

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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
Houston, Texas 77019
(Address of principal executive offices)
(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 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of August 4, 1995, 6,301,056 shares of Class A common stock and 20,893,678 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 Ended June 30,		Six Months Ended June 30,	
	1995	1994	1995	1994
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating Revenues:				
Passenger	\$1,355	\$1,241	\$2,595	\$2,446
Cargo, mail and other	123	150	292	301
	1,478	1,391	2,887	2,747
Operating Expenses:				
Wages, salaries and related costs	357	377	723	750
Rentals and landing fees	217	195	432	399
Aircraft fuel	168	173	337	348
Commissions	131	110	250	231

Maintenance, materials and repairs	101	130	198	265
Depreciation and amortization.	65	63	129	125
Other.	330	344	680	686
	1,369	1,392	2,749	2,804
Operating Income (Loss)	109	(1)	138	(57)
Nonoperating Income (Expense):				
Interest expense	(56)	(61)	(110)	(124)
Interest capitalized	3	4	4	7
Interest income.	8	5	13	11
Gain (loss) on disposition of property, equipment and other assets, net	-	(1)	1	2
Other, net	117	1	107	(6)
	72	(52)	15	(110)
Income (Loss) before Income Taxes and Minority Interest	181	(53)	153	(167)
Income Tax Benefit (Provision).	(78)	4	(78)	47
Income (Loss) Before Minority Interest.	103	(49)	75	(120)
Minority Interest	(1)	-	(3)	(1)
Net Income (Loss)	102	(49)	72	(121)
Preferred Dividend Requirements and Accretion to Liquidation Value.	(2)	(1)	(3)	(3)
Income (Loss) Applicable to Common Shares	\$ 100	\$ (50)	\$ 69	\$ (124)
Earnings (Loss) per Common and Common Equivalent Share	\$ 3.02	\$(1.97)	\$ 2.31	\$(4.83)
Earnings (Loss) per Common Share Assuming Full Dilution.	\$ 2.99	\$(1.97)	\$ 2.21	\$(4.83)

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	June 30, 1995 (Unaudited)	December 31, 1994
Current Assets:		
Cash and cash equivalents, including restricted cash and cash equivalents of \$150 and \$119, respectively	\$ 502	\$ 396
Accounts receivable, net	435	376
Spare parts and supplies, net.	139	142
Prepayments and other.	78	76
Total current assets.	1,154	990
Property and Equipment:		
Owned property and equipment:		
Flight equipment.	1,039	1,004
Other	274	282
	1,313	1,286
Less: Accumulated depreciation	249	207
	1,064	1,079
Purchase deposits for flight equipment	97	166
Capital leases:		
Flight equipment.	400	400
Other	27	17
	427	417

Less: Accumulated amortization	95	69
	332	348
Total property and equipment	1,493	1,593
Other Assets:		
Routes, gates and slots, net	1,560	1,591
Reorganization value in excess of amounts allocable to identifiable assets, net	259	318
Investments	151	17
Other assets, net	60	92
Total other assets	2,030	2,018
Total Assets	\$4,677	\$4,601

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 1995 (Unaudited)	December 31, 1994
Current Liabilities:		
Debt and capital lease obligations in default.	\$ 583	\$ 490
Current maturities of long-term debt	75	126
Current maturities of capital leases	26	26
Accounts payable	615	630
Air traffic liability	703	584
Accrued payroll and pensions	175	179
Accrued other liabilities	338	373
Total current liabilities	2,515	2,408
Long-Term Debt	922	1,038
Capital Leases	158	164
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes	102	28
Deferred credit - operating leases	118	138
Accruals for aircraft retirements and excess facilities	354	392
Other	238	251
Total deferred credits and other long-term liabilities	812	809
Commitments and Contingencies		
Minority Interest	29	26
Redeemable Preferred Stock (aggregate redemption value - \$59 and \$56, respectively)	56	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; 20,686,065 and 20,403,512 shares issued	-	-
Additional paid-in capital	778	778
Accumulated deficit	(580)	(652)
Unvested portion of restricted stock	(13)	(14)
Additional minimum pension liability	(7)	(7)
Unrealized gain (loss) on marketable equity securities	7	(2)

Treasury stock - 30,000 shares		
at December 31, 1994.	-	-
Total common stockholders' equity.	185	103
Total Liabilities and Stockholders' Equity.	\$4,677	\$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)

	Six Months Ended June 30, 1995 (Unaudited)	1994 (Unaudited)
Net Cash Provided by Operating Activities . . .	\$166	\$ 33
Cash Flows from Investing Activities:		
Proceeds from disposition of property, equipment and other assets.	4	2
Capital expenditures, net of returned purchase deposits	(41)	(145)
Purchase deposits refunded in connection with aircraft delivered	46	38
Proceeds from System One transactions.	40	-
Net cash provided (used) by investing activities	49	(105)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt, net.	8	11
Payments on long-term debt and capital lease obligations	(119)	(121)
Proceeds from issuance of common stock	2	-
Net cash used by financing activities	(109)	(110)
Net Increase (Decrease) in Cash and Cash Equivalents	106	(182)
Cash and Cash Equivalents-Beginning of Period .	396	721
Cash and Cash Equivalents-End of Period	\$502	\$539
Supplemental Cash Flow Information:		
Interest paid.	\$ 97	\$ 91
Investing and Financing Activities Not Affecting Cash:		
Reclassification of accrued rent, capital leases and interest to long-term debt	\$ 30	\$ 22
Capital lease obligations incurred	\$ 9	\$ 3
Property and equipment acquired through the issuance of debt.	\$ 9	\$ 10
Financed purchase deposits for flight equipment	\$ 5	\$ 13
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	\$ -

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

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

In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Such adjustments are of a normal recurring nature. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Annual Report of Continental Airlines, Inc. (the "Company" or "Continental") on Form 10-K for the year ended December 31,

1994.

NOTE 1 - LIQUIDITY

In connection with the Go Forward Plan, the Company has retired from service 23 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 and debt service payments as the aircraft were removed from service. In addition, in February 1995, Continental reduced its rental payments on an additional 11 widebody aircraft leased at significantly above-market rates. Also, the Company has reached an agreement in principle with a lessor relating to one 747 aircraft, subject to settlement of certain litigation. See Note 5. The Company began negotiations in February 1995 with the lessors of (or lenders with respect to) the 35 widebody aircraft to amend the payment schedules and provide, effective February 1, 1995, alternative compensation, including, in certain cases, debt securities convertible into Continental's Class B Common Stock, in lieu of current cash payments.

As of August 11, 1995, the Company had issued convertible secured debentures in an aggregate principal amount of \$139 million, entered into certain agreements, including restructured leases, and made certain payments to lessors with respect to 27 of these aircraft. Continental is continuing negotiations with substantially all the remaining creditors and lessors regarding the modification of contractual obligations. Certain long-term debt and capital lease obligations were in default or cross default as of August 11, 1995. In accordance with generally accepted accounting principles, such defaulted obligations have been classified as current liabilities as of June 30, 1995. However, the Company does not believe it probable that it will be required to fund such defaulted obligations in the next 12 months. In addition, certain operating leases with remaining aggregate rentals of \$2.1 billion as of June 30, 1995 were in default or cross default as of August 11, 1995. The Company received a notice of lease termination dated April 18, 1995 from one lessor relating to one A300 aircraft, and such lessor sued the Company and certain other persons on May 2, 1995. See Note 5. The notice of lease termination resulted in additional cross defaults as of June 30, 1995. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments".

In July 1995, the Company was also sued for breach of lease and related documents by a lender with respect to one Boeing 747 aircraft leased by the Company. Continental believes that any breach of the lease and related documents has been cured and as a result, an event of default has not been reflected in the consolidated financial statements. See Note 5.

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 and common stock equivalents (stock options, warrants and restricted stock) outstanding. The number of shares used in the primary and fully diluted computations for the three and six months ended June 30, 1995 was 35,014,697 and 34,982,388, respectively. The number of shares used in the primary and fully diluted computations for both the three and six months ended June 30, 1994 was 25,522,568. 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 \$2 million and \$3 million for the three and six months ended June 30, 1995, respectively.

NOTE 3 - PREFERRED AND COMMON STOCK

In connection with the Company's debt restructuring program, the Company entered into an agreement with General Electric Capital Corporation and its affiliates (collectively, "GE Capital"), pursuant to which Continental issued two new series of preferred stock in exchange for its previously existing preferred stock. The new series of preferred stock are substantially identical to the respective previous series, except that the new series provide that all dividends accumulating on the new preferred stock through December 31, 1996 shall be paid only in additional respective shares of such preferred stock. 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% Cumulative Preferred Stock ("Series A 8% Preferred"). 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"). Each such exchange was effective June 30, 1995.

Holders of Series A 8% Preferred and Series A 12% Preferred are entitled to receive, when and if declared by the Board of Directors (the "Board"), 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 \$8 and \$12 per share, respectively. 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 8% Preferred or Series A 12% Preferred. All outstanding shares of both series of preferred stock are mandatorily redeemable on April 27, 2003 out of legally available funds. In each case, the redemption price is \$100 per share plus accrued unpaid dividends. Neither series of preferred stock is convertible into shares of common stock and neither series has voting rights, except under limited circumstances. The Series A 8% Preferred ranks pari passu with the Series A 12% Preferred as to payment of dividends and liquidation.

On June 5, 1995, the stockholders of the Company approved an amendment to the Company's 1994 Incentive Equity Plan (the "Plan Amendment"). In connection with the Plan Amendment, the Human Resources Committee of the Board of Directors of the Company authorized the exchange and repricing of substantially all the outstanding stock options for new options bearing a shorter exercise term and generally exercisable at a price lower than that of the canceled options, subject to certain conditions. The exercise price for the new options equals the market value per share on the date of grant (\$16.00).

NOTE 4 - INCOME TAXES

A provision was recorded for the three and six months ended June 30, 1995 related to the System One Information Management, Inc. ("System One") transaction. See Note 6. No additional provision was recorded since the Company had incurred net operating losses for which a tax benefit had not previously been recorded. The income tax benefit for the three and six months ended June 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.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Company, the City and County of Denver (the "City") and certain other parties have entered into an agreement (the "Settlement"), which was approved by the Denver City Council on April 10, 1995 and relates to gates and operational space at the new Denver International Airport ("DIA"). The 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 Continental, (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 gates and operational space exceed Continental's current needs at the airport, and the Company subleased to America West Airlines, Inc. and Frontier Airlines, Inc. five of its remaining gates and certain operational space. The Company will attempt to sublease additional facilities and operational space as well.

Another air carrier filed a complaint with the Department of Transportation ("DOT") alleging that the Settlement had increased its costs at DIA and it had not approved the changes to the airline rates. The DOT dismissed the air carrier's complaint. The Settlement may still be challenged by certain other parties, including other air carriers, and the Company cannot predict what the outcome of any such challenge will be. If the Settlement is successfully challenged, the Company believes it has defenses against the City, as well as claims against the City that 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".

In connection with the restructuring, two lawsuits have been filed by a lessor and a lender. On May 1, 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 alleges that Continental has breached the terms of an aircraft lease between GATX and Continental. GATX seeks 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. Continental filed its response in the GATX litigation on June 16, 1995. Discovery is currently ongoing and no trial date has been set.

On July 7, 1995, The Nippon Credit Bank, Ltd. ("Nippon") filed a suit against Continental in the U.S. District Court in Los Angeles, California with respect to a Boeing 747 aircraft leased by Continental. Nippon alleges that events of default exist 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 claims that it is entitled to terminate the lease and seeks \$35 million in damages. Because Continental has made all rent payments due under the lease (including interest required under the lease to be paid in respect of late payments) and believes it is otherwise in compliance with the requirements of the lease, Continental denies that an event of default exists under the lease, denies that Nippon is entitled to terminate the lease and disagrees with Nippon's claim for damages even if an event of default were deemed to exist.

NOTE 6 - 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 the outstanding indebtedness of System One owed to each of EDS and Continental was repaid. System One's revenues, included in cargo, mail and other revenue, and related net earnings are not material to the consolidated financial statements. In connection with these transactions, the Company recorded a pre-tax gain of \$108 million, which amount is included in Other Nonoperating Income (Expense) in the accompanying consolidated statement of operations. 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 Contract. The Company and the Independent Association of Continental Pilots ("IACP") have negotiated a 24-month collective bargaining agreement. The new agreement has been approved by the Board of Directors of the IACP and remains subject to IACP member ratification. The new agreement provides for an immediate \$20 million cash payment by the Company upon ratification of the agreement (which amount has been accrued in the second quarter of 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. The agreement will be submitted to the pilots for ratification. It is anticipated that the votes will be counted on August 30, 1995.

