery shown on the return receipt.

12. Amendments - This Agreement may not be amended or changed, orally or in writing except by the written agreement of the Parties.

13. Governing Law - This Agreement, and any dispute arising under or relating to any provision of this Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

14. Confidentiality - Except as provided by law, all information provided by either Party to the other hereunder, including the terms and conditions of the Agreement, shall be treated by the Party receiving such information as confidential, and shall not be disclosed by such Party to any party without the prior written consent of the Party from which the information was obtained. This obligation of confidentiality shall survive termination of this Agreement.

15. Severability - If any one or more of the provisions contained in this Agreement are held to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

16. Previous Agreements - This Agreement, once it becomes effective and enforceable, will replace and supersede any and all previous employment agreements, either written or verbal, between the Parties. The Company will, however, remain obligated to make the payment specified in Section 5(b)(ii) hereof in the event of a Termination of Employment, and will remain obligated on its commitment to indemnify the Executive pursuant to Executive's previous employment agreement with the Company affirmed by order of the Delaware Bankruptcy Court dated August 21, 1991.

17. Captions - All Section titles or captions contained in this Agreement are for convenience only and shall not be deemed as part of this Agreement.

The parties hereto have executed this Agreement as of the date and year first above written.

CONTINENTAL AIRLINES, INC.  
(The Company)

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DANIEL P. GARTON ("Executive")

## EMPLOYMENT AGREEMENT

This Employment Agreement dated as of August 1, 1990 is entered into by and between Continental Airlines, Inc. (the "Company"), a Delaware corporation, and John E. Luth (the "Executive" and, individually a "Party" and, collectively, the "Parties").

The Company wishes to assure itself of the continued services of the Executive, and the Executive is willing to continue employment with the Company on a full-time basis, and upon the other terms and conditions hereinafter provided.

In consideration of the mutual covenants contained herein, the Parties agree as follows:

1. Employment - The Company agrees to employ the executive, and the Executive agrees to remain in the employ of the Company under the terms and conditions herein provided.
2. Position - During his employment hereunder, the Executive agrees to serve the Company and the Company shall employ the Executive in such capacity or capacities as may be specified from time to time by the Board of Directors or the Chief Executive Officer of the Company.
3. Term - The Executive's employment shall be one at will, to-wit: either the Executive or the Company shall have the right to terminate it at any time, with or without cause, and without any liability or obligation of either Party to the other except as may be expressly specified in this Agreement.
4. Compensation - The Company will pay the Executive a base salary at an initial annual rate of \$150,000, payable in substantially equal semi-monthly installments. During his employment with the Company, the Executive's salary shall be reviewed periodically in accordance with Company policy and such review may result in an increase in said salary.
5. Termination of Employment

(a) A "Termination of Employment" shall be defined as any one of the following: (i) the termination of the Executive's employment by the Company for any reason other than (A) willful misconduct or gross neglect of duty by the Executive, (B) retirement under the ordinary retirement program of the Company, (C) disability of the Executive resulting in absence from his duties to the Company on a full-time basis for over 180 days or (D) death of the Executive; (ii) a material reduction in the responsibilities or title of the Executive or the corporate amenities to which he is entitled or (iii) a reduction of the Executive's cash compensation by more than 10% below the highest annual salary from time to time in effect for the Executive.

(b) Following a Termination of Employment, the Company will pay the Executive, subject to the provisions of Section 8 hereof and as severance pay or liquidated damages, or both, for the "Severance Period" (as hereafter defined) a supplemental monthly amount that, when combined with the Executive's earnings from other employment or consulting, will result in the Executive realizing gross aggregate monthly earnings equal to his regular monthly salary in effect prior to the Termination of Employment. The "Severance Period" shall be a period of consecutive months immediately subsequent to such termination by the Company, with the minimum number of months being twelve, with an additional month for each two full years of service with the Company, or its affiliates, up to maximum of eighteen months, and no more. All remuneration or wages earned during such period by the Executive, either as an employee, independent contractor or consultant to any person or entity other than the Company or its subsidiaries or affiliates, shall reduce the Company's obligations hereunder.

(c) During the Severance Period, the Executive shall continue in the Company's group insurance program, including long-term disability insurance, provided he has not accepted other employment that provides comparable benefits. The Executive's entitlement to benefit continuation pursuant to the Consolidated Omnibus Budget Reconciliation Act shall commence at the end of the Severance Period.