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 June 30,		Net
	1995	1994	Increase/ (Decrease)
Revenue passengers (thousands)	9,761	10,516	(7.2) %
Revenue passenger miles (millions) (a)	10,259	10,235	0.2 %
Available seat miles (millions) (b)	15,180	16,089	(5.6) %
Passenger load factor (c)	67.6%	63.6%	4.0 pts.
Breakeven passenger load factor (d)	62.5%	63.1%	(0.6) pts.
Passenger revenue per available seat mile (cents) (e)	8.40	7.28	15.4 %
Operating cost per available seat mile (cents) (f)	8.48	7.85	8.0 %
Average yield per revenue passenger mile (cents) (g)	12.43	11.44	8.7 %
Average fare per revenue passenger . .	\$130.66	\$111.32	17.4 %

	Six Months Ended June 30,		Net Increase/ (Decrease)
	1995	1994	
Average length of aircraft flight (miles)	834	717	16.3 %
Average daily utilization of each aircraft (h)	9:19	10:03	(7.3) %
Actual aircraft in fleet at end of period	317	313	1.3 %
Revenue passengers (thousands)	18,902	19,864	(4.8) %
Revenue passenger miles (millions) (a)	19,820	19,538	1.4 %
Available seat miles (millions) (b) . .	31,183	31,373	(0.6) %
Passenger load factor (c)	63.6%	62.3%	1.3 pts.
Breakeven passenger load factor (d) . .	60.3%	63.1%	(2.8) pts.
Passenger revenue per available seat mile (cents) (e)	7.87	7.35	7.1 %
Operating cost per available seat mile (cents) (f)	8.18	8.11	0.9 %
Average yield per revenue passenger mile (cents) (g)	12.39	11.80	5.0 %
Average fare per revenue passenger . .	\$129.90	\$116.03	12.0 %
Average length of aircraft flight (miles)	818	739	10.7 %
Average daily utilization of each aircraft (h)	9:27	9:49	(3.7) %
Actual aircraft in fleet at end of period	317	313	1.3 %

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

Due to the greater demand for air travel during the summer months, revenues in the airline industry in the third quarter of the year are generally 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. Continental's results of operations usually have 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 Continental and its competitors.

RESULTS OF OPERATIONS

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three and six months ended June 30, 1995 as compared to the three and six months ended June 30, 1994. The Company's net income in 1995 included a \$30 million net gain on the System One transactions. See Note 6.

Three Months Ended June 30, 1995 and 1994

The Company recorded consolidated net income of \$102 million for the three months ended June 30, 1995 as compared to a consolidated net loss of \$49 million for the three months ended June 30, 1994.

Passenger revenues of \$1.4 billion for the quarter ended June 30, 1995 increased 9.2%, \$114 million, as compared to the same period in 1994, due primarily to an 8.7% increase in Continental's jet yield and a 0.2% increase in jet revenue passenger miles.

Cargo, mail and other revenues decreased 18.0%, \$27 million, in the three months ended June 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.

Wages, salaries and related costs decreased 5.3%, \$20 million, during the quarter ended June 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 39,800 as of June 30, 1994 to approximately 33,600 as of June 30, 1995. Such decrease was partially offset by accruals for a \$20 million cash payment anticipated to be due to the pilots upon ratification of a new collective bargaining agreement (see Note 6), 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 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.

Rentals and landing fees increased 11.3%, \$22 million, for the three months ended June 30, 1995 compared to the same period in 1994. Rent expense increased primarily as a result of the delivery of new Boeing 737 and 757 aircraft during 1994 and early 1995. Such increase was partially offset by retirements and groundings of certain leased aircraft and reduced facility rentals and landing fees resulting from downsizing operations.

Aircraft fuel expense decreased 2.9%, \$5 million, in the three months ended June 30, 1995 compared to the same period in 1994, principally due to a 10.1% reduction in the quantity of jet fuel used from 333.9 million gallons in the second quarter of 1994 to 300.1 million gallons in the second quarter of 1995. Such decrease was partially offset by a 7.7% increase in the average price per gallon from 50.6 cents in 1994 to 54.5 cents in 1995.

Commissions expense increased 19.1%, \$21 million, in the quarter ended June 30, 1995 as compared to the same period in the prior year primarily due to increased passenger revenues and higher average effective commission rates.

Maintenance, materials and repairs costs decreased 22.3%, \$29 million, during the quarter ended June 30, 1995 as compared to the same period in 1994 principally due to (i) the replacement of older aircraft with new aircraft, (ii) the closure of maintenance facilities in Los Angeles and Denver and (iii) the shift of scheduled maintenance work to outside suppliers who can support the Company's flight operations at a lower cost and at locations more convenient to its primary routes.

Other operating expense decreased 4.1%, \$14 million, in the three months ended June 30, 1995 as compared to the same period in the prior year primarily as a result of decreases in advertising expense, catering expense and other miscellaneous expense, partially offset by increases in reservations and sales expense and aircraft servicing expense.

Interest expense decreased 8.2%, \$5 million, during the three months ended June 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.

Interest capitalized decreased 25.0%, \$1 million, in the quarter ended June 30, 1995 as compared to the same period in 1994 principally due to a decrease in the average balance of purchase deposits for flight equipment.

The Company's other nonoperating income (expense) in the quarter ended June 30, 1995 included a pre-tax gain of \$108 million from the System One transactions.

Six Months Ended June 30, 1995 and 1994

The Company recorded consolidated net income of \$72 million for the six months ended June 30, 1995 as compared to a consolidated net loss of \$121 million for the six months ended June 30, 1994.

Passenger revenues of \$2.6 billion for the first six months of 1995 increased 6.1%, \$149 million, as compared to the same period in 1994, due primarily to a 5.0% increase in Continental's jet yield and a 1.4% increase in jet revenue passenger miles.

Wages, salaries and related costs decreased 3.6%, \$27 million, during the first six 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 39,800 as of June 30, 1994 to approximately 33,600 as of June 30, 1995. Such decrease was partially offset by accruals for a \$20 million cash payment anticipated to be due to the pilots upon ratification of a new collective bargaining agreement (see Note 6), employee profit sharing and other incentive programs, including the payment of bonuses for on-time airline performance. In addition, wage rates were impacted by 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.

Rentals and landing fees increased 8.3%, \$33 million, for the first six months of 1995 compared to the same period in 1994. Rent expense increased primarily as a result of the delivery of new Boeing 737 and 757 aircraft during 1994 and early 1995. Such increase was partially offset by retirements and groundings of certain leased aircraft and reduced facility rentals and landing fees resulting from downsizing operations.

Aircraft fuel expense decreased 3.2%, \$11 million, in the first six months of 1995 compared to the same period in 1994, principally due to a 5.8% reduction in the quantity of jet fuel used from 650.5 million gallons in 1994 to 612.5 million gallons in 1995. Such decrease was partially offset by a 2.7% increase in the average price per gallon from 52.1 cents in 1994 to 53.5 cents in 1995.

Commissions expense increased 8.2%, \$19 million, in the first six months of 1995 as compared to the first six months of 1994 primarily due to increased passenger revenues and higher average effective commission rates.

Maintenance, materials and repairs costs decreased 25.3%, \$67 million, during the first six months of 1995 compared to the same period in 1994 principally due to (i) the replacement of older aircraft with new aircraft, (ii) the closure of maintenance facilities in Los Angeles and Denver and (iii) the shift of scheduled maintenance work to outside suppliers who can support the Company's flight operations at a lower cost and at locations more convenient to its primary routes.

Interest expense decreased 11.3%, \$14 million, during the first six 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.

Interest capitalized decreased 42.9%, \$3 million, in the first six 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 18.2%, \$2 million, in the first six 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 six months of 1995 included a pre-tax gain of \$108 million from the System One transactions. Other nonoperating income (expense) in the first six 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, Continental has successfully negotiated agreements to increase its liquidity during 1995 and 1996. As discussed below, under binding agreements reached through August 11, 1995, the Company has improved its liquidity by an estimated \$267 million in 1995 and \$259 million in 1996. This achieves roughly 87% of the Go Forward Plan liquidity goal.

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. On March 30, 1995, Continental amended its principal secured loan agreements with GE Capital and General Electric Company (collectively with GE Capital, the "Lenders") to defer 1995 and 1996 principal payments, and amended certain of its operating lease agreements with one of the Lenders to defer 1995 rental obligations. These agreements with Boeing, the engine manufacturers and the Lenders will improve the Company's liquidity by approximately \$170 million in each of 1995 and 1996.

In connection with the Go Forward Plan, the Company has retired from service 23 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 and debt service payments as the aircraft were removed from service. In addition, in February 1995, Continental reduced its rental payments on an additional 11 widebody aircraft leased at significantly above-market rates. Also, the Company has reached an agreement in principle with a lessor

relating to one 747 aircraft, subject to settlement of certain litigation. See Note 5. The Company began negotiations in February 1995 with the lessors of (or lenders with respect to) the 35 widebody aircraft to amend the payment schedules and provide, effective February 1, 1995, alternative compensation, including, in certain cases, debt securities convertible into Continental's Class B Common Stock, in lieu of current cash payments. As of August 11, 1995, the Company had issued convertible secured debentures in an aggregate principal amount of \$139 million, entered into certain agreements, including restructured leases, and made certain payments to lessors with respect to 27 of these aircraft. The agreements with these lessors are expected to improve the Company's liquidity by an estimated \$77 million and \$69 million in 1995 and 1996, respectively.

On April 10, 1995, the Denver City Council approved an agreement among the City, the Company and certain signatory airlines amending the Company's lease of facilities at DIA by reducing the Company's lease term to five years, reducing to 10 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 also provides for the release of certain claims and the settlement of certain litigation filed by the City against the Company. The agreement is expected to result in annual reduction in costs to the Company of approximately \$20 million over the life of the lease.

As part of its plan to dispose of non-core assets, Continental and System One entered into a series of transactions on April 27, 1995. See Note 6.

Continental's failure to make required payments to the Lenders, the City and certain aircraft lessors and lenders as described above constituted events of default under the respective agreements with such parties. The agreements reached through August 11, 1995 with the Lenders, the City, six aircraft lessors and two lenders have cured defaults under their respective agreements. As of August 11, 1995, defaults under the remaining six widebody aircraft leases were continuing due to the nonpayment of rent, which could entitle the lessors to pursue contractual remedies, including seeking to take possession of the affected aircraft. Additionally, the Company received a notice of lease termination dated April 18, 1995 from one lessor relating to one A300 aircraft, and such lessor sued the Company and certain other persons on May 2, 1995. See Note 5. The notice of lease termination resulted in additional cross defaults as of June 30, 1995 and accordingly, such defaulted debt and capital lease obligations have been classified as current liabilities as of June 30, 1995 in accordance with generally accepted accounting principles. As of August 11, 1995, the Company is in negotiations with substantially all the remaining lessors. The Company believes it will be able to successfully conclude the remaining negotiations and thus avoid any material adverse effect on the Company.

In July 1995, the Company was also sued for breach of lease and related documents by a lender with respect to one Boeing 747 aircraft leased by the Company. Continental believes that any breach of the lease and related documents has been cured and as a result, an event of default has not been reflected in the consolidated financial statements. See Note 5.

In addition, under "cross default" provisions, the payment defaults and the notice of lease termination from a lessor of one A300 aircraft create (and the Company's actions in connection with the Boeing 747 lease may have created) defaults under a significant number of Continental's other lease and debt agreements, and the Company's obligations under the agreements subject to such cross defaults are also eligible to be declared in default. However, management believes that it is unlikely that lessors or creditors will exercise remedies under cross default provisions because (i) the Company is making all required contractual payments under the applicable agreements, (ii) the contractual payments on a substantial majority of aircraft leases are at current market rates, (iii) taking possession of the aircraft would cause the lessors or lenders to incur remarketing costs, and (iv) exercise of remedies could expose lessors and lenders to "lender liability" litigation. Additionally, the Company has made substantial progress in negotiations with lenders and lessors to cure the defaults. Management does not believe that events of default or cross defaults remaining after June 30, 1995 will have a material adverse effect on the Company.

As a result of a 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's non-payment of rentals may have resulted in an event of default under the related lease agreements with Avions de Transport Regional ("ATR"). In July 1995, the Company reached a settlement with ATR which will cure any such payment default and provides for the settlement of certain claims between the Company and ATR.

The Company is in default under the debt agreement relating to the financing of the Company's Los Angeles International Airport ("LAX") maintenance facility. At June 30, 1995, the principal balance of the applicable obligation was approximately \$63 million. As of August 11, 1995, the Company was in negotiations with the holders of the debt to restructure such debt and thereby cure the default. In light of the current status of such negotiations, the Company does not anticipate that such default will have a material adverse effect on the Company.

The Company has no current plans to take other actions in the future that would constitute additional events of default.

As a result of the defaults and cross-defaults described above that were continuing at August 11, 1995, approximately \$583 million of the Company's long-term debt and capital lease obligations were classified as debt and capital lease obligations in default within current liabilities as of June 30, 1995. While the Company does not believe it is probable that it will be required to fund such defaulted obligations in the next 12 months, generally accepted accounting principles require that such defaulted obligations be classified as current liabilities at June 30, 1995. In addition, certain operating leases with remaining aggregate rentals of \$2.1 billion as of June 30, 1995 were in default or cross default at August 11, 1995.

Continental has firm commitments to take delivery of 22 new 737 and five new 757 aircraft in 1995, one new 757 aircraft in 1996 and 43 new jet aircraft during the years 1998 through 2002. The estimated aggregate cost of these aircraft is approximately \$3.4 billion. As of August 11, 1995, 17 new 737 and three new 757 aircraft had been delivered. In December 1994, Continental Express, Inc. ("Express"), a wholly owned subsidiary, contracted with Beech Acceptance Corporation ("Beech") for the purchase and financing of 25 Beech 1900-D turboprop 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 August 11, 1995, two Beech 1900-D aircraft had been delivered. In connection with the rescheduling of jet aircraft deliveries, \$72 million was refunded in the first six months of 1995. The Company currently anticipates that available firm financing commitments 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.

Continental expects its 1995 capital expenditures, exclusive of aircraft, to aggregate approximately \$83 million, primarily relating to aircraft modifications, passenger terminal facility improvements and maintenance, telecommunications and ground equipment.

As of June 30, 1995, the Company had approximately \$502 million in cash and cash equivalents, compared to \$396 million as of December 31, 1994. Net cash provided by operating activities increased by approximately \$133 million during the six months ended June 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 to approximately \$49 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 cancelled 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 six months ended June 30, 1995 compared to the same period in the prior year remained relatively constant.

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

Approximately \$150 million and \$119 million of cash and cash equivalents at June 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. In addition, Continental Micronesia, Inc. ("CMI"), a 91%-owned subsidiary, is required by its loan agreement with GE Capital to maintain certain minimum cash balances and net worth levels, which effectively restrict the amount of cash available to Continental from CMI. As of June 30, 1995, CMI had a minimum cash balance requirement of \$26 million.

Continental currently believes that its cash on hand, together with cash expected to be generated from operations, cash anticipated to be generated from the disposition of non-strategic assets and available aircraft financing will be sufficient to fund its operations, fleet commitments and expected capital expenditures for the remainder of 1995.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 5 of Notes to Consolidated Financial Statements.

ITEM 2. CHANGES IN SECURITIES.

See Note 3 for a discussion of the exchange of the 8% Preferred and 12% Preferred for Series A 8% Preferred and Series A 12% Preferred.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

As more fully discussed in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments", Continental is in default and cross default on certain long-term debt and capital and operating lease obligations.

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

The Company's Annual Meeting of Stockholders was held on June 5, 1995. The following members were elected to the Company's Board of Directors to hold office for the ensuing year:

Nominee	Votes For	Votes Withheld
Thomas J. Barrack, Jr.	72,559,418	5,923,231
Gordon M. Bethune	72,559,421	5,923,228
David Bonderman	72,559,710	5,922,939
Gregory D. Brennehan	72,554,631	5,928,018
Joel H. Cowan	72,561,113	5,921,536
Patrick Foley	72,561,515	5,921,134
Rowland C. Frazee, C.C.	72,560,043	5,922,606
Hollis L. Harris	72,561,605	5,921,044
Dean C. Kehler	72,559,039	5,923,610
Robert L. Lumpkins	72,560,456	5,922,193
Douglas H. McCorkindale	72,561,558	5,921,091
David E. Mitchell, O.C.	72,560,666	5,921,983
Richard W. Pogue	72,561,480	5,921,169
William S. Price	72,560,781	5,921,868
Donald L. Sturm	72,561,375	5,921,274
Claude I. Taylor, O.C.	72,560,467	5,922,182
Karen Hastie Williams	72,560,228	5,922,421
Charles A. Yamarone	72,559,729	5,922,920

An amendment to the Company's 1994 Incentive Equity Plan (the "Plan") was proposed to (i) increase the number of shares of Class B common stock covered by the Plan from 2,300,000 to 3,000,000 and increase to 400,000 the number of shares subject to options that may be granted to any participant during any calendar year, (ii) permit the Chief Executive Officer to administer and make awards under the Plan with respect to certain individuals, (iii) provide that the Plan administrator may require certain restrictions and (iv) make certain technical changes.

The votes of the stockholders on this proposal were as follows:

Votes For	Votes Against	Votes Abstaining	Broker Non-Votes
67,204,413	11,198,585	79,651	-0-

A proposal to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 1995 was approved as follows:

Votes For	Votes Against	Votes Abstaining	Broker Non-Votes
78,362,679	61,328	58,642	-0-

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits:

- 4.1 Certificate of Elimination with respect to Certificates of Designations of 8% Cumulative Preferred Stock and 12% Cumulative Preferred Stock.
- 4.2 Certificate of Designations of Series A 8% Cumulative Preferred Stock.
- 4.3 Certificate of Designations of Series A 12% Cumulative Preferred Stock.
- 4.4 Continental hereby agrees to furnish to the Commission, upon request, copies of certain instruments defining the rights of holders of long-term debt of the kind described in Item 601(b)(4)(iii)(A) of Regulation S-K.
- 10.1 Employment Agreement between the Company and Gordon M. Bethune.
- 10.2 Employment agreement between the Company and Gregory D. Brenneman.
- 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: August 11, 1995

by: /s/ Lawrence W. Kellner

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

Date: August 11, 1995

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

CERTIFICATE OF ELIMINATION

OF

8% CUMULATIVE PREFERRED STOCK AND

12% 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 "Corporation"), 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 Corporation's 8% Cumulative Preferred Stock, \$.01 par value each (the "8% Cumulative Preferred Stock"), and 12% Cumulative Preferred Stock, \$.01 par value each (the "12% Cumulative Preferred Stock"), be acquired by the Corporation, and that upon such acquisition, no shares of the 8% Cumulative Preferred Stock and the 12% Cumulative Preferred Stock shall be issued or reissued by the Corporation:

RESOLVED, that all shares of 8% Cumulative Preferred Stock and 12% Cumulative Preferred Stock acquired by the Corporation pursuant to the 8% Preferred Exchange and the 12% Preferred Exchange be retired; and

RESOLVED, that upon the retirement of all outstanding shares of the 8% Cumulative Preferred Stock and the 12% Cumulative Preferred Stock, the Corporation shall not issue any additional shares of 8% Cumulative Preferred Stock or 12% Cumulative Preferred Stock, and that the Corporation 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 Corporation's Restated Certificate of Incorporation the certificates of designation with respect to the 8% Cumulative Preferred Stock and the 12% Cumulative Preferred Stock, respectively, and shall return the retired shares of 8% Cumulative Preferred Stock and 12% Cumulative Preferred Stock to the status of authorized but unissued Preferred Stock of the Corporation.

The Corporation further certifies that all outstanding shares of the 8% Cumulative Preferred Stock and the 12% Cumulative Preferred Stock have been repurchased by the Corporation, that no shares of the 8% Cumulative Preferred Stock and the 12% Cumulative Preferred Stock are outstanding as of the date hereof, and that no shares of the 8% Cumulative Preferred Stock and the 12% Cumulative Preferred Stock will be issued or reissued from and after the date hereof.

* * *

IN WITNESS WHEREOF, the undersigned officer of the Corporation subscribes to this Certificate of Elimination of 8% Cumulative Preferred Stock and 12% Cumulative Preferred Stock and affirms that the statements made herein are true under penalties of perjury as of this 30th day of June, 1995.

CONTINENTAL AIRLINES, INC.

By: _____

Name:

Title:

CERTIFICATE OF DESIGNATIONS

OF

SERIES A 8% CUMULATIVE
PREFERRED STOCK

OF

CONTINENTAL AIRLINES, INC.

Pursuant to Section 151 of the General Corporation Law
of the State of Delaware

Continental Airlines, Inc., a Delaware corporation (the "Corporation"), certifies that pursuant to the authority contained in its Restated Certificate of Incorporation, and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, its Board of Directors (the "Board of Directors") adopted resolutions creating a series of its Preferred Stock, \$.01 par value, designated as Series A 8% Cumulative Preferred Stock:

RESOLVED, that a series of the class of authorized Preferred Stock, \$.01 par value, of the Corporation be, and it hereby is, created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof (in addition to the powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Corporation's Restated Certificate of Incorporation that are applicable to the Preferred Stock), are as follows:

Section 1. Designation and Amount.

The shares of such series shall be designated as the "Series A 8% Cumulative Preferred Stock" ("Series A 8% Preferred Stock") and the number of shares constituting such series shall be 300,000, which number may be decreased and, but only for purposes of Section 2(b) below, increased by the Board of Directors without a vote of stockholders; provided, however, that such number may not be decreased below the number of then currently outstanding shares of Series A 8% Preferred Stock.

Section 2. Dividends and Distributions.

(a) The holders of shares of Series A 8% Preferred Stock, in preference to the holders of shares of the Corporation's Class A Common Stock, Class B Common Stock, Class C Common Stock and Class D Common Stock, each par value \$.01 per share (collectively, the "Common Stock"), and to any other capital stock of the Corporation ranking junior to Series A 8% Preferred Stock as to payment of dividends, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds of the Corporation legally available for the payment of dividends, cumulative dividends payable in cash, subject to Section 2(b), at the annual rate of \$8 per share, and, subject to the other provisions of this Section 2, no more. Dividends payable in respect of the outstanding shares of Series A 8% Preferred Stock shall begin to accrue and be cumulative from the respective dates of original issue of such shares (which dates shall be reflected on the certificates evidencing the same), and shall be payable in quarterly payments on May 30, August 29, November 29 and March 1 (or, if any such day is not a Business Day, as defined in Section 8, the Business Day next preceding such day) in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date" and any dividend not paid on such date in cash or in additional shares of Series A 8% Preferred Stock as provided herein being referred to herein as "past due") for each of the fiscal quarters ended March 31, June 30, September 30 and December 31, respectively, commencing in respect of each share of Series A 8% Preferred Stock on the first Quarterly Dividend Payment Date which is at least seven days after the date of original issue thereof; provided, however, that if any applicable dividend payment or redemption payment is not made on a Quarterly Dividend Payment Date or the date set for such redemption, respectively, thereafter Series A 8% Preferred Stock shall accrue additional dividends in respect of all such dividend payments and redemption payments that are past due and unpaid at (A) an annual rate of 8% or (B) such lesser rate as may be the maximum rate that is permitted by applicable law (in either case compounded quarterly), with the amount of such additional dividends added to accrued dividend payments or redemption payments, respectively, until all such dividend payments and redemption payments shall have been paid in full (or declared and funds sufficient therefor Set Apart for Payment, as defined in Section 8).

(b) Notwithstanding the provisions of Section 2(a) above, any

dividend accumulating through December 31, 1996 (payable March 1, 1997) shall be declared and paid in additional shares of Series A 8% Preferred Stock, to the extent legally permissible, in lieu of declaration and payment thereof in cash. The number of shares of Series A 8% Preferred Stock to be issued in lieu of cash dividends shall be calculated based on a value of \$100 per share of Series A 8% Preferred Stock. The shares of Series A 8% Preferred Stock issued shall be fully paid and non-assessable. No certificates for fractional shares shall be issued, and the Corporation shall round off any fractional share to the next lower whole share amount. In determining such fractional shares, the Corporation shall aggregate all shares of Series A 8% Preferred Stock held by a Registered Holder thereof. The Corporation shall pay, if there are funds legally available therefor, to each holder in cash an amount equal to the value (based on a \$100 value per share) of any fractional share not issued in accordance with this Section 2(b).

(c) The amount of dividends payable shall be determined on the basis of twelve 30-day months and a 360-day year. Dividends paid on the shares of Series A 8% Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date (a "Regular Record Date") for the determination of holders of shares of Series A 8% Preferred Stock entitled to receive payment of a dividend declared thereon, which record date shall be no more than 60 days nor less than ten days prior to the date fixed for the payment thereof. Any dividend declared by the Board of Directors as payable and punctually paid or Set Apart for Payment on a Quarterly Dividend Payment Date will be paid to the Persons, as defined in Section 8, in whose names Series A 8% Preferred Stock is registered at the close of business on the Regular Record Date set with respect to that Quarterly Dividend Payment Date (the "Registered Holders"). Any dividend not so paid or Set Apart for Payment shall forthwith cease to be payable to such Registered Holders and may be paid to the Registered Holders at the close of business on the record date for the payment of such defaulted dividends and interest to be fixed by the Board of Directors (a "Special Record Date"). The Board of Directors shall provide Registered Holders of Series A 8% Preferred Stock not less than 10 days' prior notice of a Special Record Date. Subject to Section 2(b), all such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

(d) The Registered Holder of any shares of Series A 8% Preferred Stock, upon the Corporation's written request therefor containing a reasonably complete description of the basis for such request, shall reimburse the Corporation for any and all withholding tax liabilities incurred by the Corporation in connection with any dividends paid or distributions made (including, without limitation, in connection with any redemption of Series A 8% Preferred Stock) to such holder in respect of Series A 8% Preferred Stock. Each Registered Holder, by acceptance of the certificate evidencing such holder's shares of Series A 8% Preferred Stock, shall be deemed to have agreed to the terms of this Section 2(d).