(d) During the Severance Period, and provided all annual pass cards in the possession of the Executive have been surrendered to the Company, the Executive and his eligible family members shall be entitled to pass privileges on Continental Airlines of the same type and priority as the Executive received prior to the Termination of Employment, subject to any changes in policy generally applicable to officers of Continental Airlines still in the employ thereof. Passes shall be issued upon individual requests directly to the Continental Airlines pass bureau.

6. Stock Options - All options to acquire the Common Stock of the Company that were granted to the Executive prior to 1990 (including options that were issued in exchange for other options that were originally granted prior to 1990) shall become immediately exercisable upon Termination of Employment and shall be exercisable for one year thereafter. All options granted to the Executive during 1990 and thereafter (other than those options referenced in the preceding sentence) shall become and remain exercisable in accordance with the terms set forth in the applicable letters granting such options.

7. Indemnification - The Company shall continue to indemnify the Executive against all losses, including legal fees and expenses, arising from claims against the Executive in connection with the Executive's good-faith execution of his employment hereunder, to the fullest extent permitted by the Corporation Code of the State of Delaware.

8. Post-Termination Obligations - All payments and benefits to the Executive hereunder shall be subject to the Executive's compliance with the following provisions during the applicability of this agreement and for one full year after the expiration of termination hereof:

(a) The Executive shall, upon reasonable notice, furnish such information and proper assistance to the Company and its affiliates as may reasonably be required in connection with any litigation in which it or any of its affiliates is, or may become, a party.

(b) The Executive will not discuss with any other employee of the Company or its affiliates the formation or operations of any business intended to compete with the Company or its affiliates, or the possible future employment of such other employee by any business.

(c) If the Executive's employment is terminated under this Agreement, the Executive shall actively pursue other employment and shall promptly notify the Company when he accepts other employment or engages in consulting activities, or works as an independent contractor; and such notification shall indicate the monthly earnings, the annual salary rate, the employer and other information which would enable the Company to perform its obligations under this Agreement.

(d) Any public statements made by the Executive concerning the Company or its affiliates, officers, directors or employees shall be submitted for approval in writing from the Company's public relations and legal departments.

(e) If the Executive fails to comply with the above obligations, the Company may cease making severance payments and extending benefits to the Executive and may recover by appropriate action instituted in any court of competent jurisdiction any severance payments theretofore paid to the Executive.

9. Consolidation, Merger, Sale of Assets - This Agreement shall be binding upon and inure to the benefit of the Executive and the Company and its successors and assigns, including without limitation any corporation with or into which the company may be consolidated, merged or to which the Company sells or transfers all or substantially all of its assets.

10. Notices - Written notices required or furnished under this Agreement shall be sent to the following addresses:

to the Company: Continental Airlines, Inc.  
2929 Allen Parkway  
Houston, Texas 77019  
Attention: General Counsel

to the Executive: John E. Luth  
1701 Hermann Drive, #1505  
Houston, TX 77004

Notices shall be effective on the first business day following receipt thereof. Notices sent by mail shall be deemed received on the date of delivery shown on the return receipt.

11. Amendments - This Agreement may not be amended or changed, orally or in writing except by the written agreement of the Parties.

12. Governing Law - This Agreement, and any dispute arising under or relating to any provision of this Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

13. Confidentiality - All information provided by either Party to the other hereunder, including the terms and conditions of the Agreement, shall be treated by the Party receiving such information as confidential, and shall not be

disclosed by such Party to any party without the prior written consent of the Party from which the information was obtained. This obligation of confidentiality shall survive termination of this Agreement.

14. Severability - If any one or more of the provisions contained in this Agreement are held to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

15. Previous Agreements - This agreement, once executed by the parties, will replace and supersede any and all previous employment agreements, either written or verbal, between the parties.

16. Captions - All Section titles or captions contained in this Agreement are for convenience only and shall not be deemed as part of this Agreement.

The parties hereto have executed this Agreement as of the date and year first above written.

CONTINENTAL AIRLINES, INC.