(e) The holders of shares of Series A 8% Preferred Stock shall not be entitled to receive any dividends or other distributions in respect of such shares of Series A 8% Preferred Stock except as provided in these designations of Series A 8% Preferred Stock.

Section 3. Voting Rights.

(a) So long as any shares of Series A 8% Preferred Stock shall be outstanding and unless the consent or approval of a greater number of shares shall then be required by law, without first obtaining the consent or approval of the holders of at least a majority of the number of then-outstanding shares of Series A 8% Preferred Stock, voting as a single class, given in person or by proxy at a meeting at which the holders of such shares shall be entitled to vote separately as a class, or by written consent, the Corporation shall not: (i) authorize or create any class or series, or any shares of any class or series, of stock having any preference or priority as to dividends or upon redemption, liquidation, dissolution, or winding up over Series A 8% Preferred Stock ("Senior Stock"); provided, however, that no such vote shall be required with respect to the authorization or creation by the Corporation of one or more series of Senior Stock if the proceeds of the Corporation's issuance of such Senior Stock are sufficient, and are used, to redeem all outstanding shares of Series A 8% Preferred Stock; (ii) authorize or create any class or series, or any shares of any class or series, of stock (other than the Series A 12% Cumulative Preferred Stock) ranking on a parity (either as to dividends or upon redemption, liquidation, dissolution or winding up) with Series A 8% Preferred Stock ("Parity Stock"); provided, however, that no such vote shall be required with respect to the authorization or creation by the Corporation of one or more new series of Parity Stock if (A) (x) the aggregate purchase price (excluding transaction-related expenses) of all shares of each such series is equal to or greater

than the aggregate liquidation preference of all shares of such series, (y) the aggregate liquidation preference (excluding accrued but unpaid dividends) of all shares of all such series of Preferred Stock does not exceed \$25 million, and (z) shares of any such new series shall be issued only to an employee stock ownership plan, employee stock ownership trust or other similar arrangement organized and maintained by the Corporation for the benefit of its employees or (B) the proceeds of the Corporation's issuance of such Parity Stock are sufficient, and are used, to redeem all outstanding shares of Series A 8% Preferred Stock; (iii) reclassify, convert or exchange any shares of stock of the Corporation into shares of Senior Stock or Parity Stock; (iv) authorize any security exchangeable for, convertible into, or evidencing the right to purchase any shares of Senior Stock or Parity Stock; (v) amend, alter or repeal (by merger or otherwise) the Corporation's Restated Certificate of Incorporation, as it may be amended from time to time (the "Restated Certificate of Incorporation" to alter or change the preferences, rights or powers of Series A 8% Preferred Stock so as to affect Series A 8% Preferred Stock adversely or (except for purposes of Section 2(b) above) to increase the authorized number of shares of Series A 8% Preferred Stock; or (vi) effect the voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease, conveyance or exchange of all or substantially all of the assets, property or business of the Corporation, or the merger or consolidation of the Corporation with or into any other Person; provided, however, that, except as otherwise specifically required by the Restated Certificate of Incorporation, no separate vote of the holders of Series A 8% Preferred Stock as a class shall be required in the case of such a merger or consolidation or a sale, lease, conveyance or exchange of all or substantially all of the assets, property or business of the Corporation (a "reorganization") if (A)(i) the resulting surviving or acquiring Person will have after such reorganization no stock either authorized or outstanding ranking (either as to dividends or upon redemption, liquidation, dissolution or winding up) prior to, or on a parity with, Series A 8% Preferred Stock or the stock of the resulting, surviving or acquired Person issued in exchange therefor (except any stock of the Corporation authorized or outstanding immediately preceding such reorganization ranking prior to or on a parity with the Series A 8% Preferred Stock, as aforesaid ("Grandfathered Stock"), or any stock of the resulting, surviving or acquiring Person containing substantially the same relative rights and preferences as any Grandfathered Stock and issued in exchange therefor), and (ii) each holder of shares of Series A 8% Preferred Stock immediately preceding such reorganization will receive in exchange therefor the same number of shares of stock, with substantially the same preferences, rights and powers, of the resulting, surviving, or acquiring Person, or if the Corporation is the surviving Person and Series A 8% Preferred Stock remains outstanding, without change to its preferences, rights and powers, or (B) the Corporation redeems all outstanding shares of Series A 8% Preferred Stock simultaneously with the effectiveness of such merger, consolidation or reorganization.

(b) Whenever (i) there shall have occurred nine (9) consecutive Quarterly Dividend Payment Dates on which dividends payable on shares of Series A 8% Preferred Stock pursuant to the terms of Section 2(a) shall not have been paid in cash at the annual rate of \$8 per share or in additional shares of Series A 8% Preferred Stock in accordance with Section 2(b) (a "Dividend Default"), (ii) the Corporation shall have violated any of the restrictions in Section 4 and such violation shall be continuing or (iii) the Corporation shall not have redeemed shares of Series A 8% Preferred Stock within five days of the date (a "Redemption Date") of any redemption of which it has given, or is required to give, notice pursuant to Section 5(c), regardless of whether there shall be funds legally available to effect such redemption (a "Redemption Default"), thereafter and until the third consecutive Quarterly Dividend Payment Date on which dividends on Series A 8% Preferred Stock shall have been paid in cash (or in additional shares of Series A 8% Preferred Stock in accordance with Section 2(b)) in full (and no dividend arrearages shall exist on the Series A 8% Preferred Stock) (hereinafter a cure of such Dividend Default) or such covenant shall have been complied with, or such redemption shall have been performed or all funds necessary therefor Set Apart for Payment, as the case may be, the holders of shares of Series A 8% Preferred Stock shall have the right, notwithstanding anything to the contrary in the Restated Certificate of Incorporation or By-Laws of the Corporation (the "By-Laws"), voting together as a single class, to elect one director. This right to elect a director may be exercised at any annual meeting or at any special meeting called for such purpose as hereinafter provided or at any adjournments thereof, or by the written consent delivered to the Secretary of the Corporation, of the holders of a majority of all outstanding shares of Series A 8% Preferred Stock as of the record date of such written consent, until any Dividend Default or Redemption Default shall have been cured, and any covenant violation shall cease to be continuing, at which time the term of office of the director so elected shall terminate automatically. So long as such right to vote continues (and unless such right has been exercised by written consent of the holders of a majority of the outstanding shares of Series A 8% Preferred Stock as hereinbefore authorized), the Secretary of the Corporation may call, and upon the written

request of the holders of record of a majority of the outstanding shares of Series A 8% Preferred Stock addressed to him or her at the principal office of the Corporation shall call, a special meeting of the holders of Series A 8% Preferred Stock for the election of a director as provided herein. Such meeting shall be held within 30 days after delivery of such notice to the Secretary, at the place and upon the notice provided by law and in the By-Laws or in the notice of meeting. No such special meeting or adjournment thereof shall be held on a date less than 30 days before any annual meeting of stockholders or any special meeting in lieu thereof. If at any such annual or special meeting or any adjournment thereof the holders of a majority of the then outstanding shares of Series A 8% Preferred Stock entitled to vote in such election shall be present or represented by proxy, or if the holders of the majority of the outstanding shares of Series A 8% Preferred Stock shall have acted by written consent in lieu of a meeting with respect thereto, then the authorized number of directors shall be increased by one and the holders of Series A 8% Preferred Stock, voting as a class, shall be entitled to elect the additional director. The absence of a quorum of the holders of any other class or series of capital stock of the Corporation at any such annual or special meeting shall not affect the exercise by the holders of Series A 8% Preferred Stock of their voting rights. The director so elected shall serve until the next annual meeting or until his or her successor shall be elected and shall qualify, unless the director's term of office shall have terminated under the circumstances set forth in the second sentence of this Section 3(b). If the director elected by the holders of Series A 8% Preferred Stock as a class dies or becomes incapacitated, the holders of Series A 8% Preferred Stock then outstanding and entitled to vote for such director by written consent as hereinabove provided, or at a special meeting of such holders called as provided above, may elect his or her successor to hold office for the unexpired term. Holders of Series A 8% Preferred Stock shall have the right to remove, with or without cause, any director originally elected by such holders, upon the affirmative vote of a majority of such holders by written consent as hereinabove provided or at a special meeting of such holders called as provided above. The rights of the holders of Series A 8% Preferred Stock to elect directors pursuant to the terms of this Section 3(b) shall not be affected adversely by the voting or other rights applicable to any other security of the Corporation.

(c) Except as otherwise provided in these designations of Series A 8% Preferred Stock or in the Restated Certificate of Incorporation, or as required by law, the holders of shares of Series A 8% Preferred Stock shall have no voting rights and their consent shall not be required for the taking of any corporate action.

Section 4. Certain Restrictions.

(a) Whenever (i) dividends on shares of Series A 8% Preferred Stock pursuant to the terms of Section 2(a) or 2(b) shall not have been paid in full at or before 30 days following any Quarterly Dividend Payment Date, or (ii) the Corporation shall have not redeemed shares of Series A 8% Preferred Stock within five Business Days of a Redemption Date, thereafter and until all accrued and unpaid dividends, whether or not declared, shall have been paid in full or all such redemption payments shall have been made or all necessary funds for such redemption shall have been Set Apart for Payment, as the case may be, the Corporation shall not, nor shall it permit any Subsidiary, as defined in Section 8, of the Corporation to: (A) declare or pay dividends, or make any other distributions, on any shares of Common Stock or other capital stock of the Corporation ranking junior (either as to dividends or upon redemption, liquidation, dissolution or winding up) to Series A 8% Preferred Stock, other than dividends or distributions payable in capital stock of the Corporation ranking junior to Series A 8% Preferred Stock with respect to dividends and upon redemption, liquidation, dissolution or winding up ("Junior Stock"); (B) declare or pay dividends, or make any other distributions on any shares of Parity Stock, other than dividends or distributions payable in Junior Stock or Parity Stock, except dividends paid ratably on Series A 8% Preferred Stock and all Parity Stock on which dividends are payable or in arrears, in proportion to the total amounts to which the holders of all such shares are then entitled; or (C) redeem or purchase or otherwise acquire for consideration (other than Junior Stock) any shares of Junior Stock or Parity Stock (other than, with respect to Parity Stock, ratably with Series A 8% Preferred Stock).

(b) The Corporation shall not permit any of its Subsidiaries to purchase or otherwise acquire for consideration any shares of capital stock of the Corporation unless the Corporation, pursuant to Section 4(a), could purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Redemption.

(a) The Corporation may redeem, in whole or in part, any outstanding shares of Series A 8% Preferred Stock at any time, but only out

of funds legally available therefor, by paying therefor in cash \$100 per share plus an amount equal to all Accrued Dividends, as defined in Section 8, thereon to the date of redemption (the "Redemption Price"). If less than all outstanding shares of Series A 8% Preferred Stock are to be redeemed, the Corporation shall redeem shares pro rata among the holders thereof in accordance with the respective numbers of shares of Series A 8% Preferred Stock held by each of them.

(b) On April 27, 2003, the Corporation shall redeem all outstanding shares of Series A 8% Preferred Stock, if any, but only out of funds legally available therefor, by paying the Redemption Price therefor.

(c) (i) Notice of any redemption of shares of Series A 8% Preferred Stock pursuant to this Section 5 shall be mailed not less than 30, but not more than 60, days prior to the date fixed for redemption to each holder of shares of Series A 8% Preferred Stock to be redeemed, at such holder's address as it appears on the transfer books of the Corporation. In order to facilitate the redemption of shares of Series A 8% Preferred Stock, the Board of Directors may fix a record date for the determination of the holders of shares of Series A 8% Preferred Stock to be redeemed, not more than 60 days or less than 30 days prior to the date fixed for such redemption.