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By: Mickey P. Foret  
President

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John E. Luth

FIRST AMENDMENT TO  
CONTINENTAL AIRLINES, INC.  
1994 EMPLOYEE STOCK PURCHASE PLAN

Reference is made to Continental Airlines, Inc. 1994 Employee Stock Purchase Plan (the "Plan") approved by the stockholders of Continental Airlines, Inc. on June 30, 1994 and effective July 1, 1994. Terms not defined in this First Amendment are used herein with the meanings provided in the Plan.

1. Paragraph 5(b) of the Plan is amended effective as of July 1, 1994, to read in its entirety as follows:

(b) Payroll deductions for a Participant will commence with the first payroll check after the Participant's authorization for payroll deductions becomes effective, and will end with the last payroll check on or prior to December 31, 1996, unless sooner terminated by the Participant in accordance with Paragraph 6(c) or due to termination of employment in accordance with Paragraph 11, or unless the Participant is suspended from participation due to a withdrawal of payroll deductions in accordance with Paragraph 10.

2. A new Paragraph 7-A is added immediately after Paragraph 7 of the Plan, effective as of July 1, 1994, to read in its entirety as follows:

7-A. Special Provisions for 1994.

(a) In addition to all other provisions of the Plan and notwithstanding any other provisions of the Plan to the contrary:

(i) each Employee who becomes a Participant and whose payroll deductions commence during the Calendar Quarter beginning on October 1, 1994 (the "1994 Fourth Quarter") will be entitled to elect, by filing an authorization form provided by the Employer, to double the amount of such Participant's payroll deductions during the 1994 Fourth Quarter; (ii) the additional amounts so deducted from such Participant's Base Pay as a result of such doubling of payroll deductions during the 1994 Fourth Quarter (the "Special Deductions") will be credited to such Participant's Account; (iii) such Participant will be deemed to have been granted an option to purchase, on the first day of the Calendar Quarter beginning July 1, 1994 (the "1994 Third Quarter"), as many full and fractional shares as may be purchased with the Special Deductions at the option price per share of Common Stock (the "Special Deductions Option Price") that is equal to the lower of:

(x) 85% of the closing price of the Common Stock on the New York Stock Exchange, Inc. as reported by The Wall Street Journal in the New York Stock Exchange Composite Transactions on the first day of the 1994 Third Quarter (or on the next regular business day on which shares of the Common Stock of the Company are traded in the event that no shares of the Common Stock have been traded on the first day of the 1994 Third Quarter); or

(y) 85% of the closing price of the Common Stock on the New York Stock Exchange, Inc. as reported by The Wall Street Journal in the New York Stock Exchange Composite Transactions on the last day of the 1994 Third Quarter (or on the next regular business date on which shares of the Common Stock of the Company are traded in the event that no shares of the Common Stock have been traded on the last day of the 1994 Third Quarter);

(iv) unless such Participant has elected to withdraw payroll deductions during the 1994 Fourth Quarter in accordance with Paragraph 10 or Paragraph 11(b) or such Participant has terminated participation in the Plan under Paragraph 11(c), such Participant's option for the purchase of Common Stock with the Special Deductions will be deemed to have been exercised automatically on the last day of the 1994 Fourth Quarter for the purchase of the number of full and fractional shares of Common Stock which the Special Deductions will purchase at the Special Deductions Option Price; and (v) shares of Common Stock so purchased with Special Deductions will be subject to the same provisions and restrictions as all other shares purchased under the Plan.

(b) The Committee shall have plenary authority to implement the provisions of Paragraph 7-A and to determine by binding interpretation how to resolve any questions that may arise and any inconsistencies that may exist with any other provisions of the Plan or any instruments associated with the Plan.

(c) This Paragraph 7-A shall terminate and cease to be operative for all purposes immediately upon the application of the Special Deductions to purchase shares of Common Stock pursuant to the terms hereof.

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PROSPECTUS

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CONTINENTAL AIRLINES, INC.

1994 Restricted Stock Grant Program

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This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933. The Prospectus relates to the issuance of 1,000,000 shares of the Class B common stock, par value \$.01 per share (the "Common Stock"), of Continental Airlines, Inc., a Delaware corporation, pursuant to a special one-time restricted stock grant program (the "Restricted Stock Grant Program").

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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The date of this Prospectus is July 8, 1994.