(ii) Notice having been given pursuant to Section 5(c)(i), from and after the date specified therein as the date of redemption, unless default shall be made by the Corporation in providing for the payment of the applicable redemption price, all dividends on Series A 8% Preferred Stock thereby called for redemption shall cease to accrue, and from and after the earlier of (x) the date of redemption so specified, unless default shall be made by the Corporation as aforesaid, and (y) the date (prior to the date of redemption so specified) on which funds of the Corporation sufficient for the payment of the Redemption Price shall have been Set Apart for Payment thereof if the notice of redemption shall state the intention of the Corporation so to deposit such funds on a date specified in such notice, all rights of holders thereof as stockholders of the Corporation, except the right to receive the applicable Redemption Price (but without interest), shall cease and terminate. Any interest allowed on moneys so deposited shall be paid to the Corporation. Any moneys so deposited which shall remain unclaimed by the holders of such Series A 8% Preferred Stock at the end of six years after the redemption date shall to the fullest extent permitted by law become the property of, and be paid by such bank or trust company to, the Corporation. If the Corporation shall default in providing for the redemption price as required pursuant to this Section 5, dividends on such Series A 8% Preferred Stock shall continue to accrue and be added to the required redemption payments as provided in Section 2(a).

Section 6. Reacquired Shares.

Any shares of Series A 8% Preferred Stock redeemed, purchased or otherwise acquired by the Corporation or any Subsidiary of the Corporation in any manner whatsoever shall be retired promptly after the acquisition thereof, and, if necessary to provide for the lawful redemption or purchase of such shares, the capital represented by such shares shall be reduced in accordance with the General Corporation Law of the State of Delaware. The Corporation shall take all actions necessary so that all such shares become authorized but unissued shares of Preferred Stock, \$.01 par value, of the Corporation and may be reissued as part of another series of Preferred Stock, \$.01 par value, of the Corporation subject to the conditions or restrictions on authorizing or creating any class or series, or any shares of any class or series, set forth in Section 3(a).

Section 7. Liquidation, Dissolution or Winding Up.

(a) If the Corporation shall liquidate, dissolve or wind up, whether pursuant to federal bankruptcy laws, state laws or otherwise, no distribution shall be made (i) to the holders of shares of Junior Stock, unless prior thereto the holders of shares of Series A 8% Preferred Stock shall have received \$100 per share plus an amount equal to all Accrued Dividends thereon to the date of such payment or (ii) to the holders of shares of Parity Stock, except distributions made ratably on Series A 8% Preferred Stock and all such Parity Stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up of the Corporation.

(b) Neither the consolidation, merger or other business combination of the Corporation with or into any other Person or Persons, nor the sale, lease, exchange or conveyance of all or any part of the property, assets or business of the Corporation to a Person or Persons other than the holders of Junior Stock shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 7.

Section 8. Definitions.

As used in these designations of Series A 8% Preferred Stock, the following terms shall have the meanings indicated.

"Accrued Dividends" to a particular date (the "Applicable Date") means all unpaid dividends payable pursuant to Section 2(a) or Section 2(b), whether or not declared, accrued to the Applicable Date.

"Affiliate" means any Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Person specified.

"Business Day" means any day other than a Saturday, Sunday, or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Person" means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity.

"Set Apart for Payment" means, when used with respect to funds of the Corporation to be used to pay dividends or effect redemptions of shares of Series A 8% Preferred Stock, that the funds of the Corporation to be used to pay dividends on or effect redemptions of any shares of Series A 8% Preferred Stock to the Corporation shall have irrevocably deposited with a bank or trust company doing business in the Borough of Manhattan in the City of New York, and having a capital and surplus of at least \$50 million, in trust for the exclusive benefit of the holders of shares of Series A 8% Preferred Stock, funds sufficient to satisfy such payment of redemption obligation.

"Subsidiary" of any Person means any corporation or other entity of which all the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person.

Section 9. Rank.

Series A 8% Preferred Stock will rank, with respect to dividends and upon distribution of assets in liquidation, dissolution or winding up, prior to the Common Stock and pari passu with the Series A 12% Cumulative Preferred Stock of the Corporation.

* * *

IN WITNESS WHEREOF, the undersigned officer of the Corporation subscribes this Certificate of Designations of Series A 8% Cumulative Preferred Stock and affirms that the statements made herein are true under penalties of perjury this 30th day of June, 1995.

CONTINENTAL AIRLINES, INC.

By: _____

Name:
Title:

ATTEST:

By: _____

Name:
Title:

CERTIFICATE OF DESIGNATIONS

OF

SERIES A 12% CUMULATIVE
PREFERRED STOCK

OF

CONTINENTAL AIRLINES, INC.

Pursuant to Section 151 of the General Corporation Law
of the State of Delaware

Continental Airlines, Inc., a Delaware corporation (the "Corporation"), certifies that pursuant to the authority contained in its Restated Certificate of Incorporation, and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, its Board of Directors (the "Board of Directors") adopted resolutions creating a series of its Preferred Stock, \$.01 par value, designated as Series A 12% Cumulative Preferred Stock:

RESOLVED, that a series of the class of authorized Preferred Stock, \$.01 par value, of the Corporation be, and it hereby is, created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof (in addition to the powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Corporation's Restated Certificate of Incorporation that are applicable to the Preferred Stock), are as follows:

Section 1. Designation and Amount.

The shares of such series shall be designated as the "Series A 12% Cumulative Preferred Stock" ("Series A 12% Preferred Stock") and the number of shares constituting such series shall be 1,000,000, which number may be decreased and, but only for purposes of Section 2(b) below, increased by the Board of Directors without a vote of stockholders; provided, however, that such number may not be decreased below the number of then currently outstanding shares of Series A 12% Preferred Stock.

Section 2. Dividends and Distributions.

(a) The holders of shares of Series A 12% Preferred Stock, in preference to the holders of shares of the Corporation's Class A Common Stock, Class B Common Stock, Class C Common Stock and Class D Common Stock, each par value \$.01 per share (collectively, the "Common Stock"), and to any other capital stock of the Corporation ranking junior to Series A 12% Preferred Stock as to payment of dividends, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds of the Corporation legally available for the payment of dividends, cumulative dividends payable in cash, subject to Section 2(b), at the annual rate of \$12 per share and, subject to the other provisions of this Section 2, no more. Dividends payable in respect of the outstanding shares of Series A 12% Preferred Stock shall begin to accrue and be cumulative from the respective dates of original issue of such shares (which dates shall be reflected on the certificates evidencing the same), and shall be payable in quarterly payments on May 30, August 29, November 29, and March 1 (or, if any such day is not a Business Day, as defined in Section 8, the Business Day next preceding such day) in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date" and any dividend not paid on such date either in cash or in additional shares of Series A 12% Preferred Stock as provided herein being referred to herein as "past due") for each of the fiscal quarters ended March 31, June 30, September 30 and December 31, respectively, commencing in respect of each share of Series A 12% Preferred Stock on the first Quarterly Dividend Payment Date which is at least seven days after the date of original issue thereof; provided, however, that if any applicable dividend payment or redemption payment is not made on a Quarterly Dividend Payment Date or the date set for such redemption, respectively, thereafter Series A 12% Preferred Stock shall accrue additional dividends in respect of all such dividend payments and redemption payments that are past due and unpaid at (A) an annual rate of 12% or (B) such lesser rate as may be the maximum rate that is permitted by applicable law (in either case compounded quarterly), with the amount of such additional dividends added to accrued dividend payments or redemption payments, respectively, until all such dividend payments and redemption payments shall have been paid in full (or declared and funds sufficient therefor Set Apart for Payment, as defined in Section 8).

(b) To the extent Net Income, as defined below, for any calendar

quarter is less than the amount of the dividend due on all outstanding shares of Series A 12% Preferred Stock on the Quarterly Dividend Payment Date with respect to such calendar quarter, dividends may be declared and paid, at the election of the Board of Directors, in additional shares of Series A 12% Preferred Stock, to the extent legally permissible, in lieu of declaration and payment thereof in cash. "Net Income" means earnings from operations before interest and taxes, less interest on all debt instruments (including capital leases), plus non-operating income, less non-operating expenses, less income taxes (i) for so long as the Corporation is required to file periodic reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as specified in the Corporation's Quarterly Report on Form 10-Q required to be filed with respect to the fiscal quarter for which Net Income is being determined or in the Corporation's unaudited quarterly reports, which shall be prepared in accordance with generally accepted accounting principles (except for the absence of detailed notes or other exceptions customary for interim financial statements), consistently applied (the "Corporation's Quarterly Reports"), with respect to the fourth fiscal quarter in any year, and (ii) during any period when the Corporation is not required to file periodic reports under the Exchange Act, as specified in the Corporation's Quarterly Reports. In addition, notwithstanding the provisions of Section 2(a) above, any dividend accumulating through December 31, 1996 (payable March 1, 1997) shall be declared and paid in additional shares of Series A 12% Preferred Stock, to the extent legally permissible, in lieu of declaration and payment thereof in cash. The number of shares of Series A 12% Preferred Stock to be issued in lieu of cash dividends shall be calculated based on a value of \$100 per share of Series A 12% Preferred Stock. The shares of Series A 12% Preferred Stock issued shall be fully paid and non-assessable. No certificates for fractional shares shall be issued, and the Corporation shall round off any fractional share to the next lower whole share amount. In determining such fractional shares, the Corporation shall aggregate all shares of Series A 12% Preferred Stock held by a Registered Holder thereof. The Corporation shall pay, if there are funds legally available therefor, to each holder in cash an amount equal to the value (based on a \$100 value per share) of any fractional share not issued in accordance with this Section 2(b).

(c) The amount of dividends payable shall be determined on the basis of twelve 30-day months and a 360-day year. Dividends paid on the shares of Series A 12% Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share-basis among all such shares at the time outstanding. The Board of Directors may fix a record date (a "Regular Record Date") for the determination of holders of shares of Series A 12% Preferred Stock entitled to receive payment of a dividend declared thereon, which record date shall be no more than 60 days nor less than ten days prior to the date fixed for the payment thereof. Any dividend declared by the Board of Directors as payable and punctually paid or Set Apart for Payment on a Quarterly Dividend Payment Date will be paid to the Persons, as defined in Section 8, in whose names Series A 12% Preferred Stock is registered at the close of business on the Regular Record Date set with respect to that Quarter Dividend Payment Date (the "Registered Holders"). Any dividend not so paid or Set Apart for Payment shall forthwith cease to be payable to such Registered Holders and may be paid to the Registered Holders at the close of business on the record date for the payment of such defaulted dividends and interest to be fixed by the Board of Directors (a "Special Record Date"). The Board of Directors shall provide Registered Holders of Series A 12% Preferred Stock not less than 10 days' prior notice of a Special Record Date. Subject to Section 2(b), all such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

(d) The Registered Holder of any shares of Series A 12% Preferred Stock, upon the Corporation's written request therefor containing a reasonably complete description of the basis for such request, shall reimburse the corporation for any and all withholding tax liabilities incurred by the Corporation in connection with any dividends paid or distributions made (including, without limitation, in connection with any redemption of Series A 12% Preferred Stock) to such holder in respect of Series A 12% Preferred Stock. Each Registered Holder, by acceptance of the certificate evidencing such holder's shares of Series A 12% Preferred Stock, shall be deemed to have agreed to the terms of this Section 2(d).

(e) The holders of shares of Series A 12% Preferred Stock shall not be entitled to receive any dividends or other distributions in respect of such shares of Series A 12% Preferred Stock except as provided in these designations of Series A 12% Preferred Stock.

Section 3. Voting Rights.