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#### AVAILABLE INFORMATION

Continental Airlines, Inc. ("Continental" or the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Reports and other information concerning the Company can be inspected and reproduced at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549; at its New York Regional Office, 7 World Trade Center, Suite 1300, New York, New York 10048; at its Chicago Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60611; and at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. Copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

The Company is the successor to Continental Airlines Holdings, Inc. ("Holdings"), which merged with and into the Company on April 27, 1993. Holdings had also been subject to the informational requirements of the Exchange Act.

The Company will furnish without charge to each person to whom a Prospectus is delivered, upon written or oral request of such person, a copy of any document that constitutes a part of this Prospectus at the time of such request, and any or all of the information that has been incorporated by reference in this Prospectus (other than exhibits). Any request for such information should be directed to the Secretary of the Company, at the Company's headquarters: 2929 Allen Parkway, Houston, Texas 77019.

#### THE COMPANY

Continental Airlines, Inc., a Delaware corporation, is the issuer of the stock to be issued pursuant to the options granted under the Plan. The address of its executive offices is 2929 Allen Parkway, Houston, Texas 77019, and its phone number at that address is (713) 834-5000.

## RESTRICTED STOCK GRANT PROGRAM

### General Purpose; Eligibility

The purpose of the Restricted Stock Grant Program (the "Program") is to make eligible employees stockholders and thereby to provide extra incentives for eligible employees to focus on improved performance that could increase the value of the Company's stock. As explained in the Company's April 7, 1994 letter to employees, the Program provides for a one-time grant of approximately one million shares ("Restricted Shares") of Class B common stock, \$.01 par value per share of the Company (the "Common Stock"), approximately 4% of the ownership of the Company, to all full and part-time domestic employees of the Company, Continental Express, System One and Chelsea who were employed (as defined below) on both December 31, 1993 and March 4, 1994 at the Continental Manager, or its equivalent position, or below even if such persons are subsequently furloughed. One-half of the total Restricted Shares granted are allocated on an equivalent, fixed share basis to each participant with the remaining one-half to be allocated in direct relation to the percentage pay cut incurred by each participating employee.

### Risk of Forfeiture; Vesting; Transferability

The Restricted Shares will vest at a rate of 25% per year beginning January 2, 1995 and each January 2 thereafter until 1998 (each January 2 being hereinafter referred to as a "Vesting Date"). (No fractional shares will vest or be issued to any grantee under the Program; any such fractional shares will be carried forward and credited towards vesting in future periods.) Except as described under "-- Certain Terminations", a grantee must be employed by the Company or one of its subsidiaries as of each Vesting Date in order to receive custody of such grantee's Restricted Shares that will vest on that Vesting Date and a grantee who ceases to be employed by the Company or one of its subsidiaries will immediately forfeit all unvested Restricted Shares. No right under the Program, contingent or otherwise, other than with respect to Restricted Stock as to which restrictions have lapsed, shall be (i) assignable, saleable or otherwise transferable by grantees otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, (ii) subject to any debts, contracts, liabilities or torts of the grantee entitled to such right or (iii) subject to any encumbrance, pledge or charge of any nature.

### Custody of Restricted Shares; Ownership Rights

Grantees are entitled to all voting and other ownership rights in the Restricted Shares as of the date of issuance of the Restricted Shares, but the Restricted Shares will be physically held in trust or in escrow until vested. A certificate for Restricted Shares will be delivered to grantees as soon as administratively practicable after January 2, 1998, subject to earlier delivery of a certificate for Restricted Shares that have theretofore become vested upon request by the grantee to the Company's stock transfer agent and subject to satisfaction of such requirements and payment of such administrative charges as the stock transfer agent may require. The Company's stock transfer agent is Society National Bank, Attention: Corporate Trust Re-org Department, 01-20-P1, P. O. Box 6477, Cleveland, Ohio.

Until vested, Restricted Shares are not transferable in any manner. Any securities or other property (other than cash) distributed as dividends with respect to Restricted Shares or which holders of Common Stock become entitled to receive in respect of Common Stock shall be treated in the same manner and shall be subject to the same restrictions (including vesting requirements) as the underlying Restricted Shares on account of which such dividends are paid. Any cash dividends that the Company might pay on Common Stock would be distributed to holders of Restricted Shares whether or not vested.