(a) So long as any shares of Series A 12% Preferred Stock shall be outstanding and unless the consent or approval of a greater number of shares shall then be required by law, without first obtaining the consent or

approval of the holders of at least a majority of the number of then-outstanding shares of Series A 12% Preferred Stock, voting as a single class, given in person or by proxy at a meeting at which the holders of such shares shall be entitled to vote separately as a class, or by written consent, the Corporation shall not: (i) authorize or create any class or series, or any shares of any class or series, of stock having any preference or priority as to dividends or upon redemption, liquidation, dissolution, or winding up over Series A 12% Preferred Stock ("Senior Stock"); provided, however, that no such vote shall be required with respect to the authorization or creation by the Corporation of one or more series of Senior Stock if the proceeds of the Corporation's issuance of such Senior Stock are sufficient, and are used, to redeem all outstanding shares of Series A 12% Preferred Stock; (ii) authorize or create any class or series, or any shares of any class or series, of stock (other than the Series A 8% Cumulative Preferred Stock) of the Corporation ranking on a parity (either as to dividends or upon redemption, liquidation, dissolution or winding up) with Series A 12% Preferred Stock ("Parity Stock"); provided, however, that no such vote shall be required with respect to the authorization or creation by the Corporation of one or more new series of Parity Stock if (A)(x) the aggregate purchase price (excluding transaction-related expenses) of all shares of each such series is equal to or greater than the aggregate liquidation preference of all shares of such series, (y) the aggregate liquidation preference (excluding accrued but unpaid dividends) of all shares of all such series of Preferred Stock does not exceed \$25 million, and (z) shares of any such new series shall be issued only to an employee stock ownership plan, employee stock ownership trust or other similar arrangement organized and maintained by the Corporation for the benefit of its employees or (B) the proceeds of the Corporation's issuance of such Parity Stock are sufficient, and are used, to redeem all outstanding shares of Series A 12% Preferred Stock; (iii) reclassify, convert or exchange any shares of stock of the Corporation into shares of Senior Stock or Parity Stock; (iv) authorize any security exchangeable for, convertible into, or evidencing the right to purchase any shares of Senior Stock or Parity Stock; (v) amend, alter or repeal (by merger or otherwise) the Corporation's Restated Certificate of Incorporation, as it may be amended from time to time (the "Restated Certificate of Incorporation") to alter or change the preferences, rights or powers of Series A 12% Preferred Stock so as to affect Series A 12% Preferred Stock adversely or (except for purposes of Section 2(b) above) to increase the authorized number of shares of Series A 12% Preferred Stock; or (vi) effect the voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease, conveyance or exchange of all or substantially all of the assets, property or business of the Corporation, or the merger or consolidation of the Corporation with or into any other Person; provided, however, that, except as otherwise specifically required by the Restated Certificate of Incorporation, no separate vote of the holders of Series A 12% Preferred Stock as a class shall be required in the case of such a merger or consolidation or a sale, lease, conveyance or exchange of all or substantially all of the assets, property or business of the Corporation (a "reorganization") if (A)(i) the resulting, surviving or acquiring Person will have after such reorganization no stock either authorized or outstanding ranking (either as to dividends or upon redemption, liquidation, dissolution or winding up) prior to, or on a parity with, Series A 12% Preferred Stock or the stock of the resulting, surviving or acquiring Person issued in exchange therefor (except any stock of the Corporation authorized or outstanding immediately preceding such reorganization ranking prior to or on a parity with the Series A 12% Preferred Stock, as aforesaid ("Grandfathered Stock"), or any stock of the resulting, surviving or acquiring Person containing substantially the same relative rights and preferences as any Grandfathered Stock and issued in exchange therefor), and (ii) each holder of shares of Series A 12% Preferred Stock immediately preceding such reorganization will receive in exchange therefor the same number of shares of stock, with substantially the same preferences, rights and powers, of the resulting, surviving, or acquiring Person, or, if the Corporation is the surviving Person and Series A 12% Preferred Stock remains outstanding, without change to its preferences, rights and powers, or (B) the Corporation redeems all outstanding shares of Series A 12% Preferred Stock simultaneously with the effectiveness of such merger, consolidation or reorganization.

(b) Subject to compliance with Foreign Ownership Restrictions, as defined in the Restated Certificate of Incorporation, whenever (i) there shall have occurred nine (9) consecutive Quarterly Dividend Payment Dates on which dividends payable on shares of Series A 12% Preferred Stock pursuant to the terms of Section 2(a) shall not have been paid in cash at the annual rate of \$12 per share or in additional shares of Series A 12% Preferred Stock in accordance with Section 2(b) (a "Dividend Default"), (ii) the Corporation shall have violated any of the covenants in Section 4 and such violation shall be continuing or (iii) the Corporation shall not have redeemed shares of Series A 12% Preferred Stock within five days of the date (a "Redemption Date") of any redemption of which it has given, or is required to give, notice pursuant to Section 5(c), regardless of whether there shall be funds legally available to effect such redemption (a "Redemption Default"),

thereafter and until the third consecutive Quarterly Dividend Payment Date on which dividends on Series A 12% Preferred Stock shall have been paid in cash (or in additional shares of Series A 12% Preferred Stock in accordance with Section 2(b)) in full (and no dividend arrearages shall exist on the Series A 12% Preferred Stock) (hereinafter a cure of such Dividend Default) or such covenant shall have been complied with, or such redemption shall have been performed or all funds necessary therefor Set Apart for Payment, as the case may be, the holders of shares of Series A 12% Preferred Stock shall have the right, notwithstanding anything to the contrary in the Restated Certificate of Incorporation or By-Laws of the Corporation (the "By-Laws"), voting together as a single class, to elect one director. This right to elect a director may be exercised at any annual meeting or at any special meeting called for such purpose as hereinafter provided or at any adjournments thereof, or by the written consent delivered to the Secretary of the Corporation of the holders of a majority of all outstanding shares of Series A 12% Preferred Stock as of the record date of such written consent, until any Dividend Default or Redemption Default shall have been cured, and any covenant violation shall cease to be continuing, at which time the term of office of the director so elected shall terminate automatically. So long as such right to vote continues (and unless such right has been exercised by written consent of the holders of a majority of the outstanding shares of Series A 12% Preferred Stock as herein before authorized), the Secretary of the Corporation may call, and upon the written request of the holders of record of a majority of the outstanding shares of Series A 12% Preferred Stock addressed to him or her at the principal office of the Corporation shall call, a special meeting of the holders of Series A 12% Preferred Stock for the election of a director as provided herein. Such meeting shall be held within 30 days after delivery of such notice to the Secretary, at the place and upon the notice provided by law and in the By-Laws or in the notice of meeting. No such special meeting or adjournment thereof shall be held on a date less than 30 days before any annual meeting of stockholders or any special meeting in lieu thereof. If at any such annual or special meeting or any adjournment thereof the holders of a majority of the then outstanding shares of Series A 12% Preferred Stock entitled to vote in such election shall be present or represented by proxy, or if the holders of a majority of the outstanding shares of Series A 12% Preferred Stock shall have acted by written consent in lieu of a meeting with respect thereto, then the authorized number of directors shall be increased by one and the holders of Series A 12% Preferred Stock, voting as a class, shall be entitled to elect the additional director. The absence of a quorum of the holders of any other class or series of capital stock of the Corporation at any such annual or special meeting shall not affect the exercise by the holders of Series A 12% Preferred Stock of their voting rights. The director so elected shall serve until the next annual meeting or until his or her successor shall be elected and shall qualify, unless the director's term of office shall have terminated under the circumstances set forth in the second sentence of this Section 3(b). If the director elected by the holders of Series A 12% Preferred Stock as a class dies or becomes incapacitated, the holders of Series A 12% Preferred Stock then outstanding and entitled to vote for such director by written consent as herein above provided, or at a special meeting of such holders called as provided above, may elect his or her successor to hold office for the unexpired term. Holders of Series A 12% Preferred Stock shall have the right to remove, with or without cause, any director originally elected by such holders, upon the affirmative vote of a majority of such holders by written consent as herein above provided or at a special meeting of such holders called as provided above. The rights of the holders of Series A 12% Preferred Stock to elect directors pursuant to the terms of this Section 3(b) shall not be affected adversely by the voting or other rights applicable to any other security of the Corporation. All rights of holders of Series A 12% Preferred Stock under this Section 3(b) shall be subject to Foreign Ownership Restrictions.

(c) Except as otherwise provided in this Certificate of Designation of Series A 12% Cumulative Preferred Stock or in the Restated Certificate of Incorporation, or as required by law, the holders of shares of Series A 12% Preferred Stock shall have no voting rights and their consent shall not be required for the taking of any corporate action.

Section 4. Certain Restrictions.

(a) Whenever (i) dividends on shares of Series A 12% Preferred Stock pursuant to the terms of Section 2(a) or 2(b) shall not have been paid in full at or before 30 days following any Quarterly Dividend Payment Date, or (ii) the Corporation shall have not redeemed shares of Series A 12% Preferred Stock within five Business Days of a Redemption Date, thereafter and until all accrued and unpaid dividends, whether or not declared, shall have been paid in full or all such redemption payments shall have been made or all necessary funds for such redemption shall have been Set Apart for payment, as the case may be, the Corporation shall not, nor shall it permit any Subsidiary, as defined in Section 8, of the Corporation to: (A) declare or pay dividends, or make any other distributions, on any shares of Common

Stock or other capital stock of the Corporation ranking junior (either as to dividends or upon redemption, liquidation, dissolution or winding up) to Series A 12% Preferred Stock, other than dividends or distributions payable in capital stock of the Corporation ranking junior to Series A 12% Preferred Stock with respect to dividends and upon redemption, liquidation, dissolution or winding up ("Junior Stock"); (B) declare or pay dividends, or make any other distributions, on any shares of Parity Stock, other than dividends or distributions payable in Junior Stock or Parity Stock, except dividends paid ratably on Series A 12% Preferred Stock and all Parity Stock on which dividends are payable or in arrears, in proportion to the total amounts to which the holders of all such shares are then entitled; or (C) redeem or purchase or otherwise acquire for consideration (other than Junior Stock) any shares of Junior Stock or Parity Stock (other than, with respect to Parity Stock, ratably with Series A 12% Preferred Stock).

(b) The Corporation shall not permit any of its Subsidiaries to purchase or otherwise acquire for consideration any shares of capital stock of the Corporation unless the Corporation, pursuant to Section 4(a), could purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Redemption.

(a) The Corporation may redeem, in whole or in part, any outstanding shares of Series A 12% Preferred Stock at any time, but only out of funds legally available therefor, by paying therefor in cash \$100 per share plus an amount equal to all Accrued Dividends, as defined in Section 8, thereon to the date of redemption (the "Redemption Price"). If less than all outstanding shares of Series A 12% Preferred Stock are to be redeemed, the Corporation shall redeem shares pro rata among the holders thereof in accordance with the respective numbers of shares of Series A 12% Preferred Stock held by each of them.

(b) On April 27, 2003, the Corporation shall redeem all outstanding shares of Series A 12% Preferred Stock, if any, but only out of funds legally available therefor by paying the Redemption Price therefor.

(c) (i) Notice of any redemption of shares of Series A 12% Preferred Stock pursuant to this Section 5 shall be mailed not less than 30, but not more than 60, days prior to the date fixed for redemption to each holder of shares of Series A 12% Preferred Stock to be redeemed, at such holder's address as it appears on the transfer books of the Corporation. In order to facilitate the redemption of shares of Series A 12% Preferred Stock, the Board of Directors may fix a record date for the determination of the holders of shares of Series A 12% Preferred Stock to be redeemed, not more than 60 days or less than 30 days prior to the date fixed for such redemption.

(ii) Notice having been given pursuant to Section 5(c)(i), from and after the date specified therein as the date of redemption, unless default shall be made by the Corporation in providing for the payment of the applicable redemption price, all dividends on Series A 12% Preferred Stock thereby called for redemption shall cease to accrue, and from and after the earlier of (x) the date of redemption so specified, unless default shall be made by the Corporation as aforesaid, and (y) the date (prior to the date of redemption so specified) on which funds of the Corporation sufficient for the payment of the Redemption Price shall have been Set Apart for Payment thereof if the notice of redemption shall state the intention of the Corporation so to deposit such funds on a date specified in such notice, all rights of holders thereof as stockholders of the Corporation, except the right to receive the applicable Redemption Price (but without interest), shall cease and terminate. Any interest allowed on moneys so deposited shall be paid to the Corporation. Any moneys so deposited which shall remain unclaimed by the holders of such Series A 12% Preferred Stock at the end of six years after the redemption date shall to the fullest extent permitted by law become the property of, and be paid by such bank or trust company to, the Corporation. If the Corporation shall default in providing for the redemption price as required pursuant to this Section 5, dividends on such Series A 12% Preferred Stock shall continue to accrue and be added to the required redemption payments as provided in Section 2(a).

Section 6. reacquired Shares.

Any shares of Series A 12% Preferred Stock redeemed, purchased or otherwise acquired by the Corporation or any Subsidiary of the Corporation in any manner whatsoever shall be retired promptly after the acquisition thereof, and, if necessary to provide for the lawful redemption or purchase of such shares, the capital represented by such shares shall be reduced in accordance with the General Corporation Law of the State of Delaware. The Corporation shall take all actions necessary so that all such shares become authorized but unissued shares of Preferred Stock, \$.01 par value, of the Corporation and may be reissued as part of another series of Preferred Stock,

\$.01 par value, of the Corporation subject to the conditions or restrictions on authorizing or creating any class or series, or any shares of any class or series, set forth in Section 3(a).

Section 7. Liquidation, Dissolution or Winding Up.

(a) If the Corporation shall liquidate, dissolve or wind up, whether pursuant to federal bankruptcy laws, state laws or otherwise, no distribution shall be made (i) to the holders of shares of Junior Stock, unless prior thereto the holders of shares of Series A 12% Preferred Stock shall have received \$100 per share plus an amount equal to all Accrued Dividends thereon to the date if such payment or (ii) to the holders of shares of Parity Stock, except distributions made ratably on Series A 12% Preferred Stock and all such Parity Stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up of the Corporation.

(b) Neither the consolidation, merger or other business combination or the Corporation with or into any other Person or Persons, nor the sale, lease, exchange or conveyance of all or any part of the property, assets or business of the Corporation to a Person or Persons other than the holders of Junior Stock shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 7.

Section 8. Definitions.

As used in these designations of Series A 12% Preferred Stock, the following terms shall have the meanings indicated.

"Accrued Dividends" to a particular date (the "Applicable Date") means all unpaid dividends payable pursuant to Section 2(a) or Section 2(b), whether or not declared, accrued to the Applicable Date.

"Affiliate" means any Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Person specified.

"Business Day" means any day other than a Saturday, Sunday, or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Person" means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity.

"Set Apart for Payment" means, when used with respect to funds of the Corporation to be used to pay dividends or effect redemptions of shares of Series A 12% Preferred Stock, that the funds of the Corporation to be used to pay dividends on or effect redemptions of any shares of Series A 12% Preferred Stock to the Corporation shall have irrevocably deposited with a bank or trust company doing business in the Borough of Manhattan in The City of New York, and having a capital and surplus of at least \$50 million, in trust for the exclusive benefit of the holders of shares of Series A 12% Preferred Stock, funds sufficient to satisfy such payment or redemption obligation.

"Subsidiary" of any Person means any corporation or other entity of which all the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person.

Section 9. Rank.

Series A 12% Preferred Stock will rank, with respect to dividends and upon distribution of assets in liquidation, dissolution or winding up, prior to the Common Stock and pari passu with the Series A 8% Cumulative Preferred Stock of the Corporation.

* * *

IN WITNESS WHEREOF, the undersigned officer of the Corporation subscribes this Certificate of Designations of Series A 12% Cumulative Preferred Stock and affirms that the statements made herein are true under penalties of perjury this 30th day of June, 1995.

CONTINENTAL AIRLINES, INC.

By: _____
Name: Jeffery A. Smisek
Title: Secretary

ATTEST:

By: _____
Name: Scott R. Peterson
Title: Assistant Secretary

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made by and between CONTINENTAL AIRLINES, INC., a Delaware corporation ("Company"), and GORDON M. BETHUNE ("Executive").

W I T N E S S E T H:

WHEREAS, Company is desirous of employing Executive in an executive capacity on the terms and conditions, and for the consideration, hereinafter set forth and Executive is desirous of being employed by Company on such terms and conditions and for such consideration;

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES

1.1 Employment; Effective Date. Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date (as hereinafter defined) and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement. For purposes of this Agreement, the "Effective Date" shall be June 6, 1995.

1.2 Positions. From and after the Effective Date, Company shall employ Executive in the positions of President and Chief Executive Officer of Company, or in such other positions as the parties mutually may agree, and shall, for the full term of Executive's employment hereunder, cause Executive to be nominated for election as a director of Company and use its best efforts to secure such election.

1.3 Duties and Services. Executive agrees to serve in the positions referred to in paragraph 1.2 and, if elected, as a director of Company and to perform diligently and to the best of his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices which the parties mutually may agree upon from time to time.

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a three-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive three-year period as of the third anniversary of the Effective Date and as of the last day of each successive three-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any such three-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the three-year term of employment during which such notice is given.

2.2 Company's Right to Terminate. Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

(i) upon Executive's death;

(ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;

(iii) for cause, which for purposes of this Agreement shall mean Executive's gross negligence or willful misconduct in the performance of the material duties and services required of him pursuant to this Agreement;

(iv) for Executive's material breach of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice to Executive by Company of such breach; or

(v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 Executive's Right to Terminate. Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date;

(iii) the occurrence of material acts or conduct on the part of Company or its officers or representatives which prevent Executive from performing his duties and responsibilities pursuant to this Agreement;

(iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company; or

(vii) for any other reason whatsoever, in the sole discretion of Executive.

2.4 Notice of Termination. If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

ARTICLE 3: COMPENSATION AND BENEFITS

3.1 Base Salary. During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$550,000.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation).

3.3 Life Insurance. During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold

Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

3.4 Vacation and Sick Leave. During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

3.5 Supplemental Executive Retirement Plan.

(i) Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 1.6% times (b) the number of Executive's credited years of service (as defined below) under the Plan times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Airlines Retirement Plan beginning at January 1, 1995; provided, however, that if Executive is paid the Termination Payment under this Agreement, Executive shall be further credited with three (3) additional years of service under the Plan. For purposes hereof, Executive's final average compensation shall be equal to the greater of (1) \$550,000 or (2) the average of the five highest annual cash compensation amounts paid to Executive by Company during the consecutive ten calendar years immediately preceding his termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses other than any cash bonus paid on or prior to March 31, 1995. All benefits under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date. For purposes hereof, "Retirement Date" is defined as the later of (A) the date on which Executive attains (or in the event of his earlier death, would have attained) age 65 or (B) the date of his retirement from employment with Company. If Executive is not married on the Retirement Date, benefits under the Plan will be paid to Executive during his lifetime in the form of the Base Benefit. If Executive is married on the Retirement Date, benefits under the Plan will be paid in the form of a joint and survivor annuity that is actuarially equivalent (as defined below) to the Base Benefit, with Executive's spouse as of the Retirement Date being entitled during her lifetime after Executive's death to a benefit (the "Survivor's Benefit") equal to 50% of the benefit payable to Executive during their joint lifetimes. In the event of Executive's death prior to the Retirement Date, his surviving spouse, if he is married on the date of his death, will receive beginning on the Retirement Date an amount equal to the Survivor's Benefit calculated as if Executive had retired with a joint and survivor annuity on the date before his date of death. The amount of any benefits payable to Executive and/or his spouse under the Continental Airlines Retirement Plan shall be offset against benefits due under the Plan. Executive shall be vested immediately with respect to benefits due under the Plan. If Executive's employment with Company terminates for any reason prior to February 14, 1999, Company shall provide further benefits under the Plan to ensure that Executive is treated for all purposes as if he were fully vested under the Continental Airlines Retirement Plan.

(ii) Executive understands that he must rely upon the general credit of Company for payment of benefits under the Plan. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(iii) For purposes of the Plan, the terms "actuarial equivalent," or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of a different type or payable at a different age that can be provided at the same cost as such specified benefit, as computed by the Actuary. The actuarial assumptions used to determine equivalencies between different forms of annuities under the Plan shall be the 1984 Unisex Pensioners Mortality 50% male, 50% female calculation (with males set back one year and females set back five years), with interest at an annual rate of 7%. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or his spouse.

(iv) Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual

and/or payment of benefits under the Plan.

3.6 Additional Disability Benefit. If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment. If Executive receives payment of a Termination Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

3.7 Other Perquisites. During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) Automobile - Company has leased an automobile for Executive's use pursuant to a lease agreement dated July 11, 1994 with Chase Auto Leasing Corp., and Company will continue its performance thereof and its current practices with respect thereto during the term of this Agreement. Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to the automobile at the completion of the lease term by Executive paying the residual payment then owing under the lease.

(ii) Business and Entertainment Expenses - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel.

(iii) Parking - Company shall provide at no expense to Executive a parking place convenient to Executive's office and a parking place at Intercontinental Airport in Houston, Texas.

(iv) Other Company Benefits - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally.

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive and his eligible family members shall be provided with Termination Pass Privileges (as such term is defined in paragraph 4.7) for a period of three years beginning on the effective date of such termination and thereafter with SOR Pass Privileges (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and, if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1994 Incentive Equity Plan, as amended (the "Incentive Plan"), and other Awards (as defined in the Incentive Plan) made to Executive under the Incentive Plan, to vest immediately upon such termination, (ii) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (iii) provide Executive with Outplacement Services (as such term is defined in paragraph 4.7), and (iv) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for a period of three years beginning

on the effective date of such termination.

4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive and his eligible family members shall be provided with Termination Pass Privileges for a period of three years beginning on the effective date of such termination and thereafter with SOR Pass Privileges for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1; and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under the Incentive Plan, and other Awards (as defined in the Incentive Plan) made to Executive under the Incentive Plan, to vest immediately upon such termination, and (2) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable.

4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive and his eligible family members shall be provided with Termination Pass Privileges for a period of three years beginning on the effective date of such termination and thereafter with SOR Pass Privileges for the remainder of Executive's lifetime and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi) or for any reason whatsoever following the occurrence of a Change in Control (as such term is defined in the Incentive Plan (as amended by the First Amendment thereto) in effect as of the date of this Agreement), then Company shall provide Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1. If Executive's employment hereunder shall be terminated by Executive prior to January 12, 1996 for any reason (other than those encompassed by paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi)) and if a Change in Control has not occurred prior to such termination, then Executive shall promptly refund to Company \$750,000 (which amount represents 50% of the cash bonus paid to Executive by Company on July 12, 1994).

4.4 Certain Additional Payments by Company. Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under the Incentive Plan) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or

income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

4.5 Payment Obligations Absolute. Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

4.6 Liquidated Damages. In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be received by Executive as liquidated damages. Payment of the Termination Payment pursuant to paragraphs 4.1, 4.2, or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

4.7 Certain Definitions and Additional Terms. As used herein, the following capitalized terms shall have the meanings assigned below:

(i) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that (1) subject to clause (2) below, the coverage under a particular welfare benefit plan (or the receipt of equivalent benefits) shall terminate upon Executive's receipt of comparable benefits from a subsequent employer and (2) if Executive (and/or his eligible dependents) would have been entitled to retiree coverage under a particular welfare benefit plan had he voluntarily retired on the date of his termination of employment, then such coverage shall be continued as provided in such plan upon the expiration of the period Continuation Coverage is to be provided pursuant to this Article 4. Notwithstanding any provision in this Article 4 to the contrary, Executive's entitlement to any benefit continuation pursuant to Section 601 et. seq. of the Employee Retirement Income Security Act of 1974, as amended, shall commence at the end of the period of, and shall not be reduced by the provision of, any applicable Continuation Coverage;

(ii) "Outplacement Services" shall mean outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors (with such approval not to be unreasonably withheld);

(iii) "SOR Pass Privileges" shall mean (1) pass privileges on each airline operated by Company or any of its affiliates (or any successor or successors thereto) at Chief Executive Officer retiree grade and (2) membership in Company's President's Club (or any successor program maintained by Company or any of its affiliates or any successor or successors thereto);

(iv) "Termination Payment" shall mean an amount equal to three times the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment and (2) a deemed annual bonus which shall be equal to 25% of the amount described in clause (1) of this paragraph 4.7(iv); and

(v) "Termination Pass Privileges" shall mean (1) pass privileges on each airline operated by Company or any of its affiliates (or any successor or successors thereto) at the highest type and

priority Executive received at any time during the six-month period preceding his termination of employment (or, if higher, at the date hereof), subject to any changes in policy generally applicable to the Chief Executive Officer (or other highest ranking officer of the Company) who is employed by Company and entitled to such type and priority of pass privileges and (2) membership in Company's President's Club (or any successor program maintained by Company or any of its affiliates or any successor or successors thereto).

Executive's receipt of SOR Pass Privileges and Termination Pass Privileges shall be conditioned upon Executive's delivery to Company of all effective pass cards, UATP cards, PAC cards and ticket stock in Executive's possession on the date of his termination of employment. Executive shall be issued an Employee Travel Card valid at all times during the term of Executive's SOR Pass Privileges and Termination Pass Privileges.

ARTICLE 5: MISCELLANEOUS

5.1 Interest and Indemnification. If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Texas Commerce Bank N.A. (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

5.2 Notices. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Company to : Continental Airlines, Inc.
2929 Allen Parkway, Suite 2010
Houston, Texas 77019
Attention: General Counsel

If to Executive to: Mr. Gordon M. Bethune
3340 Del Monte
Houston, Texas 77019

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.3 Applicable Law. This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

5.4 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.5 Severability. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

5.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

5.7 Withholding of Taxes and Other Employee Deductions. Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions

made with respect to Company's employees generally.

5.8 Headings. The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 Gender and Plurals. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 Successors. This Agreement shall be binding upon and inure to the benefit of Company and any successor of Company, by merger or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 Term. This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 Entire Agreement. Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv), (ii) any signed written agreement heretofore or contemporaneously executed by Company and Executive with respect to Awards (as defined in the Incentive Plan) under the Incentive Plan, or (iii) any signed written agreement hereafter executed by Company and Executive, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Without limiting the scope of the preceding sentence, all prior understandings and agreements among the parties hereto relating to the subject matter hereof (including, without limitation, that certain Second Amended and Restated Employment Compensation Agreement by and between Company and Executive dated as of January 10, 1995) are hereby null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 Deemed Resignations. Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors and from the board of directors of any affiliate of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the 5th day of June, 1995, to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By:

Name: Jeffery A. Smisek
Title: Senior Vice President

"EXECUTIVE"

GORDON M. BETHUNE

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made by and between CONTINENTAL AIRLINES, INC., a Delaware corporation ("Company"), and GREGORY D. BRENNEMAN ("Executive").