#### Certain Terminations

In the event of a grantee's death, complete and total disability, retirement or involuntary termination (except for gross misconduct, but including "early outs" not involving gross misconduct), prior to a Vesting Date, the remaining restrictions applicable to the Restricted Shares not theretofore vested will be deemed to terminate, all such Restricted Shares shall vest and be released from the trust or escrow under which they were held, and certificates therefor shall be deliverable to such grantee or to the person or persons to whom such grantee's rights to the Restricted Shares pass by will or by applicable laws or descent and distribution, as the case may be. In the event a grantee voluntarily terminates employment or in the event a grantee's employment is terminated involuntarily for gross misconduct, prior to a Vesting Date, all Restricted Shares not theretofore vested will be forfeited. Gross misconduct means such misconduct, dishonesty, disloyalty, disobedience or other action or inaction that might reasonably be expected to injure the Company or any of its subsidiaries or its or their business interests or reputation. Grantees shall be deemed to remain employed while on furlough or inactive status as determined by the employer, and despite any transfer between the Company and a subsidiary. The Company's determination in good faith regarding whether a termination of employment or gross misconduct has occurred shall be conclusive and determinative.

#### Reorganization of Company and Subsidiaries

The existence of the Program does not affect the right or power of the Company or its stockholders or subsidiaries to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

#### Adjustment of Shares

In the event of stock dividends, spin-offs of assets or other extraordinary dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, reorganizations, liquidations, issuances of rights or warrants and similar transactions or events affecting the Restricted Shares ("Recapitalization Events"), all securities or other property (other than cash) that holders of Common Stock are entitled to receive in respect of Common Stock by reason of each successive Recapitalization Event shall be treated in the same manner and shall be subject to the same restrictions (including vesting requirements) as the underlying Restricted Shares.

## Amendment and Termination

The Company may not amend or terminate a grantee's rights to the Restricted Shares without such grantee's consent.

## No Guarantee of Employment

The Restricted Shares do not confer upon grantees any right with respect to continuance of employment or other service with the Company or any subsidiary, nor do they interfere in any way with the right the Company or any subsidiary would otherwise have to terminate a grantee's employment or other service at any time.

## Withholding of Taxes

As grantees vest in their shares of Common Stock (each year), the stock transfer agent will send them a Form 1099 containing important tax information regarding income to be reported for the relevant tax year. The Company shall have the right to (i) make deductions from the number of Restricted Shares otherwise deliverable to a grantee in an amount sufficient to satisfy withholding of any federal, state or local taxes required by law, or (ii) take such other action as may be necessary or appropriate to satisfy any such tax withholding obligations.

## Federal Income Tax Consequences

The following is a brief summary of certain of the federal income tax consequences resulting from receipt of Restricted Shares based on federal income tax laws in effect on January 1, 1994. This summary is not intended to provide or supplement tax advice to individual grantees. The summary contains general statements based on current federal income tax statutes, regulations and currently available interpretations thereof and thus cannot encompass all factors which may affect the tax consequences to individual grantees. Grantees are advised to address specific inquiries to their personal tax advisors with respect to any tax questions that may arise in connection with the receipt or sale of the Restricted Shares, including any state or foreign tax consequences and the effect, if any, of gift, estate, and inheritance taxes.

As a recipient of Restricted Shares, grantees generally will be subject to tax at ordinary income rates on the fair market value of the Restricted Shares at such time as the shares are vested (i.e., no longer subject to a risk of forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code of 1986, as amended (the "Code")). However, if a grantee elects under Section 83(b) of the Code within 30 days of the date of transfer of the Restricted Shares, such grantee will have taxable ordinary income on the date of transfer of the shares equal to the fair market value of the shares (determined without regard to the risk of forfeiture or restrictions on transfer). If a Section 83(b) election has not been made, any cash dividends received with respect to Restricted Shares that are subject at that time to a risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable to such grantee as ordinary income.

To the extent that a grantee recognizes ordinary income in the circumstances described above, the Company or subsidiary for which such grantee performs services will be entitled to a corresponding deduction provided that, among other things, (i) the income meets the test of reasonableness, is an ordinary and necessary business expense and is not an "excess parachute payment" within the meaning of Section 280G of the Code, and (ii) any applicable withholding obligations are satisfied.

Neither the Company nor any subsidiary makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible to receive the Restricted Shares.

#### Severability

In the event that any provision of the Program as stated herein shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Program and the Program shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never been included herein.

#### Governing Law

The Program shall be construed in accordance with the laws of the State of Texas to the extent federal law does not supersede and preempt Texas law. Neither the Program nor the grant made pursuant thereto constitutes a qualified plan described in Section 401(a) of the Internal Revenue Code of 1986, as amended, and neither is subject to the Employee Retirement Income Security Act of 1974, as amended.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission are incorporated by reference in this Prospectus and all documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Prospectus and prior to the termination of the offering of the shares of Common Stock offered hereby shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents:

(a) Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 0-9781);

(b) All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the document referred to in (a) above; and

(c) The description of the Company's Common Stock contained in the registration statement pursuant to which the Company's shares of Common Stock were registered under Section 12 of the Exchange Act, and any amendments or reports filed for the purpose of updating such description.

#### LEGAL OPINION

The legality of the Common Stock offered hereby is being passed upon for the Company by Mayor, Day, Caldwell & Keeton, L.L.P., 700 Louisiana, Suite 1900, Houston, Texas 77002.

#### EXPERTS

The consolidated financial statements and schedules of Continental Airlines, Inc. at December 31, 1993 and for the period April 28, 1993 through December 31, 1993, and the consolidated statements of operations, redeemable and nonredeemable preferred stock and common stockholders' equity and cash flows and schedules of Continental Airlines Holdings, Inc. for the period January 1, 1993 to April 27, 1993, appearing in CAL's 1993 Form 10-K have been audited by Ernst & Young, independent auditors, as set forth in their reports thereon included therein and incorporated herein by reference. Such consolidated financial statements and schedules are incorporated by reference in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements and schedules of Continental Airlines Holdings, Inc. and its subsidiaries as of December 31, 1992, and for each of the two years in the period ended December 31, 1992, incorporated by reference in this Registration Statement have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their report

with respect thereto and are included herein in reliance upon the authority of said firm as experts in accounting and auditing. Reference is made to said report, which includes an explanatory paragraph that describes several uncertainties.

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

	Three Months Ended September 30, 1994	Nine Months Ended September 30, 1994	Three Months Ended September 30, 1993
Primary and fully diluted:			
Average shares outstanding-Class A . . . . .	6,301	6,301	6,013
Average shares outstanding-Class B . . . . .	19,253 25,523	19,253 25,523	11,423 17,436
Add: Assumed exercise of certain Class A warrants using the treasury stock method . . . . .	704	-	862
Add: Assumed exercise of certain Class B warrants using the treasury stock method . . . . .	1,604	-	3,164
Add: Assumed exercise of certain Class B stock options using the treasury stock method . . . . .	26	-	-
Add: Assumed issuance of certain Class B restricted stock using the treasury stock method . . . . .	1,132	-	-
Total adjusted shares. . . . .	28,989	25,523	21,462
Net income (loss) applicable to common shares . . . . .	\$29,188	\$(94,124)	\$11,136
Add: Interest savings (net of tax) due to assumed reduction of borrowings (1). . . . .	588	-	336
Adjusted net income (loss) applicable to common shares . . . . .	\$29,776	\$(94,124)	\$11,472
Earnings (loss) per share amount . . . . .	\$ 1.03	\$ (3.69)	\$ 0.53

(1) Since the number of shares of common stock obtainable on exercise of outstanding warrants and options, in the aggregate, exceeds 20 percent of each class of common stock outstanding at the end of the period, the treasury stock method for determining the dilutive effect of the warrants and options assumes such excess proceeds were used to repurchase a portion of the Company's outstanding debt obligations.

NOTE: Earnings (loss) per share data for the nine months ended September 30, 1993 is not meaningful since the Company was recapitalized and adopted fresh start reporting as of April 27, 1993.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. AMOUNTS SHOWN IN THOUSANDS OF DOLLARS, EXCEPT FOR SHARE DATA.

9-MOS		
	DEC-31-1994	
	SEP-30-1994	
		501,155
		0
	439,820	0
		158,388
	1,187,018	1,731,225
		0
	4,987,954	
2,106,359		0
		267
51,125		0
		628,809
4,987,954		0
	4,260,710	0
		0
	4,234,665	
	26,045	
	(183,022)	
	(133,953)	
	47,150	
(89,915)		
		0
		0
		0
	(89,915)	
	(3.69)	
	(3.69)	