W I T N E S S E T H:

WHEREAS, Company is desirous of employing Executive in an executive capacity on the terms and conditions, and for the consideration, hereinafter set forth and Executive is desirous of being employed by Company on such terms and conditions and for such consideration;

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein, Company and Executive agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES

1.1 Employment; Effective Date. Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date (as hereinafter defined) and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement. For purposes of this Agreement, the "Effective Date" shall be June 6, 1995.

1.2 Position. From and after the Effective Date, Company shall employ Executive in the position of Chief Operating Officer of Company (and Executive shall be a member of the Office of the Chairman), or in such other position or positions as the parties mutually may agree. At the first regularly scheduled meeting of Company's stockholders that occurs after the Effective Date and for the remaining term of Executive's employment hereunder, Company shall cause Executive to be nominated for election as a director of Company and use its best efforts to secure such election.

1.3 Duties and Services. Executive agrees to serve in the position referred to in paragraph 1.2 and, if elected, as a director of Company and to perform diligently and to the best of his abilities the duties and services appertaining to such office as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such office which the parties mutually may agree upon from time to time.

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a three-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive three-year period as of the third anniversary of the Effective Date and as of the last day of each successive three-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months before the last day of any such three-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the three-year term of employment during which such notice is given.

2.2 Company's Right to Terminate. Notwithstanding the provisions of paragraph 2.1, Company, acting pursuant to an express resolution of the Board of Directors of Company (the "Board of Directors"), shall have the right to terminate Executive's employment under this Agreement at any time for any of the following reasons:

(i) upon Executive's death;

(ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;

(iii) for cause, which for purposes of this Agreement shall mean Executive's gross negligence or willful misconduct in the performance of the material duties and services required of him pursuant to this Agreement;

(iv) for Executive's material breach of any provision of this Agreement which, if correctable, remains uncorrected for 30 days

following written notice to Executive by Company of such breach; or

(v) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 Executive's Right to Terminate. Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his employment under this Agreement at any time for any of the following reasons:

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the position described in paragraph 1.2 as such duties are constituted as of the Effective Date;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or title from those applicable to him as of the Effective Date;

(iii) the occurrence of material acts or conduct on the part of Company or its officers or representatives which prevent Executive from performing his duties and responsibilities pursuant to this Agreement;

(iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company; or

(vii) for any other reason whatsoever, in the sole discretion of Executive.

2.4 Notice of Termination. If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or he shall do so by giving written notice to the other party that it or he has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

ARTICLE 3: COMPENSATION AND BENEFITS

3.1 Base Salary. During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$525,000.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, participation effective as of April 27, 1995 in any such program maintained for the year during which such date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation).

3.3 Life Insurance. During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference

between the Termination Payment and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

3.4 Vacation and Sick Leave. During each year of his employment, Executive shall be entitled to vacation and sick leave benefits equal to the maximum available to any Company executive, determined without regard to the period of service that might otherwise be necessary to entitle Executive to such vacation or sick leave under standard Company policy.

3.5 Additional Disability Benefit. If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment. If Executive receives payment of a Termination Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.5 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.5 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

3.6 Stock Options and Restricted Stock.

(i) Executive and Company have entered into an agreement evidencing Company's award to Executive of an option to acquire 275,000 shares of Company's Class B Common Stock under Company's 1994 Incentive Equity Plan, as amended (the "Incentive Plan").

(ii) Executive and Company have entered into an agreement evidencing Company's award to Executive of restricted stock under the Incentive Plan with respect to 75,000 shares of Company's Class B Common Stock.

3.7 Relocation Expenses.

(i) Company shall purchase Executive's home located at 2402 Norwalk, Colleyville, Texas 76034, on a date selected by Executive on or before June 15, 1995. The purchase price shall be paid in cash and shall be equal to Executive's actual costs incurred prior to the Effective Date to acquire such home and to make improvements to such home; provided that such purchase price shall not exceed \$475,000. Executive shall provide Company with appropriate documentation in support of the purchase price.

(ii) Company shall pay any and all reasonable costs and expenses associated with transporting Executive's personal and household effects from the home described in paragraph 3.7(i) to Houston, Texas.

(iii) Company shall pay Executive's reasonable and actual closing costs incurred in connection with the purchase of a new principal residence in or around Houston, Texas, including reasonable and customary legal fees to effect a closing, title fees, title insurance, appraisal fees, recording fees for deed and mortgage, mortgage application fees, credit verification fees, transfer fees and document taxes, and a loan origination or loan assumption fee not to exceed one and one-half percentage points (1.5%) of the principal amount of the mortgage loan incurred by Executive with respect to the purchase of such new principal residence.

3.8 Other Perquisites. During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) Allowance for Automobile or Club Memberships - Company shall provide Executive with an automobile on substantially the same terms and conditions as Company currently provides an automobile for its Chief Executive Officer.

(ii) Business and Entertainment Expenses - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel.

(iii) Parking - Company shall provide at no expense to Executive a parking place convenient to Executive's office and a parking place at Intercontinental Airport in Houston, Texas.

(iv) Other Company Benefits - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly-situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally.

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that Executive and his eligible family members shall be provided with Termination Pass Privileges (as such term is defined in paragraph 4.7) for a period of three years beginning on the effective date of such termination and thereafter with SOR Pass Privileges (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime and, if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under the Incentive Plan, and other Awards (as defined in the Incentive Plan) made to Executive under the Incentive Plan, to vest immediately upon such termination, (ii) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (iii) provide Executive with Outplacement Services (as such term is defined in paragraph 4.7), and (iv) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for a period of three years beginning on the effective date of such termination.

4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that Executive and his eligible family members shall be provided with Termination Pass Privileges for a period of three years beginning on the effective date of such termination and thereafter with SOR Pass Privileges for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1; and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under the Incentive Plan, and other Awards (as defined in the Incentive Plan) made to Executive under the Incentive Plan, to vest immediately upon such termination, and (2) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.5, as applicable.

4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that Executive and his eligible family members shall be provided with Termination Pass Privileges for a period of three years beginning on the effective date of such termination and thereafter with SOR Pass Privileges for the remainder of Executive's lifetime and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi) or for any reason whatsoever following the occurrence of a Change in Control (as such term is defined in the Incentive Plan (as amended by the First Amendment thereto) in effect as of the date of this Agreement), then Company shall provide

Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1.

4.4 Certain Additional Payments by Company. Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under the Incentive Plan) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

4.5 Payment Obligations Absolute. Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

4.6 Liquidated Damages. In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be received by Executive as liquidated damages. Payment of the Termination Payment pursuant to paragraphs 4.1, 4.2, or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

4.7 Certain Definitions and Additional Terms. As used herein, the following capitalized terms shall have the meanings assigned below:

(i) "Continuation Coverage" shall mean the continued coverage of Executive and his eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, disability, vision care, accidental death and dismemberment, and prescription drug, at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that (1) subject to clause (2) below, the coverage under a particular welfare benefit plan (or the receipt of equivalent benefits) shall terminate upon Executive's receipt of comparable benefits from a

subsequent employer and (2) if Executive (and/or his eligible dependents) would have been entitled to retiree coverage under a particular welfare benefit plan had he voluntarily retired on the date of his termination of employment, then such coverage shall be continued as provided in such plan upon the expiration of the period Continuation Coverage is to be provided pursuant to this Article 4. Notwithstanding any provision in this Article 4 to the contrary, Executive's entitlement to any benefit continuation pursuant to Section 601 et. seq. of the Employee Retirement Income Security Act of 1974, as amended, shall commence at the end of the period of, and shall not be reduced by the provision of, any applicable Continuation Coverage;

(ii) "Outplacement Services" shall mean outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors (with such approval not to be unreasonably withheld);

(iii) "SOR Pass Privileges" shall mean (1) pass privileges on each airline operated by Company or any of its affiliates (or any successor or successors thereto) at Chief Operating Officer retiree grade and (2) membership in Company's President's Club (or any successor program maintained by Company or any of its affiliates or any successor or successors thereto);

(iv) "Termination Payment" shall mean an amount equal to three times the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment and (2) a deemed annual bonus which shall be equal to 25% of the amount described in clause (1) of this paragraph 4.7(iv); and

(v) "Termination Pass Privileges" shall mean (1) pass privileges on each airline operated by Company or any of its affiliates (or any successor or successors thereto) at the highest type and priority Executive received at any time during the six-month period preceding his termination of employment (or, if higher, at the date hereof), subject to any changes in policy generally applicable to the Chief Executive Officer and Chief Operating Officer (or other highest ranking officer of the Company) who is employed by Company and entitled to such type and priority of pass privileges and (2) membership in Company's President's Club (or any successor program maintained by Company or any of its affiliates or any successor or successors thereto).

Executive's receipt of SOR Pass Privileges and Termination Pass Privileges shall be conditioned upon Executive's delivery to Company of all effective pass cards, UATP cards, PAC cards and ticket stock in Executive's possession on the date of his termination of employment. Executive shall be issued an Employee Travel Card valid at all times during the term of Executive's SOR Pass Privileges and Termination Pass Privileges.

ARTICLE 5: MISCELLANEOUS

5.1 Interest and Indemnification. If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by Texas Commerce Bank National Association (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence.

5.2 Notices. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Company to : Continental Airlines, Inc.

2929 Allen Parkway, Suite 2010
Houston, Texas 77019
Attention: General Counsel

If to Executive to : Mr. Gregory D. Brenneman
31 Hollymead
The Woodlands, Texas 77381

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.3 Applicable Law. This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

5.4 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.5 Severability. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

5.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

5.7 Withholding of Taxes and Other Employee Deductions. Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions made with respect to Company's employees generally.

5.8 Headings. The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.9 Gender and Plurals. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

5.10 Successors. This Agreement shall be binding upon and inure to the benefit of Company and any successor of Company, by merger or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5.11 Term. This Agreement has a term co-extensive with the term of employment as set forth in paragraph 2.1. Termination shall not affect any right or obligation of any party which is accrued or vested prior to or upon such termination.

5.12 Entire Agreement. Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.8(iv), (ii) any signed written agreement heretofore or contemporaneously executed by Company and Executive with respect to Awards (as defined in the Incentive Plan) under the Incentive Plan, or (iii) any signed written agreement hereafter executed by Company and Executive, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Without limiting the scope of the preceding sentence, all prior understandings and agreements among the parties hereto relating to the subject matter hereof (including, without limitation, that certain Memorandum of Understanding by and among Company, Executive, and Turnworks, Inc. dated as of April 27, 1995, but excluding the Termination Agreement between Company and Turnworks, Inc. referred to therein) are hereby null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 Deemed Resignations. Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors and from the board of directors of any affiliate of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the 5th day of June, 1995, to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By:

Name: Jeffery A. Smisek
Title: Senior Vice President

"EXECUTIVE"

GREGORY D. BRENNEMAN

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1995	1994	1995	1994
Primary:				
Weighted average shares outstanding.	25,687,936	25,522,568	25,638,977	25,522,568
Dilutive effect of outstanding stock options, warrants and restricted stock grants (as determined by the application of the treasury stock method) .	9,326,761	-	9,343,411	-
Weighted average number of common shares out- standing, as adjusted. .	35,014,697	25,522,568	34,982,388	25,522,568
Income (loss) applicable to common shares	\$ 100,436	\$ (50,366)	\$ 68,766	\$ (123,312)
Add interest expense associated with the assumed reduction of borrowings, net of federal income tax effect	5,321	-	11,940	-
Income (loss), as adjusted	\$ 105,757	\$ (50,366)	\$ 80,706	\$ (123,312)
Per share amount.	\$ 3.02	\$ (1.97)	\$ 2.31	\$ (4.83)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1995	1994	1995	1994
Fully diluted:				
Weighted average shares outstanding.	25,687,936	25,522,568	25,638,977	25,522,568
Dilutive effect of outstanding stock options, warrants and restricted stock grants (as determined by the application of the treasury stock method) .	9,326,761	-	9,343,411	-
Weighted average number of common shares out- standing, as adjusted. .	35,014,697	25,522,568	34,982,388	25,522,568
Income (loss) applicable to common shares	\$ 100,436	\$ (50,366)	\$ 68,766	\$ (123,312)
Add interest expense associated with the assumed reduction of				

borrowings, net of federal income tax effect	4,175	-	8,395	-
Income (loss), as adjusted	\$ 104,611	\$ (50,366)	\$ 77,161	\$ (123,312)
Per share amount.	\$ 2.99	\$ (1.97)	\$ 2.21	\$ (4.83)

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2,515		0
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	185	
4,677		
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	2,749	
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	110	
	153	
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72		
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	72	
	2.31	
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